



Annual Report and Financial Statements

Year ended 31 March 2023

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

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INTRODUCTION TO THE FINANCIAL STATEMENTS

Welcome to mhs homes Annual Report 2023. Firstly, a huge thanks to our outgoing Chair, Richard Cooper who stepped down in July 2022 having reached his maximum term in office. We have welcomed to the Board Ian Cain, Joseph Carr and Loise Heffernan, all of which have made a significant contribution to the Board.

The last 12 months have seen the turbulence of the last few years continue. With the impact of the pandemic starting to decrease we would all have hoped for a more stable environment. Unfortunately, this was not to be, with the cost of living crisis hitting our customers hard, and high inflation and interest rates producing an economic environment very different to the one we have all been used to working in.

Our ultimate ambition continues to be to help end the housing crisis in north Kent by providing safe and sustainable homes. Therefore, recognising the impact of price rises on our customers, we have made it a key focus to assist them through these difficult times by choosing to apply a below inflation rent rise along with a Customer Support Fund and free energy advice. We continue to support our customers in accessing the benefits which they are entitled to. Customer service has become even more important in such difficult times, and we are delighted that we saw a significant increase in customer satisfaction, a trend we are determined to continue.

The Board has worked proactively with the Customer Scrutiny Panel who provide a valuable insight in what it is like to be a customer of mhs homes. Our thanks to them for all their hard work.

Customer safety continues to be of paramount importance, and our commitment was recognised by being one of the first organisations to be awarded a "Building a

Safer Future" Charter Champion status as part of a new building safety assessment process.

We are proud that our stock shows a level of energy efficiency significantly above the average in the sector, even more important when energy prices have risen so significantly. We have increased our total repairs expenditure by £1 million to ensure our properties are suitable for our customer's needs, and all properties meet decent homes standard.

We were very pleased to have been awarded the RACE Equality Code quality mark, being one of very few boardrooms in the housing sector to achieve this, which speaks to our commitment both to equality and effective governance. In addition to its normal activities and duties, the Board carried out specific reviews of our Equality, Diversity and Inclusion approach, our response to Cyber security threats and training on effective governance and risk.

Our colleagues are critical to our success and ensuring we respond effectively to customers and other key stakeholders. The Board would like to thank them for their hard work and passion in delivering our services.

Financial resilience underpins all our ambitions, and this year we successfully restructured our long term debt. Our financial metrics continue to be amongst the strongest in the sector. Together these give an excellent foundation for our continuing programme of improvements to our current stock whilst supporting our programme of new homes.

We continue to be a financially strong, ambitious, and innovative organisation and are in a strong position to face the challenges of the future as we continue to help more people enjoy good-quality, affordable homes.



Nigel Hopkins &
Chair
20 July 2023



Ashley Hook
Chief Executive

mhs homes AT A GLANCE

mhs homes limited ("mhs homes") was established in 1990 following a stock transfer from Rochester upon Medway City Council. 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. All surpluses are reinvested into building more new homes, improving existing properties and supporting local communities. It is the parent body of mhs homes group ("the Group").

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

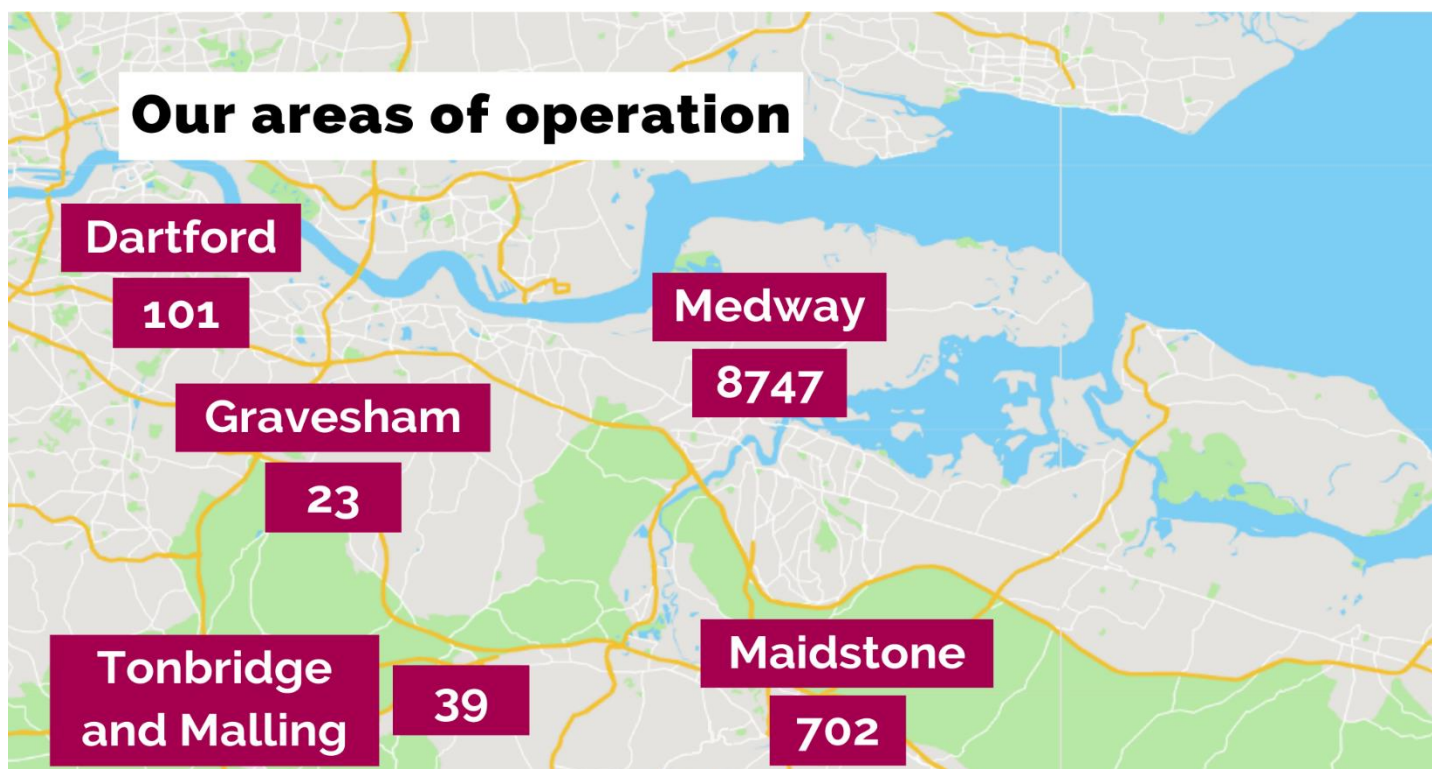
Our ultimate ambition is to help end the housing crisis in North Kent by providing safe and sustainable homes.

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.

We own and manage 9,612 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 social properties, 7,985 homes, with a further 910 in Heart of Medway. We are the corporate trustee of 6 homes in the Lord Kitchener Memorial Homes Trust.

Our properties are spread over North Kent as shown below.



Financial Highlights

	2022/23	2021/22
Turnover	£66.7 million	£64.7 million
Operating Surplus	£28.0 million	£27.8 million
Surplus excluding movement in fair value	£16.7 million	£16.6 million
EBITDA MRI ¹	£27.5 million	£28.1 million
EBITDA – MRI ¹ Margin to turnover	43%	43%
Net Debt	£246.4 million	£254.9 million
EBITDA - MRI ¹ / Interest Cover	2.4	2.4
EBITDA - MRI ¹ / Net Debt	9.0	9.1
¹ EBITDA – MRI: Earnings before interest, tax, depreciation and amortisation, capitalised major repairs expenditure included		

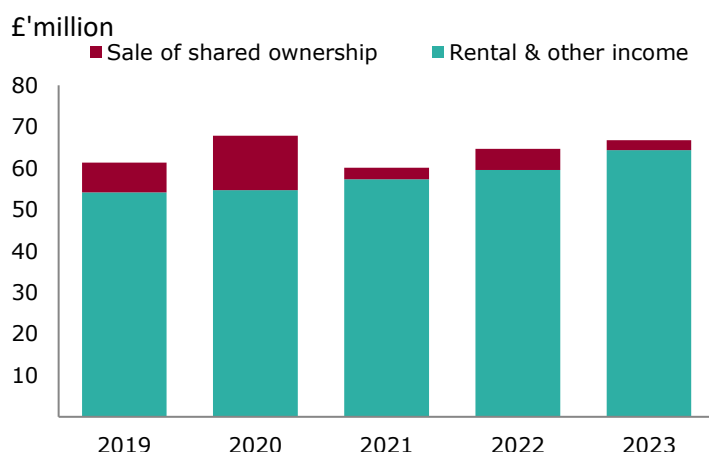
Operational Highlights

	2022/23	2021/22
Total stock owned and managed	9,612	9,522
% Homes at Decent Homes Standard	100%	99.1%
% Homes at SAP rating C or above	74.5%	65.2%
New homes brought into management	94	181
New homes started on site	148	69
% of lettings to Homeless	34.5%	28.6%
Customer Satisfaction	74%	67%
% of employees that feel mhs homes is a great employer	81%	94%

STRATEGIC REPORT: AN OVERVIEW OF 2022/23 RESULTS

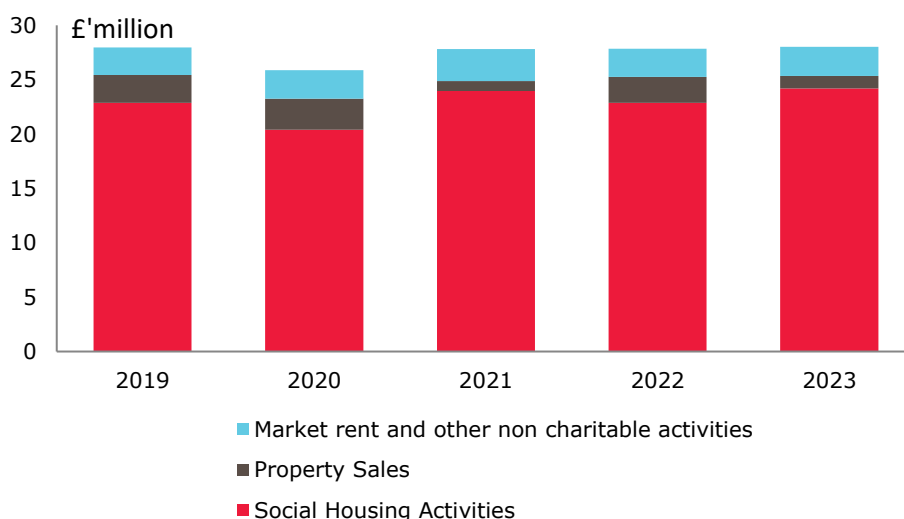
Our total comprehensive income for the year decreased from £24.5 million in 2022 to £23.8 million. However once fair value adjustments and the impact of the revaluation of the defined pension scheme are taken into account, both items being accounting adjustments that do not reflect changes to our cash position, our underlying surplus has remained consistent since last year at £16.7 million, as compared with £16.5 million the year before.

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 12 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 £16.7 million (2022: £16.5 million). This in turn allowed over £13.4 million to be invested in new homes, resulting in 94 new homes being brought into management and over 300 anticipated over the next three years.



Turnover increased in the year with additional rental income of c£4 million, through a combination of rent increases and new properties, though shared ownership sales decreased in line with the planned programmes. During the year we sold 14 new shared ownership properties (2022:41). Sales demand remains strong with no completed properties remaining unsold at the year end.

The majority of the surplus continues to be derived from low risk social housing.

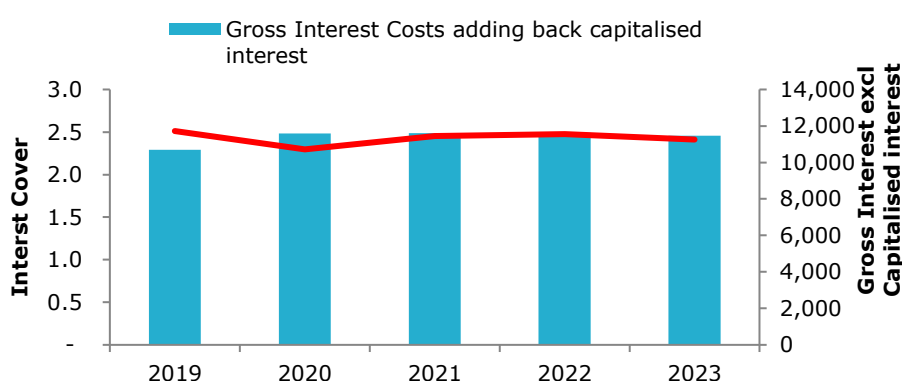


STRATEGIC REPORT: AN OVERVIEW OF 2022/23 RESULTS

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	4.3
Increase in repairs expenditure	(1.1)
Increases in depreciation & impairment	(0.2)
Other increases in operating costs	(1.6)
Reduction in surplus from first tranche shared ownership sales	(0.7)
Increased surplus from social housing activities	0.7
Decrease in surplus from sale of other fixed assets	(0.6)
Increase in surplus from non-charitable activities	0.1
Change in operating surplus	0.2

Interest payable costs are staying level despite increasing interest costs. This has enabled the ratio of surpluses to interest costs ("interest cover") to stay consistently above 2 even as our rates rise.



Investment Properties: Over the years the Group has built up an investment portfolio of 380 properties rented to tenants at market rent. These are a valuable investment and produce a return to our original cost of 3.5% (2022: 4.5%). The Group has invested £54.1 million in these properties, which are now estimated to be worth £82.5 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.

Pension Costs: The annual actuarial review of the defined pension scheme, closed to new entrants in 2005, has resulted in a gain of £9 million meaning the liability has been eliminated. This increase is mainly due to the change in gilt rates.

STRATEGIC REPORT: OUR STRATEGIC PLAN 2021 TO 2024

In March 2021 an ambitious new three year Strategic Plan was approved by the Board focused on building quality and service excellence to all customers within a framework of financial strength. Progress against key targets is shown below.

Our Buildings

- | | | |
|---|---|--|
| Prioritise our Building Safety Programme. | ✓ | The majority of our programme is complete and is forecast to have been completed by March 2025. |
| Strive to be an exemplar by achieving Building Safety Charter 'Champion' status | ✓ | Our commitment was recognised by being one of only two housing associations to be awarded a "Building a safer Future" Champion status. |
| Have over 65% of homes at EPC C rating or above. | ✓ | We are currently significantly ahead of target at 74.5% and are well on course to meet the 2030 target. |
| Have in place a Fuel Poverty Action Plan to assist customers who are fuel poor | ✓ | Actions include the customer support fund, warm hubs and signposting to agencies. This is all underpinned by our commitment to increase energy efficiency in our properties, as noted above. |
| We will have built 660 new homes. | ✗ | Though we are on target to build around 400 new properties by March 2024 we will be reducing our development aspirations to focus on investment into our current stock. |

Our Customers

- | | | |
|--|---|--|
| Deliver year on year improvement in customer satisfactions | ✓ | This has increased year on year, now standing at 74%. We are committed to continuing this trend. This is evidence by our successfully re-accreditation of the Customer Service Excellence in January 2023. |
| Increases the number and diversity of customers that actively engage with us | ✓ | Our Customer Engagement Group and Customer Scrutiny Panel provide an invaluable role in improving our services, and we will be seeking accreditation with the Housing Diversity network to ensure that equality, diversity & inclusion go to the core of how we deliver services to customers benefit. |

Our Colleagues

- | | | |
|---|---|---|
| Be a We Invest in Wellbeing 'Gold' and a We Invest in People 'Platinum' organisation. | ✓ | We were accredited as 'Silver' for We Invest in Wellbeing in 2021 and 'Gold' for We Invest in People in 2022. |
| Be an Accredited Living Wage employer | ✓ | This was successfully achieved in January 2022. |

STRATEGIC REPORT: 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. The Group has two active borrowers mhs homes and Heart of Medway. Borrowings and arranged facilities as at 31 March 2023 are summarised as follows.

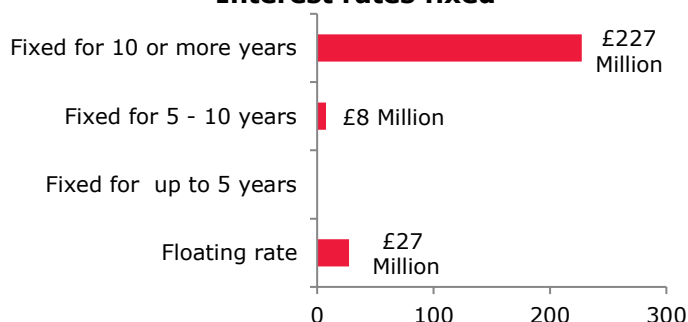
	Arranged £'m	Drawn £'m
mhs homes	380.0	232.3
Heart of Medway	30.0	30.0
Total	410.0	262.3

During the year significant refinancing took place with £90m of private placements raised, which along with surplus cash reserves was used to repay £128.9 million. At the end of the year the Group had substantial liquidity with:

- £86.0 million of revolving credit facilities charged and available to draw.
- £44.0 million of revolving credit facilities to be charged.
- £17.7 million of long term debt to be charged.
- £13.7 million of cash.

Spare security of £200 million, as calculated under existing use value – social housing, is available to the Group.

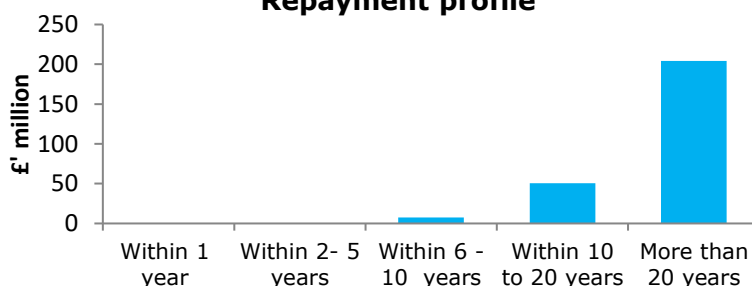
Interest rates fixed



A key risk is our exposure to interest rate increases, which is mitigated by having only £27m (10%) of debt floating for less than one year. This compares with £56 million (19%) last year.

The Group has no debt (2022:13%) due for repayment in the next five years.

Repayment profile

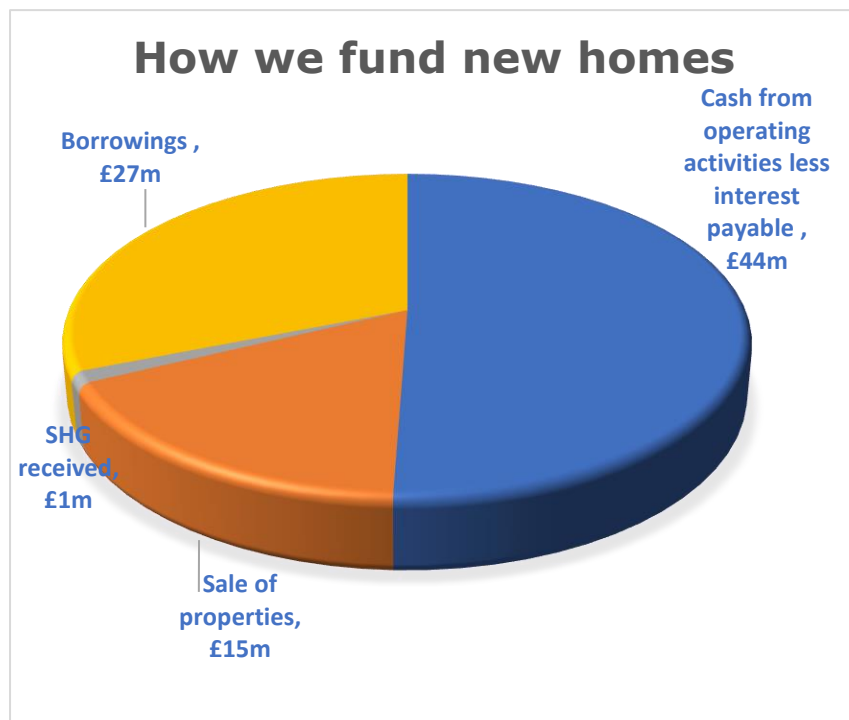


STRATEGIC REPORT: 5 YEAR FINANCIAL REVIEW

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

Year Ending 31 March	2019	2020	2021	2022	2023
	£'m	£'m	£'m	£'m	£'m
<i>Excluding 1st tranche shared ownership sales</i>					
Turnover	54	55	57	60	64
Expenditure	28	32	31	34	37
Surplus on rents	26	23	26	26	27
Surplus on 1 st tranche sales	1	2	1	1	0.5
Disposal of assets	1	1	1	1	0.5
Operating surplus	28	26	28	28	28
Net interest cost	11	12	11	11	11
Surplus for the year before tax and fair value	17	14	17	17	17
Net fixed assets *	256	285	315	336	346
Investments	74	72	79	87	85
Net current assets	14	39	24	25	7
	344	396	418	448	438
Social housing grant *	29	31	33	34	37
Creditors: > than one year	239	278	279	285	260
Pension liability	8	11	10	9	-
	276	320	322	328	297
Total reserves less social housing grant	68	76	96	120	141
Financial Performance					
EBITDA-MRI*: Turnover	45%	40%	48%	43%	42%
EBITDA-MRI*: Turnover excluding s\o	48%	46%	49%	45%	43%
Ratio of Debt: EBITDA-MRI*	8.6	8.5	8.7	9.1	9.0
Ratio of EBITDA-MRI*: Interest Payable	2.5	2.3	2.4	2.4	2.4
Other Key Ratios					
Voids: net rental income	0.6%	0.8%	1.0%	0.8%	0.8%
Bad Debt: net rental income	0.6%	0.8%	1.1%	0.5%	0.4%
* less revaluation reserve					

STRATEGIC REPORT: FUTURE PLANNING



The Group is forecasting developing over 400 new homes in the next 5 years, with a spend of £87 million, with over half of this funded through surpluses. Sale of assets contributes a further £15m.

The plan assumes new borrowing of £27 million, though at present **the Group** has £130 million of funding across three revolving credit facilities and £17.7m of longer term loans available therefore mitigating against a risk of reducing sales income.

Our results are stress-tested against several different scenarios. These show that our covenants are met in mhs homes, even if interest rates rise over the long term to 15% or rental income is reduced by 10%.

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

Group Ratio	2024	2025	2026	2027	2028
EBITDA* MRI: Turnover	32%	31%	32%	32%	31%
Ratio of Debt: EBITA-MRI*	13.0	13.5	12.3	12.0	11.8
EBITDA-MRI*: Interest Payable %	1.6	1.4	1.6	1.6	1.6

In common with many social landlords, we are continuing to investigate our buildings to ensure that they meet all current building safety requirements. 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. We will, therefore, continue to prioritise our Building Safety Programme, which is discussed in detail later in the report. The full costs of these remedial works, £2.6m for Heart of Medway and £1.3 million for mhs homes, are included in our long term financial forecasts. The plan also includes £11 million till 2030 for the cost of ensuring all our properties are at a minimum of EPC rating "C".

Our long term financial planning will continue to ensure that there are sufficient resources to proactively manage our assets, so that all our homes continue to meet the Decent Homes Standard.

STRATEGIC REPORT: OUR PROPERTIES AND BUILDING SAFETY

As at the end of March 2023 all properties meet the Decent Homes Standard.

Building safety is of paramount importance, and there are robust procedures and comprehensive controls in place regarding fire safety which are reviewed and tested on a regular basis. We work in partnership with Kent Fire and Rescue Service to make sure we keep our customers safe. We have 6 blocks above 18 metres or over 6 storeys, none of which have ACM cladding and where all building remedial works have been completed. As at 31 March 2023 all Fire Risk Assessments were up to date.

Building name	No of storeys	No of homes	Cladding
Melville Court	14	56	No
Regent Court	13	48	No
Steddy's Court	13	48	No
Wellington Court	13	48	No
The Auditorium	7	26	The cladding on both buildings is defined as non-combustible or low risk in the national Building Regulations, meaning that it improves the fire safety standards of the building and protects our customers living within it.
Ecclestone Court	6	35	

We have completed a programme of identifying any issues on the buildings over 11 metres. With the exception of two blocks all these works will be completed during 23/24. These blocks, one of 28 flats and the other of 36 both spread over 5 floors is forecast to be completed during 25/26, and full preventative actions such as an upgraded alarm system are in place till that work is complete. The full costs of these works, £2.6m for Heart of Medway and £1.3 million for mhs homes, are included in our long term financial forecasts.

During the year mhs homes invested £788,000 and Heart of Medway £1,205,000 on fire safety remediation costs, all of which was accounted for in operating costs.

Damp and Mould

Following the tragedy in Rochdale, we have worked hard to understand and remedy problems around damp & mould in our homes. A review of our stock has shown that about 4% of our homes are affected by this problem, which is similar to that in the social housing sector as a whole. Only one of our properties was assessed as a HHSRS category 1 hazard due to the vulnerability of the customer and the extent of mould in the property, and this customer was moved immediately. We have adopted a 'zero tolerance' approach to damp and mould and are creating a dedicated team to tackle the issue.

STRATEGIC REPORT: STREAMLINED ENERGY AND CARBON REPORT & SUSTAINABILITY

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	
	2021/22	2022/23		2021/22	2022/23
Scope 1	1,073	1,037	Natural Gas	4,323,898	4,093,819
			Direct Transport	1,281,920	1,209,931
Scope 2	8	124	Electricity	2,405,323	2,492,625
Total	1,081	1,161		8,011,141	7,796,375

Scope 1: Activities for which the Group is responsible involving the combustion of gas, or consumption of fuel for the purposes of transport.

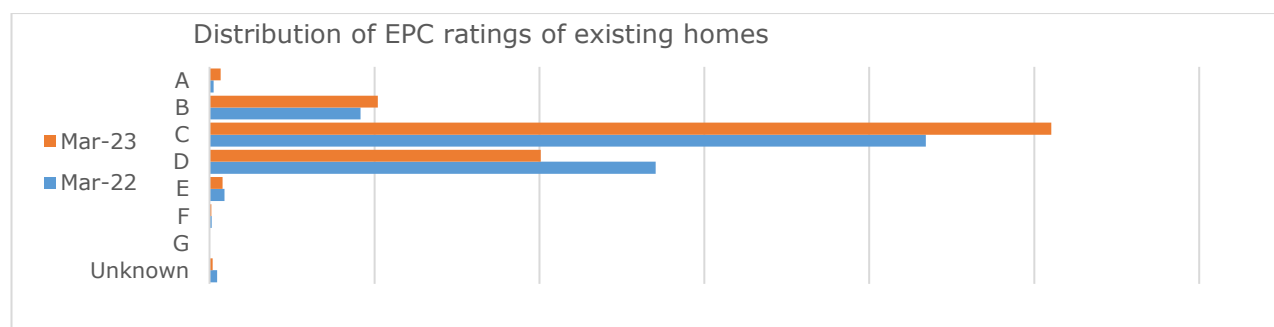
Scope 2: The purchase of electricity by the Group for its own use, including for the purpose of transport.

The intensity Ratio

The Intensity ratio increased from 17.0 Tco2e/£m to 17.4 Tco2e/£m. This increase reflects the 5% increase in emissions compared to a 3% 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 as the year on year improvements are shown below.



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 have been completed to a minimum of EPC rating B. During the year we also took handover of 25 properties at EPC rating A.
- Our fleet of electrical vehicles has reduced 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.

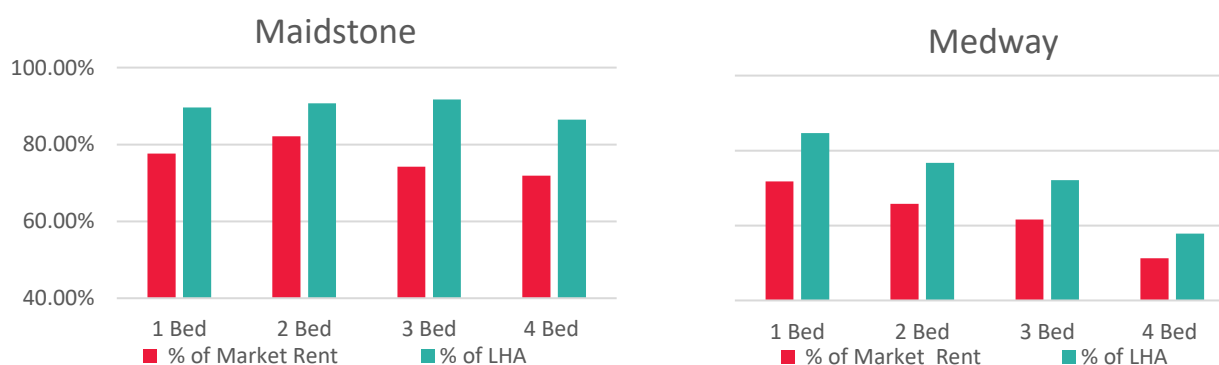
STRATEGIC REPORT: SOCIAL IMPACT

The social housing sector has a clear social purpose: to provide affordable, secure, quality housing to those who are unable to afford to buy or rent in the private market. We take this responsibility seriously as evidenced by the actions below.

- We ensure that social value is included in all procurement over £100,000 with activities ranging from use of apprentices to painting of community centres.
- We offer a Customer Support Fund that offers small grants to customers to help with the increased cost of living including energy costs. This year we have distributed of £32,500 of grants to support our customers.
- We offer warm hubs in our supported housing schemes for older customers, a safe space to keep warm, grab a hot drink, and meet other customers.
- We offer free energy advice to our customers, providing guidance on how to save money on household bills and keeping warm.
- We offer vulnerable customers who are under occupying their homes and struggling to afford their energy bills the opportunity to downsize.
- We ensure that at least 30% of our lettings will be to homeless households; this year 34% of all lettings went to homeless households.

In the coming year we will launch a new Tenancy Support Programme to help customers with the cost of living crisis and more effective multi-agency interventions on domestic abuse, mental health, safeguarding, community safety, anti-social behaviour and hate crime.

As a charitable social housing provider our properties must be affordable whilst generating sufficient income to invest in both existing and new properties. We therefore monitor our rents closely against market rents and Local Housing Allowance (LHA) as summarised. Our rents tend to be higher in Maidstone as the majority of properties are affordable rents rather than social rent.



One of our core aims is to create balanced and sustainable communities, where people want to live and choose to stay. Security of tenure is crucial to this and, apart from starter tenancies and the market rented portfolio, all tenants have a lifetime tenancy.

Over the year there was a significant increase in the number of customers claiming Universal Credit (UC) to 3,402 (2022: 2,801). The use of Alternative Payment Arrangement (APA) continues to increase, with the percentage of customers on APA's increasing from 30% to 37% of UC claimants.

STRATEGIC REPORT: DIVERSITY AND INCLUSION

Whatever your age, gender, disability status, sexual orientation, religion, ethnicity or family circumstances, it is central to our culture to make sure you're treated with fairness and respect. One of our key values is to respect the diversity of our customers and colleagues. We know that this brings creative advantage and innovation.

That's why we are delighted to have been awarded the RACE Equality Code quality mark, which speaks to our commitment both to equality and effective Governance. The RACE Equality Code – which stands for Reporting, Action, Composition and Education – is specifically about increasing diversity in senior leadership and enabling opportunity, and we are one of very few boardrooms in the social housing sector to have achieved this status.

The Board have committed to being open and transparent about where we are on the inclusion journey, about our targets to get us to where we want to be and the progress we are making. We recognise that we can make improvements in understanding and responding to diversity and in providing a fully inclusive service for all our customers, and we commit to making those improvements. We will improve representation of underrepresented groups.

We have established an Equality, Diversity & Inclusion Task Force, chaired by the Chief Executive, which will ensure that we make progress against targets and engage colleagues across the organisation. This Task Force will be responsible for leading on race diversity, setting targets based on the most up to date census data, with reports being presented to Board twice a year. In order to ensure transparency these updates will be published on our website.

We have also committed to achieving Diversity Network Accreditation, which is an outcome based assessment process overseen by the Housing Diversity Network. As part of this process the Board has agreed an Anti-Racist Statement for the organisation, making a public and conscious effort to work against all aspects of overt and systemic racism. This statement is available on our website with our commitments which include: -

- By September 2023 we aim to have at least one Black, Asian or minority ethnic board member and two Black, Asian or minority ethnic members of the senior Leadership Team.

	Current position
	Board Leadership Team
Asian British	- 1
Black British	1 -
White British	8 6
Total	9 7
- By 2025 to increase the Black, Asian and minority ethnic composition of our workforce to 15% from the current position of 7.5% thereby reflecting the communities we serve in.
- A learning and development plan for all colleagues that'll help to raise awareness and challenge unconscious bias.
- Collecting and analysing ethnicity workforce data to ensure an evidence based approach to workforce representation. We will also annually publish our ethnicity pay gap.
- Implementing diverse and inclusive recruitment, talent management, and succession planning strategies so that there are clear career pathways for Black, Asian and minority ethnic employees and employees from other underrepresented groups.
- Developing new approaches to grievance, capability and disciplinary procedures to ensure that such processes are fair, open and transparent.

STRATEGIC REPORT: DIVERSITY AND INCLUSION

- Ensuring that our commitment to being anti-racist is at the heart of the way we operate as a social landlord. We know that within the UK, Black, Asian and minority ethnic tenants are more likely to live in overcrowded or poor housing. We need to better understand the reasons for any disparities within our own housing stock and take steps to address them.
- As a leading housing charity with a commitment to social justice, we will also use our voice to call out racism and promote equality and fairness.
- We will adopt a 'zero tolerance' approach to all forms of racism and hate crime (such as homophobia, antisemitism, Islamophobia) and will take action against all tenants where they or their family/visitors are found guilty of such an offence.

All of our recruitment has details on protected characteristics covered under the Equality Act omitted at the shortlisting stage to ensure a fair and merit based approach to interview selection. As a Disability Confident employer if a candidate has a disability and meets the essential requirements of the post, they will be offered an interview for the job.

During the year we completed an accessibility review of our website to ensure that it meets the need of people with disabilities. Currently 3% of our workforce have long term disabilities compared to 5% of the population in the areas we work.

Breakdown of employees by gender and pay band

Our average gender pay gap is 3.1% (2022: 8%) in favour of men which, though lower than the 14.9% national average, is something we are working towards reducing.

Quartile	% Female	% Male
Upper	46	54
Upper middle	52	48
Lower middle	51	49
Lower	53	47

Breakdown of employees by race and pay band

Our average ethnicity pay gap is 2.3% (2022: 2.9%) in favour of colleagues from a "non-white" ethnicity.

Quartile	% Non-white	% White
Upper	14	86
Upper middle	14	86
Lower middle	7	93
Lower	15	85
Total in company	13	87
Total in local area	16	84

No differences are because people are paid differently for the same or equivalent work and to make sure all colleagues are treated fairly we benchmark all of our salaries against the external market every three years and did so this year.

STRATEGIC REPORT: RISK MANAGEMENT

The Group's definition of a risk is an event which could hinder the Group from achieving its strategic objectives. We use a system of risk scoring which reflects a combination of the probability of an event occurring and its consequences under the Group's Risk Management Strategy. All risks are managed within 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 assurance 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. This includes 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 top 5 strategic risks are below.

1 Failure to ensure tenants are safe at home and colleagues are safe at work

Mitigations: Compliance reports are presented to all boards, with a strong assurance process on the data accuracy. We work in partnership with Kent Fire & Rescue Service.

We are also one of first housing associations to be awarded "Champion" status under the Building A Safer Future Charter. Further assurance is supplied through the recent British Safety Council review of our Health and Safety system where we have been awarded a 4 star "very good" and we have recently commissioned a review of our Health and Safety approach by the Royal Society for Prevention of Accidents.

An internal Safeguarding Board monitor our controls and processes with regard to children and vulnerable adults living in our properties.

Status: Building safety remains a challenge across the sector, and we continue to work through our stock ensuring issues identified are remedied or suitable mitigations are put in place.

The strong performance on landlord compliance continues with our legal obligations being met.

2 Failure to invest sufficiently in current properties to ensure our homes are high quality, safe and energy efficient

Mitigations: 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.

The ongoing major and cyclical repairs are monitored closely to ensure the highest quality through a detailed survey programme.

Status: All of our properties are compliant with the Decent Homes Standard (DHS). Costs have been included in our long term financial projections to maintain this compliance along with meeting the EPC C target of 2030 and estimates to reach net zero by 2050.

3 Failure to maintain a talented, diverse, engaged workforce:

Mitigations: Salaries are benchmarked regularly but it is recognised that employee 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.

Status: In common with many organisations' employee turnover has increased over the year, but vacancies have been successfully filled and a recent employee survey demonstrated that 81% feel we're a great employer and 76% were proud to work for us.

4 Failure of data security

Mitigations: Prevention is our key control with regular training for employee, 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.

Status: Though cyber risks continue to increase our system remains robust and secure.

Our disaster recovery plans were regularly and successfully tested and assured by internal audit.

5 Failure to maintain long-term financial viability and failure to meet existing covenants

Mitigations: Regular economic updates from our Treasury advisors are reported through to the Board along with our financial results and projections.

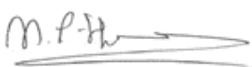
We test our financial resilience to risk by running a range of stress-testing scenarios against our Long-Term Financial Forecast. These test among other things, liquidity and covenant compliance. These tests help to provide assurance that the Group has robust arrangements in place to protect its social housing assets.

Status: 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.

Other strategic risks that are considered by the Board include

- Failure to deliver the development programme
- Failure to deliver excellent customer service
- Failure of Governance leading to a regulatory breach
- Failure to meet sustainability targets
- Failure to sell shared ownership properties on completion

The Strategic Report was approved by the Board of Trustees on 20 July 2023.



Nigel Hopkins
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 through the value for money strategy.
- 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. 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 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 2022 for Registered Providers in the Southeast of England. The results highlight the financial strength of the organisation. The increase in unit costs reflects a substantial increase in investment in our housing stock.

Metric	The Group			Median ¹
	Budget 2024	2023	Actual 2022	
Investment in - new and existing properties	7.1%	2.9%	5.7%	5.6%
New supply delivered – social housing	1.0%	0.8%	2.1%	1.8%
New supply delivered – non-social housing	0.0%	0.2%	0.0%	0.0%
Gearing	48%	45%	47%	53%
EBITDA: interest rate cover	157%	241%	242%	154%
Social housing cost per unit £	4,933	3,696	3,310	4,215
Operating margin – (social housing only)	31%	43%	43%	29%
Operating margin (overall)	31%	41%	41%	27%
Return on capital employed	3.4%	4.3%	4.2%	3.4%

¹ Sourced from 2022 for associations in the southeast

Scores at or better than sector median are shown in green

Our performance against our targets

Metric	The group 2023	
	Actual	Budget
Investment in properties - new and existing	2.9%	7.6%
New supply delivered – social housing	0.8%	0.8%
New supply delivered – non-social housing	0.2%	0.1%
Gearing	45%	44%
EBITDA: interest rate cover	241%	207%
Operating margin (overall)	41%	40%
Return on capital employed	4.3%	3.9%

The overall development programme was smaller than anticipated due to delays in contracting development scheme because of the difficult economic circumstances, leading to less borrowing and therefore an improved interest cover.

VALUE FOR MONEY STATEMENT

Our performance against our targets and other key indicators

	Target for 31 March 2023	Actual as at 31 March 2023	Actual as at 31 March 2022
13 week average of gross rent arrears	3.5%	3.9%	3.9%

Despite the pressures on customers income during the year arrears stayed constant and despite not meeting our target considering the economic environment is an excellent result.

Average turnaround days for voids (calendar days)	25	37.6	35.9
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The void turnaround time has proved to be difficult to shift, however the high turnaround time includes a number of long term voids that were successfully let during the year. Nonetheless, the amount of rent lost to voids was top quartile compared to other housing associations.

Average days to complete a repair (working days)	14	23.3	17.7
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Performance has been impacted by industry wide labour shortages. A sustained effort was made to reduce backlogs of repairs, meaning we start the new year in a much better position than comparable positions in previous years. We are therefore confident that this will improve in 23/24.

Repairs completed right first time	90%	87%	88%
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Though below target this area is consistent with that achieved in other similar organisations.

Overall customer satisfaction	75%	74%	67%
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Whilst below the target it was encouraging to see that year on year progress of 7% has been made in this area, especially as the sector is experiencing falls in this area. We expect this upward trend to be maintained.

Overall, whilst these results are disappointingly below the targets, they do reflect the stresses on the sector at present; 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

	2022/23				2021/22	2020/21
	Net Cost of Asset*	Income	Surplus	Return	Return	Return
	£'m	£'m	£'m	%	%	%
General needs	264,890	56,094	24,157	9.1	8.8	10.5
Shared ownership	51,793	2,699	969	1.9	2.9	2.6
Market rented**	47,476	3,849	1,663	3.5	4.5	4.1

*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 2020/21 because of delays in repair spend due to COVID-19 restrictions.
- The Group own 380 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 the market rent portfolio on an annual basis that is appropriate considering the charitable status of mhs homes and the size of the overall development programme.
 - The return from the market rent portfolio is reviewed on an annual basis by the Board to satisfy them that the return is commensurate to the risk involved.
- The return on market rent reduced as 22 properties were added part way through the year along with additional building safety work.
- 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 is comprised of up to nine Trustees, including two tenant board members.

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 delegate the day-to-day management within the strategic direction agreed by the Board to the Executive Team. Major financial contracts where the charity is committed to expenditure of more than £5 million are agreed by the Board. 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 there are at least six meetings, one of which is the Annual General Meeting. In 2022/23 the Board held eight meetings, inclusive of the Annual General Meeting, at which the average attendance rate was 95% (2022: 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

N Hopkins
R Cooper
A Hook
Lord Roy Kennedy
I Cain
M Miles Lea
R Christopher
J Carr
K Franklin
J Seager
L Heffernan
A Campbell

Position

Chair	Appointed Chair 21 July 2022
Chair	Resigned 21 July 2022
Chief Executive	
Non-Executive	
Non-Executive	Appointed 1 December 2022
Non-Executive	
Non-Executive	
Non-Executive	Appointed 27 January 2023
Non-Executive	Resigned 21 July 2022
Tenant Nominee	
Tenant Nominee	Appointed 21 July 2022
Tenant Nominee	Resigned 21 July 2022

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

Nigel Hopkins | Chair

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 group board member and Chair of the Audit & Risk Committee at London & Quadrant housing group.

Ashley Hook | Chief Executive

Ashley, a chartered surveyor, is Chief Executive of mhs homes and 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 and the Nominations & Remuneration Committee of the RICS.

Joseph Carr | Board member

Joseph is a chartered accountant of more than three decades and has been associated with the housing sector, on and off, for the majority of his working life, including more than 10 years at the National Housing Federation. He has invaluable experience both in policy and treasury.

Ian Cain | Board member

Ian's career extends to some 30 years in corporate and commercial organisations focusing on providing essential services to customers and communities. He is currently CEO of SES Water. Ian brings a wealth of leadership and board experience, having led business through significant change with a focus on people's customers technology and value.

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 is a mhs homes tenant. She knows first-hand the difference 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.

Louise Heffernan | Board member

Louise is a mhs homes tenant and understands how having an affordable, safe and secure place to call home is vital.

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

Trustee Position Changes in year

Group Finance Risk and Audit Committee

J Carr	Chair	Appointed 27 January 2023
N Hopkins	Chair	Resigned 21 July 2022
I Alfon	Member	
R Oirschot	Member	
G Taylor	Member	Appointed 27 January 2023

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

I Cain	Chair	Appointed 1 December 2022
N Hopkins	Member	Appointed 1 December 2022
Lord Kennedy	Member	Appointed 1 December 2022
Ray Christopher	Member	
K Franklin	Chair	Resigned 21 July 2022
R Cooper	Member	Resigned 21 July 2022

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 four Non-Executives from the Group Board. Where needed the Remuneration Committee seek independent external advice

Treasury Committee

R Christopher	Chair	
R Cooper	Member	Resigned 21 July 2022
L Barton	Member	
N Hopkins	Member	Appointed 21 July 2022
G Taylor	Member	Appointed 9 February 2023

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	
E Keough	Interim Operations Director	Resigned 31 August 2022
A Cheswick	Executive Director - Customer & Transformation	Appointed 30 January 2023
G Hancock	Executive Director - Assets & Development	Appointed 12 December 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: -

- 94 new properties brought into management.
- 148 new starts on sites to provide new homes in future years.
- 667 new tenancies started in the year.
- 34% of new lettings were made to people who were previously homeless.
- The proportion of our properties at EPC rating of C or above increased from 65.2% to 74.5% leading to a reduced carbon footprint and lower bills for our customer.
- By being an accredited Living Wage employer ensuring all suppliers we deal with pay a fair wage.
- A Customer Support Fund that offers small grants to customers to help with the increased cost of living and energy bills.

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 17 -20 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 new 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, with external benchmarking advice taken every three years. 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 services:

- Tenancy support.
- Anti-social behaviour.
- Responsive repairs.

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 9 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' and 'We Invest in Wellbeing' Silver accredited status.

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 our 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.

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.

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

Exemptions from disclosures

No exemptions from disclosures have been taken in this report.

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 11.

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 colleagues reducing the risk of accidents and loss to the business. The British Safety Council audit grading has been in place since 2015 and is 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 2023 resulted in us achieving British Safety Council level 4 award ('very 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 2023/24 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 £147 million of funding across three revolving credit facilities and a long term facility.

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; an entity regulated by the RSH and subject to the regulatory Framework. An Intra Group Agreement exists between Heart of Medway Housing 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.

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 new social housing developments can be 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 and other stakeholders 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 27.
- 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.

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 33 and 34.

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 27.

6. Impact of operations on the community and the environment

See pages 11 and 12 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 interests.

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 summary on a quarterly basis by the Board. The Board also regularly reviews progress towards the achievement of key business objectives, targets and outcomes.

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS

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 2023/24. 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 six 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 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 employee 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.

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 advise 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 2022/23 year and up until the adoption of these accounts.

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS

Financial Controls

On behalf of the Board, the Finance, Risk and Audit Committee has reviewed the effectiveness of the system of internal control, which operated across the Group for the year ended 31 March 2023. Recognising the importance of this Committee, the membership includes two independent committee members. The Chair is also a non-executive director on the Group Board. The system of internal financial control includes:

- The operation of formal policies and procedures, including the documentation of key systems and processes recorded in Financial Regulations, Standing Orders and Delegated Arrangements which enables the monitoring of controls and restricts the unauthorised use of assets. Regular reviews take place to ensure that procurement takes place in a manner that complies with Financial Regulations and Delegated Arrangements.
- A proactive approach to fraud based on prevention and detection rather than being reactive to frauds that have taken place. An Anti-Fraud and Corruption Policy is in place, which is reviewed and approved by the Group Board. A fraud risk register is incorporated within the Risk Management Framework and controls are monitored regularly. The organisation has a whistleblowing policy encouraging colleagues to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The 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.

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 2023 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 2023 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.

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

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 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.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Based on our understanding of the Group and the industry in which it operates and discussion with management and those charged with governance, 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.

The Group is also 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.

Our procedures in respect of the above 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 a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

A further description of our responsibilities for the audit of the financial statements is located 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:

Paula Willock

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

Date: 31 July 2023

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Consolidated Statement of Financial Activity

mhs homes group		Revaluation reserve	Unrestricted funds	Restricted funds	Total funds	Total funds
		2023 £'000	2023 £'000	2023 £'000	2023 £'000	2022 £'000
Income from charitable activities						
Social housing lettings	4	-	58,793	-	58,793	54,446
Supporting People	4	-	-	379	379	388
Other income	4	-	371	-	371	363
Sale of fixed assets	12	(20)	608	-	588	1,158
First tranche s/o sales	4	-	2,385	-	2,385	5,142
Income from non-social housing activities						
Other	4	-	936	-	936	956
Income from investment activities						
Market rented Properties	4	-	3,849	-	3,849	3,383
Investment income	13	-	95	-	95	15
Total income		(20)	67,037	379	67,396	65,851
Expenditure on charitable activities						
Social housing lettings	4	-	33,667	-	33,667	31,165
Supporting people	4	-	234	379	613	647
Other expenditure	6	-	1,038	-	1,038	505
First tranche s/o sales	4	-	1,834	-	1,834	3,914
Expenditure on non-social housing activities						
Other	4	-	627	-	627	524
Market rented properties	4	-	1,520	-	1,520	1,243
Interest costs	14	-	11,405	-	11,405	11,297
Total expenditure		-	50,325	379	50,704	49,295
Net income						
		(20)	16,712	-	16,692	16,556
Gain in fair value of: -						
Investments	19	(2)	-	-	(2)	6
Investment properties	18	-	(2,192)	-	(2,192)	6,169
Actuarial gain						
Defined benefit pension	26	-	9,311	-	9,311	1,756
Net movement in funds		(22)	23,831	-	23,809	24,487
Total funds brought forward		210,632	154,530	-	365,162	340,675
Total funds carried forward		210,610	178,361	-	388,971	365,162

All activities relate to continuing operations.
The notes on pages 42 to 71 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Statements of Comprehensive Income

mhs homes group	Note	Total 2023 £'000	Total 2022 £'000
Turnover	4	66,713	64,678
Cost of sales	4	(1,834)	(3,914)
Operating costs	4	(37,465)	(34,084)
Surplus on disposal of fixed assets	12	588	1,158
Operating surplus		28,002	27,838
Other interest receivable and similar income	13	95	15
Interest payable and financing costs	14	(11,405)	(11,297)
Movement in fair value of investments	19	(2)	6
Movement in fair value of investment properties	18	(2,192)	6,169
Surplus before taxation		14,498	22,731
Taxation on surplus	15	-	-
Surplus for the year		14,498	22,731
Actuarial gain on defined benefit pension scheme	26	9,311	1,756
Total comprehensive income for the financial year		23,809	24,487

mhs homes limited	Note	Total 2023 £'000	Total 2022 £'000
Turnover	4	58,019	57,764
Cost of sales	4	(1,834)	(3,914)
Operating costs	4	(33,166)	(30,582)
Surplus on disposal of fixed assets	12	353	757
Operating surplus		23,372	24,025
Other interest receivable and similar income	13	587	522
Interest payable and financing costs	14	(10,820)	(11,140)
Movement in fair value of investment properties	18	(2,382)	5,973
Surplus before taxation		10,757	19,380
Taxation on surplus	15	-	-
Surplus for the year		10,757	19,380
Actuarial gain on defined benefit pension scheme	26	9,311	1,756
Total comprehensive income for the financial year		20,068	21,136

All activities relate to continuing operations.

The notes on pages 42 to 71 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Statements of Financial Position

	Note	Group 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Fixed assets					
Tangible fixed asset - housing	16	548,977	538,425	425,889	418,830
Tangible fixed assets - other	17	7,272	7,435	1,766	1,782
Investment properties	18	85,096	87,458	78,887	81,438
Investments	19	274	276	-	-
		641,619	633,594	506,542	502,050
Current assets					
Stock and work in progress	20	2,844	1,750	2,844	1,750
Debtors – receivable within one year	21	3,001	3,865	2,796	2,886
Debtors – receivable after one year	21	-	-	11,297	16,201
Short term deposits		2,151	1,864	1,737	1,519
Cash and cash equivalents		13,703	34,331	6,785	34,307
		21,699	41,810	25,459	56,663
Creditors: amounts falling due within one year	22	(14,615)	(16,690)	(13,000)	(15,454)
Net current assets		7,084	25,120	12,459	41,209
Total assets less current		648,703	658,714	519,001	543,259
Creditors: Amounts falling due after more than one year:	23	(259,732)	(284,561)	(229,735)	(265,070)
Net assets excluding pension		388,971	374,153	289,266	278,189
Pension liability	26	-	(8,991)	-	(8,991)
Net assets		388,971	365,162	289,266	269,198
Capital and reserves					
Income and expenditure reserve		178,361	154,530	78,687	58,599
Revaluation reserve		210,610	210,632	210,579	210,599
		388,971	365,162	289,266	269,198

These financial statements were approved and authorised for issue by the Board on 20 July 2023 and were signed on its behalf by:



A Hook
Chief Executive



L Humphrey
Company Secretary



N Hopkins
Chair

The notes on pages 42 to 71 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Consolidated Statement of Cashflows

mhs homes group

	Note	2023	2022
		£'000	£'000
Cash flows from operating activities			
Surplus for the financial year		14,498	22,731
Adjustments for:			
Depreciation of fixed assets - housing properties	16	5,796	5,613
Loss on disposal of replaced components		183	90
Depreciation of fixed assets - other	17	395	408
Grant received in year		(2,101)	(1,491)
Impairment of assets	16	-	115
Interest payable and finance costs		11,405	11,297
Provision for building safety works		527	-
Cost element of housing property sales in operating surplus	12	895	5,888
Decrease\increase in fair value of investment properties	18	2,192	(6,169)
Decrease\increase in fair value of investments	19	2	(6)
Decrease\increase in trade and other debtors		864	(296)
Difference between net pension expense and cash		320	410
Decrease in stocks		1,527	3,774
Increase\decrease in trade and other creditors		1,471	(4,113)
Interest received		(95)	(15)
Cash from operations		37,879	38,236
Net cash generated from operating activities		37,879	38,236
Cash flows from investing activities			
Purchase of fixed assets - housing properties	16	(14,898)	(28,459)
Purchase of fixed assets - investment properties	18	(468)	(2,824)
Purchases of fixed assets - other	17	(232)	(128)
Major repairs capitalised as components	16	(4,131)	(3,188)
Receipt of grant		2,101	797
Interest received	13	95	15
Net cash used in investing activities		(17,533)	(33,787)
Cash flows from financing activities			
Interest paid		(11,787)	(11,800)
New loans	23	100,000	10,000
Repayment of loans	23	(128,900)	(4,700)
Net cash used in financing activities		(40,687)	(6,500)
Net increase in cash and cash equivalents		(20,341)	(2,051)
Cash and cash equivalents at beginning of year		36,195	38,246
Cash and cash equivalents at end of year		15,854	36,195

The notes on page 42 to 71 form part of these financial statements

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

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 2023.

2 Accounting Policy

The financial statements have been in 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 2022 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 Group accounts.

Going Concern

After reviewing the budget of mhs homes for 2023/24 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 £147 million of funding across three revolving credit facilities

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; and
- proceeds from the sale of land and property.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

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.

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. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

Pension costs

The Group participates in two schemes.

- Contributions to **the Group's** defined contribution pension scheme are charged to profit or loss in the year which they become payable. Contributions to the Group's defined benefit pension scheme are determined using actuarial valuations so as to spread the cost of pensions over employees' working lives and are based on triennial valuations. Details of the pension costs are disclosed in Note 26.
- The difference between the fair value of the assets held in the group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the group's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that **the Group** is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Holiday pay accrual

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

Tangible fixed assets

Social housing properties

Social housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable). The cost of social housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for colleagues' costs and other costs of managing development. Directly attributable costs of acquisition include capitalised interest calculated on a proportional basis. Where housing properties are under construction, finance costs are only capitalised where

construction is on-going and has not been interrupted or terminated. Social housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in properties under construction and held at cost less any impairment, and are transferred to completed properties when ready for letting.

Deemed cost on transition to FRS 102 for Social housing properties

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

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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

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

Description	
Structure – houses	100
Structure – flats	65
Roofs	50
Electrics, External windows & doors	30
Bathroom and new central heating	30
Kitchen & adaptations	20
Boilers	15

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 in years as follows:

Description	
Freehold premises	50
Fixtures and fittings	1-5
Other offices	50

Recycled Capital Grant Fund

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

Investment properties

Investment properties consist of market rented properties, part of the head office rented to other organisations and other properties not held for social benefit. Investment properties are measured at fair value determined by external valuers in March 2023. 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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

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.

Leasehold sinking funds

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

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

Management have assessed all leases to be operating activities 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.

Provisions

The Group recognises provisions for liabilities of uncertain timing or amounts. Provision is made for specific and quantifiable liabilities, measured at the best estimate of expenditure required to settle a legal or constructive obligation at the balance sheet date.

Reserves

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

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

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

- Whether there are indicators of impairment of the Group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Whether leases entered into by the Group either as a lessor or a lessee are operating or lease or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- The categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset.
- What constitutes a cash generating unit when indicators of impairment require there to be an impairment review.

Other key sources of estimation uncertainty.

Tangible fixed assets (see note 16 and 17)

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values. 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 asset cost is 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 2023.

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 2023

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)
	2023	2023	2023	2023	2023
	£'000	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	58,793	-	(33,667)	-	25,126
Other social housing activities					
First tranche shared ownership sales	2,385	(1,834)	-	-	551
Development	-	-	(599)	-	(599)
Supporting people	379	-	(613)	-	(234)
Foyers	279	-	(350)	-	(71)
Managed properties	66	-	(89)	-	(23)
Charitable activities	61,902	(1,834)	(35,318)	-	24,750
Non-social housing activities					
Market rented properties	3,849	-	(1,520)	-	2,329
Other income	26	-	-	-	26
Other properties & commercial	936	-	(627)	-	309
Non charitable activities	4,811	-	(2,147)	-	2,664
Surplus on disposal of fixed assets	-	-	-	588	588
	66,713	(1,834)	(37,465)	588	28,002

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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)
	2023 £'000	2023 £'000	2023 £'000	2023 £'000	2023 £'000
Social housing lettings (Note 5)	50,959	-	(30,109)	-	20,850
Other social housing activities					
First tranche shared ownership sales	2,385	(1,834)	-	-	551
Development	-	-	(599)	-	(599)
Supporting people	188	-	(337)	-	(149)
Managed properties	66	-	(89)	-	(23)
Charitable activities	53,598	(1,834)	(31,134)	-	20,630
Non-social housing activities					
Market rented properties	3,665	-	(1,405)	-	2,260
Other income	26	-	-	-	26
Other properties and commercial	730	-	(627)	-	103
Non charitable activities	4,421	-	(2,032)	-	2,389
Surplus on disposal of fixed assets	-	-	-	353	353
	58,019	(1,834)	(33,166)	353	23,372
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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2023 £'000	Total 2022 £'000
Income						
Rents net of identifiable service charges*	5,605	44,383	2,973	2,287	55,248	51,242
Service charge income	398	298	333	291	1,320	1,553
Amortised government grant	1,996	-	-	106	2,102	1,491
Other income	-	104	4	15	123	160
Turnover from social housing lettings	7,999	44,785	3,310	2,699	58,793	54,446
Expenditure						
Management	(589)	(4,891)	(744)	(226)	(6,450)	(5,965)
Service charge costs	(247)	(2,306)	(597)	(298)	(3,448)	(2,762)
Routine maintenance	(482)	(6,490)	(355)	(15)	(7,342)	(6,249)
Planned maintenance	(357)	(5,131)	(608)	(41)	(6,137)	(6,165)
Major repairs	(521)	(1,950)	(817)	(711)	(3,999)	(3,920)
Bad debts	(33)	(200)	(10)	(9)	(252)	(286)
Depreciation of housing properties:						
- annual charge	(1,000)	(3,973)	(393)	(430)	(5,796)	(5,613)
- impairment	-	-	-	-	-	(115)
- accelerated on disposal of components	(35)	(208)	-	-	(243)	(90)
Operating expenditure on social housing lettings	(3,264)	(25,149)	(3,524)	(1,730)	(33,667)	(31,165)
Operating surplus on social housing lettings	4,735	19,636	(214)	969	25,126	23,281
Void losses	(33)	(320)	(77)	-	(430)	(445)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2023 £'000	Total 2022 £'000
Income						
Rents net of identifiable service charges*	2,616	43,308	2,611	1,379	49,914	46,882
Service charge Income	195	229	285	122	831	1,173
Amortised government grant	-	-	-	106	106	190
Other income	-	104	4	-	108	122
Turnover from social housing lettings	2,811	43,641	2,900	1,607	50,959	48,367
Expenditure						
Management	(275)	(5,422)	(706)	(174)	(6,577)	(5,984)
Service charge costs	(95)	(2,263)	(549)	(135)	(3,042)	(2,367)
Routine maintenance	(298)	(6,430)	(355)	(14)	(7,097)	(6,065)
Planned maintenance	(244)	(5,091)	(580)	(21)	(5,936)	(5,999)
Major repairs	(76)	(1,796)	(778)	(22)	(2,672)	(3,127)
Bad debts	-	(190)	(8)	(9)	(207)	(253)
Depreciation of housing properties:						
- annual charge	(166)	(3,670)	(247)	(278)	(4,361)	(4,272)
- impairment	-	-	-	-	-	(115)
- accelerated on disposal of components	(9)	(208)	-	-	(217)	(67)
Operating expenditure on social housing lettings	(1,163)	(25,070)	(3,223)	(653)	(30,109)	(28,249)
Operating surplus on social housing lettings	1,648	18,571	(323)	954	20,850	20,118
Void losses	(14)	(314)	(77)	-	(405)	(417)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023
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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
General needs	(5,216)	(5,009)	(16,733)	(16,143)	(6,464)	(5,684)	(28,413)	(26,836)
Supported housing	(393)	(356)	(2,663)	(2,358)	(468)	(401)	(3,524)	(3,115)
Shared ownership	(430)	(453)	(978)	(521)	(322)	(240)	(1,730)	(1,214)
Social housing lettings	(6,039)	(5,818)	(20,374)	(19,022)	(7,254)	(6,325)	(33,667)	(31,165)
Supporting People	-	-	(613)	(647)	-	-	(613)	(647)
Other expenditure	-	-	(1,038)	(505)	-	-	(1,038)	(505)
Total charitable expenditure included in operating costs	(6,039)	(5,818)	(22,025)	(20,174)	(7,254)	(6,325)	(35,318)	(32,317)
First Tranche shared ownership sales	-	-	(1,834)	(3,914)	-	-	(1,834)	(3,914)
Operating surplus/(deficit) on social housing lettings	(6,039)	(5,818)	(23,859)	(24,088)	(7,254)	(6,325)	(37,152)	(36,231)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023
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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
General needs	(4,053)	(3,968)	(15,500)	(14,917)	(6,680)	(5,725)	(26,233)	(24,610)
Supported housing	(247)	(209)	(2,508)	(2,324)	(468)	(401)	(3,223)	(2,934)
Shared ownership	(278)	(277)	(108)	(199)	(267)	(229)	(653)	(705)
Social housing lettings	(4,578)	(4,454)	(18,116)	(17,440)	(7,415)	(6,355)	(30,109)	(28,249)
Supporting people	-	-	(337)	(337)	-	-	(337)	(337)
Other expenditure	-	-	(688)	(292)	-	-	(688)	(292)
Total charitable expenditure included in operating costs	(4,578)	(4,454)	(19,141)	(18,069)	(7,415)	(6,355)	(31,134)	(28,878)
First tranche shared ownership sales	-	-	(1,834)	(3,914)	-	-	(1,834)	(3,914)
Operating surplus/(deficit) on social housing lettings	(4,578)	(4,454)	(20,975)	(21,983)	(7,415)	(6,355)	(32,968)	(32,792)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

7 Units of housing stock

<u>Social housing</u>	As at 1 April 2022	Units developed	Units transferred	Units sold	As at 31 March 2023
mhs homes limited					
General needs housing	6,718	3	4	(1)	6,724
Sheltered schemes	471	-	-	-	471
Shared ownership	269	14	(3)	(2)	278
Intermediate rent	1	-	-	-	1
Social leaseholders	473	-	2	-	475
Foyers *	36	-	-	-	36
	7,968	17	3	(3)	7,985
Heart of Medway					
General needs housing	543	55	-	-	598
Sheltered schemes	54	-	-	-	54
Shared ownership	238	-	(1)	-	237
Social leaseholders	21	-	-	-	21
	856	55	(1)	-	910
Lord Kitchener					
General needs housing	6	-	-	-	6
<u>Non – Social properties</u>					
mhs homes limited					
Managed freeholders	177	-	1	-	178
Market rent	344	22	(3)	-	363
Commercial lettings	46	-	(1)	-	45
Heart of Medway					
Market rent	17	-	-	-	17
Managed freeholders	6	-	1	(2)	5
Total owned	9,420	94	-	(5)	9,509
Accommodation managed					
for others	84	-	-	-	84
by others	18	-	1	-	19
Total owned or managed	9,522	94	1	(5)	9,612
Garages	1,404	-	-	-	1,404

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

	Group 2023	Group 2022	mhs homes 2023	mhs homes 2022
Units under construction: commitments contracted				
Houses	43	82	43	39
Sheltered	76	120	30	30
Flats	158	65	122	29
Units under development: approved but not contracted				
Houses	-	36	-	10
Sheltered	44	-	-	-
Flats	-	36	-	12
	321	339	195	120

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

8 Operating Surplus

	Group 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
This is arrived at after charging:				
Depreciation of housing properties: annual charge	5,796	5,613	4,361	4,272
Depreciation of other fixed assets: annual charge	395	408	248	261
Accelerated depreciation on replaced components	183	367	158	325
Operating leases	914	743	914	743
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	45	42	45	42
- fees for audit of accounts of subsidiary entities	36	33	-	-
- fees for other audit services	4	4	4	4

9 Employees

	Group 2023	Group 2022	mhs homes 2023	mhs homes 2022
Number of employees	266	266	266	266
	£'000	£'000	£'000	£'000
Wages and salaries	11,324	10,353	11,324	10,353
Social security costs	1,076	959	1,076	959
Cost of defined contribution scheme	376	379	376	379
Cost of defined benefit scheme (see note 26)	254	256	254	256
	13,030	11,947	13,030	11,947

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 (2022: 266).

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 2023

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 22.

Trustee	Remuneration £'000	Remuneration Committee	Treasury Committee	Group Finance, Risk and Audit Committee
N Hopkins	19	✓	✓	✓
R Kennedy	12	✓		
R Christopher	12	✓	✓	
M Miles Lea	10			
J Seager	9			
L Heffernan	7			
I Cain	7	✓		
J Carr	2			✓
A Campbell	3			

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 2023 were £993 (2022: £392).

11 Senior executive remuneration

	Group 2023 £'000	Group 2022 £'000
Key Management personnel emoluments	484	522
Amounts paid to non-executive	80	89
	564	611

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments, was £186,316 (2022: £183,769). Pension contributions of £45,335 (2022: £44,681) were made to Kent County Council Pension Fund on his behalf. As a member of the Kent County Council Pension Fund, the pension entitlement of the Chief Executive is identical to those of other members.

There were three directors (2022: one) in **the Group's** defined contribution pension scheme. Contributions were paid into the scheme on their behalf £17,996 (2022: £25,209). The remuneration paid to staff (including Leadership Team) earning over £60,000 upwards:

	Group 2023 No.	Group 2022 No.
£60,000 - £69,999	5	2
£70,000 - £79,999	-	2
£80,000 - £89,999	2	5
£120,000 - £129,999	2	-
£130,000 - £139,999	-	1
£140,000 - £149,999	1	-
£210,000 - £219,999	1	1

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

12 Surplus on disposal of fixed assets

GROUP	Shared ownership Staircasing 2023 £'000	Right to Buy Sales 2023 £'000	Sale of Land 2023 £'000	Total 2023 £'000	Total 2022 £'000
Housing properties:					
Disposal proceeds	1,515	191	-	1,706	2,317
Cost of disposals	(884)	(11)	-	(895)	(1,150)
Grant repayment	(218)	-	-	(218)	-
Legal and other fees	(1)	(4)	-	(5)	(9)
	412	176	-	588	1,158

mhs homes	2023 £'000	2023 £'000	2023 £'000	2023 £'000	2022 £'000
Housing Properties:					
Disposal proceeds	975	191	80	1,246	6,114
Cost of disposals	(595)	(11)	(64)	(670)	(5,350)
Grant repayment	(218)	-	-	(218)	-
Legal and other fees	(1)	(4)	-	(5)	(7)
	161	176	16	353	757

13 Interest receivable and income from investments

	Group 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Interest receivable from group undertakings	-	-	497	513
Interest receivable and similar income	95	15	90	9
	95	15	587	522

14 Interest payable and similar charges

	Group 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Bank loans and overdrafts	11,474	10,909	10,706	10,469
Other fees	1,080	495	1,064	493
Breakage Gains	(1,173)	-	(1,173)	-
	11,381	11,404	10,597	10,962
Amortisation of issue costs	177	222	156	206
	11,558	11,626	10,753	11,168
Net interest on defined pension liability (note 26)	229	204	229	204
Interest capitalised on construction of housing properties	(382)	(533)	(162)	(232)
	11,405	11,297	10,820	11,140

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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
	2023	2022	homes	homes
	£'000	£'000	2023	2022
			£'000	£'000
Surplus on ordinary activities before tax	14,498	22,731	10,757	19,380
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 19% (2022 - 19%)	2,755	4,319	2,043	3,682
Effects of:				
Group relief surrendered	-	-	-	-
Net income subject to charitable exemptions	(2,167)	(4,239)	(2,043)	(3,682)
Adjustments in respect of prior years- deferred tax	(588)	(80)	-	-
Total tax charge\ credit for period	-	-	-	-

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a nil charge (2022: nil charge).

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2022	520,016	52,750	26,434	3,200	602,400
Additions - construction costs	-	-	7,051	5,888	12,939
Additions - works to replaced components	4,131	-	-	-	4,131
Completed schemes	18,038	2,851	(18,038)	(2,851)	-
Net transfer from investment properties	637	-	-	-	637
Transfer to current assets	-	(281)	-	-	(281)
Staircasing disposals	-	(919)	-	-	(919)
Property disposals	(14)	-	-	-	(14)
Disposal of replaced components	(560)	-	-	-	(560)
At 31 March 2023	542,248	54,401	15,447	6,237	618,333
Depreciation:					
At 1 April 2022	59,755	1,979	-	-	61,734
Charge for the year	5,365	431	-	-	5,796
Eliminated on staircasing disposals	-	(35)	-	-	(35)
Eliminated on property disposals	(3)	-	-	-	(3)
Disposal of replaced components	(377)	-	-	-	(377)
At 31 March 2023	64,740	2,375	-	-	67,115
Impairment:					
At 1 April 2022	2,008	233	-	-	2,241
Charge for the year	-	-	-	-	-
At 31 March 2023	2,008	233	-	-	2,241
Net book value at 31 March 2023	475,500	51,793	15,447	6,237	548,977
Net book value at 31 March 2022	458,253	50,538	26,434	3,200	538,425

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2022	436,069	33,113	1,205	3,201	473,588
Additions - construction costs	-	-	1,872	5,888	7,760
Additions - works to replaced components	4,068	-	-	-	4,068
Completed schemes	569	2,851	(569)	(2,851)	-
Transfer from investment properties	637	-	-	-	637
Transfer to current assets	-	(281)	-	-	(281)
Staircasing disposals	-	(619)	-	-	(619)
Property disposals	(14)	-	-	-	(14)
Disposal of replaced components	(506)	-	-	-	(506)
At 31 March 2023	440,823	35,064	2,508	6,238	484,633
Depreciation:					
At 1 April 2022	52,342	875	-	-	53,217
Charge for the year	4,083	278	-	-	4,361
Eliminated on staircasing	-	(24)	-	-	(24)
Eliminated on property disposals	(3)	-	-	-	(3)
Disposal of replaced components	(348)	-	-	-	(348)
At 31 March 2023	56,074	1,129	-	-	57,203
Impairment:					
At 1 April 2022	1,541	-	-	-	1,541
Charge for the year	-	-	-	-	-
At 31 March 2023	1,541	-	-	-	1,541
Net book value at 31 March 2023	383,208	33,935	2,508	6,238	425,889
Net book value at 31 March 2022	382,186	32,238	1,205	3,201	418,830

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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.

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	Group	mhs	mhs
	2023	2022	homes	homes
	£'million	£'million	2023	2022
			£'million	£'million
Estimated total EUV – SH	701	661	617	585
Estimated EUV- SH value of properties charged	524	513	503	497

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

	Group	Group	mhs	mhs
	2023	2022	homes	homes
	£'000	£'000	2023	2022
			£'000	£'000
Freehold	546,322	535,725	424,848	417,772
Long leasehold	2,655	2,700	1,041	1,058
	548,977	538,425	425,889	418,830

Interest capitalisation

Interest capitalised in the year	383	533	162	232
Cumulative interest capitalised	4,809	4,426	2,483	2,321

Works to properties

Improvements to existing properties capitalised	4,131	3,188	4,068	3,148
Major repairs expenditure to income and expenditure	3,999	3,920	2,672	3,127
	8,130	7,108	6,740	6,275

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2022	7,982	2,120	6,766	16,868
Additions	-	-	232	232
At 31 March 2023	7,982	2,120	6,998	17,100
Depreciation				
At 1 April 2022	2,329	680	6,424	9,433
Charge for year	147	28	220	395
At 31 March 2023	2,476	708	6,644	9,828
Net book value				
At 31 March 2023	5,506	1,412	354	7,272
At 31 March 2022	5,653	1,440	342	7,435
mhs homes limited		Freehold premises £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation				
At 1 April 2022		2,120	6,766	8,886
Additions		-	232	232
At 31 March 2023		2,120	6,998	9,118
Depreciation				
At 1 April 2022		680	6,424	7,104
Charge for year		28	220	248
At 31 March 2023		708	6,644	7,352
Net book value				
At 31 March 2023		1,412	354	1,766
At 31 March 2022		1,440	342	1,782

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2022	2,554	79,860	5,044	87,458
Units converted to social housing	-	(638)	-	(638)
Construction costs	-	-	468	468
Disposal of replaced components	-	-	-	-
Works to existing properties	-	-	-	-
Completed schemes	-	5,512	(5,512)	-
Fair value adjustment	-	(2,192)	-	(2,192)
At 31 March 2023	2,554	82,542	-	85,096

mhs homes limited	£'000	£'000	£'000
At 1 April 2022	76,394	5,044	81,438
Units converted to social housing	(637)	-	(637)
Construction costs	-	468	468
Disposal of replaced components	-	-	-
Works to existing properties	-	-	-
Completed schemes	5,512	(5,512)	-
Fair value adjustment	(2,382)	-	(2,382)
At 31 March 2023	78,887	-	78,887

The Group's market rented investment properties are measured at cost on initial recognition. In 2023 the fair value was determined by external valuers. Changes in fair value are recognised in the statement of comprehensive income. The loss on revaluation of investment property arising of £2.192m (2022 – a gain of £6.169m) 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	Group	mhs homes 2023	mhs homes 2022
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Historic cost	54,075	48,768	50,668	45,361
Accumulated depreciation	(6,599)	(5,933)	(6,259)	(5,643)
	47,476	42,835	44,409	39,718

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2022	185	86	5	276
Revaluation	-	(2)	-	(2)
At 31 March 2023	185	84	5	274

mhs homes limited	Total 2023 £	Total 2022 £
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 Office	03254705	-
Chatham Maritime K1 Construction Limited	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	Not Active	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 are appointed as corporate trustee

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023
Notes forming part of the Financial Statements (Continued)

20 Stock and Work in Progress

	Group	Group	mhs	mhs
	2023	2022	homes	homes
	£'000	£'000	2023	2022
			£'000	£'000
Materials	26	26	26	26
Shared ownership under construction	2,818	1,724	2,818	1,724
	2,844	1,750	2,844	1,750

21 Debtors

	Group	Group	mhs	mhs
	2023	2022	homes	homes
	£'000	£'000	2023	2022
			£'000	£'000
Due within one year				
Rent and service charge arrears	3,091	3,070	2,721	2,727
Less: provision for doubtful debts	(961)	(985)	(821)	(858)
	2,130	2,085	1,900	1,869
Prepayments	750	1,428	750	735
Taxes and social security	-	33	-	-
Other debtors	119	315	144	278
Loans to employees	2	4	2	4
	3,001	3,865	2,796	2,886
Due after one year				
Loan to Heart of Medway	-	-	140	4,535
Loan to Chatham Maritime K1 Development	-	-	11,157	11,666
	-	-	11,297	16,201

22 Creditors: amounts falling due within one year

	Group	Group	mhs	mhs
	2023	2022	homes	homes
	£'000	£'000	2023	2022
			£'000	£'000
Loans and borrowings (note 24)	-	4,800	-	4,800
Trade creditors	1,561	1,391	1,477	1,372
Rent in advance	1,421	1,230	1,275	1,117
Taxation and social security	23	-	40	17
Other creditors	541	543	526	537
Amounts due to subsidiaries	-	-	582	247
Accruals	5,659	5,107	4,277	4,202
Loan interest and fees due	3,259	1,756	3,086	1,643
Sinking fund balances	2,151	1,863	1,737	1,519
	14,615	16,690	13,000	15,454

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

23 Creditors: amounts falling due after more than one year

	Group	Group	mhs homes	mhs homes
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Loans (Note 24)	262,250	291,139	232,250	271,139
Less repayable within one year	-	(4,800)	-	(4,800)
Less issue costs	(3,045)	(1,778)	(2,515)	(1,269)
Loans and borrowings	259,205	284,561	229,735	265,070
Provision (Note 27)	527	-	-	-
	259,732	284,561	229,735	265,070

24 Loans and borrowings: Maturity of Debt

	Group	Group	mhs homes	mhs homes
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Less than one year	-	4,800	-	4,800
Between two and five years	-	34,600	-	34,600
In five years or more	262,250	251,739	232,250	231,739
Loans and borrowings	262,250	291,139	232,250	271,139

During the year mhs homes repaid £128.9 million of bank loans through a combination of longer dated private placements and cash reserves. This had the benefit of minimising our refinancing risk over the foreseeable future. Our liquidity though remains strong with £130 million of undrawn revolving credit facilities in place, along with £17m of longer dated term debt.

The debt in mhs homes is comprised of £32.3 million of bank debt, due for repayment between 2030 and 2042 along with the private placements noted below.

- £40 million amortising from 2030 to 2056
- £30 million due 2044
- £50 million amortising between 2049 and 2058
- £40 million due 2051
- £40 million due 2054

Two private placements are in Heart of Medway, £10 million due in 2038 and £20 million due in 2055.

Interest rates are fixed for more than one year on 88% of our debt in mhs homes and 100% in Heart of Medway.

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 Strategic review. 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
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Financial assets measured at fair value:	274	276	-	-
Total financial assets	274	276	-	-

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

26 Pensions

Defined benefit pension scheme

mhs homes limited is a 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 2022 with the next formal valuation due in 2025. The contribution rate for the Group was 25.7% (2022: 25.7%) for employer contributions and 5.5% to 11.4% (2022: 5.5% to 11.4%) for employee contributions. The most recent actuarial valuation confirmed that the employer contribution would stay at 25.7% till 2025. The pension contribution for the year for the Kent County Council Local Government Superannuation Scheme amounted to £253,387 (2022: £343,428). 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 2023 £'000	31 March 2022 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	56,736	58,287
Current service cost	415	482
Interest cost	1,454	1,151
Change in financial assumptions	(19,073)	(1,828)
Change in demographic assumptions	(1,597)	-
Experience loss	2,325	119
Benefits paid net of transfers in	(1,624)	(1,515)
Contributions by scheme participants	80	80
Unfunded pension payments	(39)	(40)
At the end of the year	38,677	56,736

	31 March 2023 £'000	31 March 2022 £'000
Reconciliation of fair value of plan assets		
At the beginning of the year	47,745	47,950
Interest on assets	1,225	947
Return on assets less interest	(613)	47
Other actuarial gains	405	-
Administration expenses	(29)	(29)
Contributions by employer excluding unfunded	353	305
Contributions by members	80	80
Benefits paid	(1,663)	(1,555)
Application of asset ceiling	(8,826)	-
At the end of the year	38,677	47,745

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

26 Pension (continued)

	31 March 2023 £'000	31 March 2022 £'000
Fair value of plan assets	47,503	47,745
Application of asset ceiling	(8,826)	-
Present value of plan liabilities	(38,184)	(56,161)
Surplus\ (Deficit)	493	(8,416)
Present value of unfunded obligation	(493)	(575)
Net pension scheme liability	-	(8,991)

Amounts recognised in other comprehensive income are as follows:

	31 March 2023 £'000	31 March 2022 £'000
Included in administrative expenses:		
Service cost	415	482
Net interest on the defined liability	229	204
Administration expenses	29	29
	673	715

Analysis of actuarial gain recognised in other comprehensive income

	31 March 2023 £'000	31 March 2022 £'000
Actual return less expected return on fund assets	(613)	47
Other actuarial gains on assets	405	-
Experience gains on defined benefit obligation	(2,325)	(119)
Change in demographic assumptions	1,597	-
Changes in financial assumptions	19,073	1,828
Application of asset ceiling	(8,826)	-
	9,311	1,756

	31 March 2023		31 March 2022	
	£'000	%	£'000	%
<i>Composition of plan assets</i>				
Equities	30,313	64	30,736	64
Gilts	260	1	291	1
Other bonds	6,239	13	6,592	14
Property	4,741	10	5,608	12
Cash	852	2	986	2
Target return portfolio	3,480	7	3,532	7
Infrastructure	1,618	3	-	-
Total plan assets	47,503	100	47,745	100
Return on plan assets		1.30%		2.10%

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

26 Pensions (continued)

<i>Principal actuarial assumptions used at the balance sheet</i>	31 March 2023	31 March 2022
Discount rates	4.80%	2.60%
Future salary increases	3.90%	4.30%
Future pension increases (CPI)	2.90%	3.30%
Life expectancy from age 65 years: Males (years)	21.1	21.6
Life expectancy from age 65 years: Females (years)	23.5	23.7

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 £377,926 (2022: £378,805). At 31 March 2023 the number of staff participating in the scheme was 289 (2022: 291). There were no contributions outstanding or prepaid as at 31 March 2023.

27 Provision

	Group 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Fire Safety Provision	527	-	-	-

The fire safety provision is a result of providing for works to a property identified a block of flats to fulfil its responsibilities with regards to fire safety which does not meet Building Regulations and as such additional work is required to achieve compliance. A programme of works has been identified and communicated to leaseholders.

28 Contingent liabilities

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 2023, the value of grant received in respect of these properties that had not been disposed of was £36,669,000 (2022: £34,785,000). 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 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Recycled Capital Grant	157	138	-	-
Capital Grant	36,512	34,647	16,511	16,405
Total Grant	36,669	34,785	16,511	16,405

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 £32,022,000 (2022: £3,410,000).

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

29 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 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Not later than one year	141	356	141	356
Later than one year and not later than five years	774	388	774	388
Total	915	744	915	744

Amounts receivable under operating leases as lessor

	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Not later than one year	201	201	201	201
Later than one year not later than five years	66	268	66	268
	267	469	267	469

30 Capital Commitments

	Group 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Commitments contracted				
New build developments	45,760	31,951	31,385	7,693
Commitments approved by the board but not contracted				
New build developments	9,627	21,966	-	8,917
	55,387	53,917	31,385	16,610

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

	Group 2023 £'000	Group 2022 £'000	mhs homes 2023 £'000	mhs homes 2022 £'000
Social Housing Grant	1,258	3,553	-	296
New loans	26,000	10,000	10,200	-
Sales of properties	8,782	7,544	8,782	7,544
Existing reserves	19,347	32,820	12,403	8,770
	55,387	53,917	31,385	16,610

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Notes forming part of the Financial Statements (Continued)

31 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 £18,043 (2022: £18,089) and the tenants had arrears balances of nil at the 31 March 2023 (31 March 2022: £1,193). 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	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Heart of Medway	527	422	-	-
Chatham Maritime K1 Development Limited	-	-	497	513
	527	422	497	513

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.

Entity granting loan	Entity receiving loan	Interest Rate**	At 1 April 2022	Movement	At 31 March 2023
			£'000	£'000	£'000
mhs homes	Heart of Medway*	-	4,535	(4,395)	140
mhs homes	Chatham Maritime K1 Development Limited*	4.36%	11,966	(509)	11,457
			16,501	(4,904)	11,597

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

mhs homes provided parent guarantees as disclosed in note 28. Kent County Council Pension Scheme is a related party, refer to note 26 for transactions during the year.

32 Capital and reserves

The revaluation reserve contains unrealised gains of £210.6 million (2022: £210.6 million) in respect of fixed assets for which the deemed cost option was taken.

33 Net debt reconciliation

Group	At 1 April 2021	Cash flows	Non-cash movement	At 31 March
	£'000	£'000	£'000	£'000
Short term deposits	1,864	287	-	2,151
Cash at bank	34,331	(20,628)	-	13,703
Cash and cash equivalents	36,195	(20,341)	-	15,854
Loans and borrowings	(291,139)	28,889	-	(262,250)
Net debt	(254,944)	8,548	-	(246,396)