

MERLIN HOUSING SOCIETY LIMITED

Financial Statements

for the year ended 31 March 2020

**Co-operative and Community Benefit Society
Registration Number 30012R**

**Regulator of Social Housing
Registration Number L4485**

Bromford.

Merlin Housing Society Limited

Financial Statements

For the Year Ended 31 March 2020

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Merlin Housing Society Limited

General Information For the Year Ended 31 March 2020

Board Members as at 31 March 2020:

The Board members who served from 1 April 2019 up to the date of approval of these financial statements were as follows:

	Position	Appointment/Retirement Date	Meetings Attended 2019/20
Jonathan Simpson-Dent	Chair	Appointed 7 April 2015 Resigned 31 March 2020	14/14
Stephen Dando	Independent Non-Executive Director Chair	Appointed 24 November 2015 Appointed chair 1 April 2020	14/14
Vivienne Horton	Vice Chair and Senior Independent Director	Appointed 2 July 2018	14/14
Helen Adlard	Independent Non-Executive Director	Appointed 2 January 2019	13/14
Richard Bird	Independent Non-Executive Director	Appointed 2 July 2018	14/14
Oke Eleazu	Independent Non-Executive Director	Appointed 1 April 2015 Resigned 31 March 2020	13/14
Darren Lee Gibson	Executive Director of Finance	Appointed 1 August 2016	14/14
Balvinder Heran	Independent Non-Executive Director	Appointed 1 April 2016 Resigned 31 December 2019	8/9
Robert Nettleton	Chief Executive	Appointed 31 December 2018	14/14
Richard Penska	Independent Non-Executive Director	Appointed 2 July 2018	12/14
Neil Rimmer	Independent Non-Executive Director	Appointed 2 July 2018	14/14
Sarah Simpson	Independent Non-Executive Director	Appointed 1 April 2020	
Jerry Toher	Independent Non-Executive Director	Appointed 1 April 2020	

Meetings attended reflects the number of Board meetings that were attended by each Board member out of the total number of Board meetings they were eligible to attend.

Company Secretary	Appointment/Retirement Date
Sarah Beal	Appointed 1 August 2018

Advisors:

External Auditors:

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Business Assurance Provider:

PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol BS2 0FR

Bankers:

Lloyds Bank plc
25 Gresham Street
London
EC2V7HN

Taxation Advisor:

Deloitte LLP
Four Brindley Place,
Birmingham,
B1 2HZ.

Registered office:

Riverside Court, Bowling Hill,
Chipping Sodbury
Bristol
BS376JX

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

The Board of Merlin Housing Society Limited ('MHS') is pleased to present its annual report and financial statements for the year ended 31 March 2020.

Who are we and what do we do?

MHS became a subsidiary of Bromford Housing Group Limited ('BHG') on 2 July 2019. Merlin is a Registered Provider of Social Housing and a Registered Society under the Co-operative and Community Benefit Societies Act 2014. Together, BHG and its subsidiaries are known as '**Bromford**'.

Bromford exists to provide affordable homes for people who can't access market housing. We believe in providing safe, secure and warm homes, but we're ultimately a people business. Not only do we care about what happens to people that live in a Bromford home, we want people to thrive.

That's why our purpose is simple and honest. ***We invest in homes and relationships so people can thrive.***

Bromford is a housing group – one that owns 44,000 homes; has individual relationships with more than 100,000 customers; has a very strong balance sheet; and plans to build a further 14,000 new homes over the next decade. All this is only possible because of the 1,800 people who work for the organisation.

MHS's principal activities are the ownership and management of rental and shared ownership properties and the development of new properties for sale and rent.

Our Board – who are they and what do they do?

BHG is the parent company of MHS. Under Bromford's Governance Framework, MHS delegates matters of governance and financial authority to the BHG Board (The Board).

The BHG Board's role is to **set and uphold Bromford's strategy and values** and to make sure that **effective leadership** and **sufficient resources** are in place for Bromford to achieve its strategic aims and objectives. The Board monitors and tests **performance** in relation to approved plans and budgets and is also responsible for determining risk appetite, to make sure good governance and decision-making is taking place. It promotes and supports our probity and values and makes sure that there are succession plans for Board members and the senior team. Bromford's day-to-day leadership is delegated to the Chief Executive.

Bromford's statement of strategy (published on our website) describes our 'DNA' (**Fig. 1**). Our DNA is what we stand for and the behaviours, qualities and values that represent what it means to **Be Bromford**.



Fig. 1. Bromford DNA

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

Board composition, meetings, decisions and delegations

The Merlin Board operates as a unitary board.

From the 1 April 2020, our Board comprised 11 members – two Executive Directors (our Chief Executive and Executive Director of Finance) and nine NEDs.

Each of the non-executive directors was independent on appointment.

Each NED makes an annual fit and proper persons declaration and annual declaration of interest. Conflicts of interest are noted at the start of each board meeting and board members abstain from discussions or decision making where an actual or perceived conflict may exist. The Audit and Risk Committee and board receive a copy of the Conflicts of Interest register as part of their end of year compliance activity. All colleagues are also required to make an annual declaration of interest.

There were no occasions during the financial year where the board considered that the chair or a NED's external commitments interfered with or impeded their ability to exercise their duties and responsibilities on behalf of Bromford.

Board effectiveness

All board members are expected to contribute to a culture of clear and open debate so that informed and prudent decision-making can take place and are expected to keep developing and refreshing their knowledge and skills so they can continue to make informed and positive contributions to board discussions. There have been externally facilitated sessions at board meetings to support members understanding of their compliance obligations around fire, gas, electrical and lift safety. The board is also encouraged to participate in training events and spend time out in the business to understand how it operates and how our team work and interact with each other.

Each year the board carries out a formal evaluation of board, committee, and individual director performance. At least every three years, as recommended by the UK Corporate Governance Code, this evaluation is facilitated by an external advisor to provide an independent perspective. There was an independent review of governance effectiveness in 2018 and the chair carried out an internal review in 2019. Our Senior Independent Director carried out a review of the Chair's performance. It has been agreed that because of the significant amount of change within the board that a further external review will start at the end of 2020/21.

Our activity in 2019 tested and confirmed that the board was clear about its role and was engaged in developing strategy. An action plan was developed following the 2019 review and all actions completed. We have used the findings to continue to inform our Board Succession Plans and Skills matrix.

As a result of the findings in this review we have held more pre-board dinners, arranged for all board members to join at least one Customer and Communities Influence Network (CCIN) meeting, held an annual CCIN workshop with the board, appointed a colleague engagement NED and carried out a review of the board skills matrix.

Board and Committee Decision-making

To retain control of key decisions and to provide a clear division of responsibility between the running of the board and the running of the business, the board and the other Registered Providers in the group, have identified 'reserved matters' that only those boards can approve.

Other matters have been delegated to the committees. Any matters outside of these delegations fall within the Chief Executive's responsibility and authority.

The board and each committee receive sufficient, reliable, and timely information in advance of meetings and are provided with or are given access to all the necessary resources and expertise to enable them to undertake their duties in an effective manner.

The board is scheduled to meet ten times a year but also meets more frequently if necessary (as it has done during the coronavirus pandemic). The board also has a strategy setting event.

Each board meeting has a planned agenda, which allows enough time to discuss both strategic and operational matters and includes consideration of performance and risk management.

Each board committee meets as many times as necessary to discharge their duties and responsibilities under their terms of reference. For reports from our committees, refer to the Bromford Housing Group accounts.

The board and committees can seek advice to support them in their decision making.

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Value for Money

Ensuring Value for Money for our customers and our group is ingrained in our culture enables us to deliver our Strategy, and to enable customers to thrive. Our value for money statement is published within our Group financial statements.

Statement of compliance with the regulatory standards

Our regulator, the Regulator of Social Housing (RSH), publishes a regulatory framework and regulatory standards. The regulatory standards comprise of the economic standards (namely the governance and financial viability, value for money and rent standards) and the consumer standards (namely the tenant involvement and empowerment, home, tenancy and neighbourhood and community standards).

One of the core economic standards is governance and financial viability. This requires Registered Providers (RPs) to have effective governance arrangements in place that deliver their aims, objectives and intended outcomes for tenants and potential tenants in an effective, transparent and accountable manner. It also requires RPs to manage their resources effectively, to make sure their viability is maintained whilst ensuring that social housing assets are not put at undue risk.

As part of being regulated by the RSH, Bromford has been given a rating for governance and financial viability, as assessed against the governance and financial viability standard. Following an In-depth Assessment carried out by the RSH in 2019, Bromford maintains a G1 governance and V1 financial viability rating, the highest ratings on the scale throughout the financial year ended 31 March 2020.

The board is committed to ensuring that we comply with our legal and regulatory responsibilities, including the Modern Slavery Act 2015. Bromford's modern slavery statement is available on the website.

Each year the RSH requires RPs to assess their compliance with the governance and financial viability standard and provide assurance to customers and stakeholders that the RSH specific expectations are being complied with.

We have undertaken an annual review of compliance. The board is assured that Bromford is compliant with the regulatory framework including the governance and financial viability standard and its accompanying code of practice.

Statement of compliance with our code of governance

The Bromford Housing Group has adopted the UK Corporate Governance Code 2018 for all registered providers in the group. The UK code reflects our commercial outlook, focus on achieving the highest possible standards of accountability and transparency, and our desire to position ourselves alongside other high-achieving organisations, regardless of sector.

To support implementation of the code it has adopted a group wide governance framework and delegations framework that set out how the group and each subsidiary registered provider will conduct its business in this respect. The governance framework and delegations framework include matters reserved for the board and delegations to the group wide committees. This ensures that information from the committees also reaches the board of each subsidiary registered provider where appropriate. In this way the provisions of the UK Corporate Governance Code are met by Merlin.

As we do not have shareholders in a conventional sense; some aspects of the UK code do not apply to us. However, we strongly support the objectives that this section aims to achieve, and this is reflected in the open and transparent way we deal with our partners and stakeholders. The UK Corporate Governance Code 2018 applies for our financial year 2019 to 2020.

Each year the board reviews compliance with the UK code and during the financial year ended 31 March 2020, we consider that Bromford has complied with all relevant principles and provisions of the UK Corporate Governance Code 2018.

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

Risk management and internal control

Risk Overview

Effective risk management is at the heart of our business and has an important part to play in delivering our purpose. The board has overall responsibility for ensuring the group has appropriate systems for managing risk. We operate a five-step risk management process. These steps are designed to identify and manage, rather than eliminate, the risks that may threaten our ability to achieve our business strategy and objectives, within our risk appetite.

As a Board, we define clear statements and tolerances that set out the type and amount of risk we are prepared to assume as we deliver our strategy. This informs our strategy for responding to risks and determines the controls we put in place to manage them. This provides clarity to colleagues and key stakeholders on the way we do business; enabling informed individual decision making and empowerment, and a clear framework for considering risk and capacity when formulating strategic and tactical business decisions.

How we manage our risks?

Bromford operates a three lines of defence model, ensuring clear separation between risk and control ownership (first line), oversight, support and challenge (second line), and audit assurance (third line).

Business units use the risk management frameworks to help them manage risks in line with our defined risk appetite. Assurance is provided by the first line through its managerial and supervisory activities.

Our second line functions set the frameworks for managing risk and provide guidance and challenge to the first line through a business partnering model. This is supported by risk and compliance reviews and reporting which gives assurance that risks are being managed in line with our risk appetite.

Internal audit provide independent, objective assurance to management and the board over the effectiveness of first and second lines and is independent of our executive management. This includes an agreed programme of reviews which highlight any areas where risks are not being managed within our appetite or where we may need to re-calibrate our appetite in the context of internal and external changes.

Risk appetite

Our Board have defined clear risk appetite statements and metrics central to the core elements of our strategy. These set out the type and amount of risk we are prepared to take to five key enterprise risk types as we deliver our strategy, plans and run our day-to-day operations. These are integral to our corporate decision making and dialogue.

We identify and assess the risks to our strategy, plans and operations, measure and monitor our exposures are within agreed tolerances including forward-looking risk indicators where triggers for action are in place.

We manage our responses to risks and opportunities with a clear understanding of risk appetite and capacity.

	Averse	Minimal	Balanced	Open	Embracing
Legal and regulatory Our risk appetite is minimal, as we will do everything that is reasonably practicable to ensure compliance and is averse with respect to landlord asset compliance and health and safety risks.	←→				
Operational Our appetite is balanced as whilst we will explore new options for providing our services, we remain focused on operating our business to ensure a minimal level of disruption to our customers, brand and reputation.			←→		
Financial risk Our appetite is balanced, as we will not accept risks which threaten our financial viability, but we will be open to diverse investment options.			←→		

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

	Averse	Minimal	Balanced	Open	Embracing
Development/commercial Our appetite is open as we seek to remain competitive in the marketplace whilst proactively seeking new opportunities for sustainable growth both in the short and longer term.				←→	
Strategic risk As an innovative business our appetite is open as we have set ambitious plans and have multiple channels for delivery to achieve the targets set.				←→	

Our risk appetite and capacity

Our board approved risk appetite statements and tolerances remain integral to our corporate decision-making processes and the actions we take in managing our business and overall strategy.

We remain true to our attitude towards management of actual and potential risks arising from serious detriment, the health and wellbeing of our customers and colleagues, legal and regulatory risk and have similarly focussed allocation of resource and investment in areas such as regulatory reporting, information security and business continuity planning.

We have seen our capacity for risk being translated in earnest most recently in how we have responded to the coronavirus pandemic, and how we manage and monitor our risk profile, mitigation and opportunities activity through into the recovery and beyond. We continue to share our risk appetite position with our global investors and stakeholders.

Our principal risks

Bromford is exposed to the principal risks as set out below. Key risks are determined by the board, and appetite and tolerances set. The risks and indicators are monitored on a monthly basis by the board. Business risks are monitored with escalation through executive forums, Audit and Risk Committee and then to Board.

Emerging risks

In addition to the principal risks monitored by the board, the business monitors operational risks which are reported through the governance channels to highlight new and growing threats. During the financial year and in response to the external environment the impacts of Brexit highlighted dependencies on third parties and supply chains to deliver our strategic objectives, and we have taken strategic and local actions to address this through diversification of key suppliers and introducing new strategic partnerships. This has assisted also during the coronavirus pandemic but will remain a key focus area as the UK and world economies emerge from lockdown. In addition, environmental and climate change risk is an area of increased focus for Bromford. The work started in year on our carbon reduction roadmap and environmental strategy considers scenarios and impacts on Bromford's strategic goals. This will also inform appropriate metrics and targets we will set, both as an organisation, but in collaboration with our key stakeholders.

Post coronavirus implications

Whilst only transpiring in the final month of the financial year, the impacts of the pandemic have been proactively managed through this turbulent period. The impacts on customers, colleagues and business operations is being proactively monitored and managed weekly through our executive Covid-19 response team, and daily through operational response leadership.

Below we outline a summary of the principal risks for Bromford during the period, which includes a snapshot update of coronavirus risk management response. The risks continue to change in the short term against the latest internal and external environment, with robust processes in place to quantify and respond to these changes. The longer term implications have been modelled through financial plan stress testing, reflected in reforecasts, and this activity will continue to inform our overall strategic response and support reset plans that are in place for all major areas of our business.

Data governance

Description	Mitigation strategies	Changes in year
Poor data governance or data architecture leads to inaccuracies in customer, financial, asset or other key data and consequent service/compliance failures and sub optimal decision making.	Data Governance Framework developing parameters, scope, process, oversight, insight and support for data governance.	Conducted maturity and control assessments through the year against the Data Framework to track and report progress to strengthen controls.
Direction of travel: risk stable	A dedicated data governance group meet to assess business practice, monitor risks and improvement plans and provide reporting to Audit and Risk Committee and board.	Increased Microsoft power BI (business intelligence) reporting across the organisation is providing increased transparency of data quality.
Link to strategy: Future ready	Data dashboards and audits validate accuracy, completeness and intended outcomes for key data sets.	

Coronavirus impact: Stable risk with core internal data-holding systems managed in partnership with external suppliers unaffected and changes in colleague working not having presented any material or notable worsening impact to data quality.

Cyber security

Description	Mitigation strategies	Changes in year
Lack of robust network controls and security protocols.	Maintaining enterprise grade perimeter and internal security services to protect against attacks.	Aligned group information security policies rolled out, which form part of wider business continuity planning.
This results in susceptibility to denial of service attacks, hacking and unauthorised access.	Regular penetration and scenario testing and embedding an integrated information security framework, policy and toolkit.	Maturity Assessment completed through year with focus control areas agreed and actioned demonstrating and improving control framework.
Direction of travel: Risk stable		
Link to strategy: Future ready	Mandatory training and testing for all colleagues and regular communications to reinforce individual responsibilities and to keep alert of latest trends in attacks.	Improved early detection technology, penetration testing and phishing simulations rolled out.

Coronavirus impact: Recognising the potential for increased criminal activity linked to the coronavirus pandemic, we have reinforced guidance on working from home and remotely, undertaken increased phishing simulations, and maintained regular penetration testing exercises.

Business continuity

Description	Mitigation strategies	Changes in year
Failure to have effective business continuity, ICT disaster recovery and major incident plans that are regularly tested.	Framework and assessments in place, which follow the guidance within ISO 22301, with regular testing and reporting.	A dedicated business continuity manager was appointed.
This may result in adverse and significant operational, financial, reputational, legal and regulatory impacts.	A dedicated business continuity manager to provide independent support, oversight and challenge across business continuity planning and management.	Business Continuity Planning (BCP) framework and policy revised to provide a single, integrated approach for business continuity and major incident management across the business.
Direction of travel: Risk improving		
Link to strategy: Future ready	Plans are subject to independent assurance through second and third line testing, with an internal audit due in Q1 of financial year 2020 to 2021.	As part of the framework, plan templates were developed and following initial pilots, implemented across the business for teams, schemes and workspaces.

Coronavirus impact: Plans have been effective in ensuring continuance of core services in accordance with government restrictions. Crisis management governance and operation invoked from the start of the crisis has been maintained and ensured a group wide response to strategic and operational responses to coronavirus are in place and operating effectively.

Development and market sales

Description	Mitigation strategies	Changes in year
<p>We fail to deliver our new homes and Market Sales aspirations</p> <p>Rising costs, market downturn, competition in the market and/or a lack of opportunity could impact our ability to deliver against plan.</p>	<p>Board, executive and investment forum delegations provide oversight of programme delivery ensuring the programme is delivered in line with the treasury policy, business plan assumptions and financial frameworks.</p> <p>A dedicated forum considers opportunities against strategy with individual schemes subject to set parameters and include stress testing and exit strategies.</p>	<p>Following a review into the standard of Persimmon built homes, Bromford commenced inspections of Persimmon builds through a third party.</p> <p>New homes business plan was agreed in May 2019 to align to the new corporate strategy.</p>
<p>Direction of travel: Risk improving</p>	<p>Rigorous monitoring of the external market and review of business risks that may impact on our programme.</p>	<p>A revised structure, leadership team and new ways of working have been embedded to support delivery against plan.</p> <p>Market monitoring, performance reporting and cash forecasting have evolved in year.</p>
<p>Link to strategy: Growing the business</p>		

Coronavirus impact: Following a brief hiatus all sites have re-opened following the relaxation of restrictions during lockdown. We are working with our partners to gain clarity on revised programmes for delivery but are expecting a lower level of completions and an associated reduction in capital expenditure. We have experienced lower levels of sales in April and May during the lockdown but reservations have recovered in June to normal levels. We are modelling lower levels sales for this year in line with an expected downturn in the market in the Autumn. We retain the option of converting homes to rent through our Strategic Partnership with Homes England.

Health and safety

Description	Mitigation strategies	Changes in year
<p>Our approach to health and safety lacks robust controls and oversight.</p> <p>This results in death, injury or harm caused to colleagues, customers, contractors or members of the public.</p>	<p>Mandatory training programme is in place to ensure all colleagues' competencies are up to date and fit for purpose.</p> <p>A robust agenda of asset compliance and health and safety matters, supported by a suite of detailed compliance and performance data is managed by dedicated forums, committee and board to ensure H&S responsibilities are being met.</p>	<p>An integration plan was agreed to implement one way of working throughout the business for asset compliance.</p> <p>External consultants NHBC were contracted to review health and safety frameworks across construction to further embed best practice.</p>
<p>Direction of travel: Risk stable</p>	<p>Rigorous testing of processes and reconciliation of data through first, second, and third line activity, external accreditation and technical experts for legal asset compliance.</p>	<p>Transition to the new ISO45001 accreditation for South Gloucestershire was achieved, with roll out plans for remainder of group.</p>
<p>Link to strategy: Homes that enable</p>		

Coronavirus impact: The safety of customers and colleagues has been the primary objective, with resources dedicated to this. No-access issues due to customers shielding or self-isolating has created some delay in some asset compliance service programmes, but this is under daily management and is operating effectively well within board agreed trigger limits. Safe working protocols and interim policies and procedures have been embedded, and progress, alongside critical indicators are monitored weekly by the Board.

Macro-economic and political

Description	Mitigation strategies	Changes in year
Macro-economic and political uncertainty results in uncertainty around funding and income.	Identifying and monitoring potential risks to the business through dedicated horizon scanning and monthly board briefing.	The new Johnson government launched negotiations with the EU on the terms of exit. Expectations of a long transition period led to the Bank of England MPCs projections stating that some uncertainty is likely to persist while the deal and transition are negotiated.
Material costs can fluctuate providing uncertainty and introducing risk.	Robust financial planning, stress testing scenarios and resilience plans account for a variety of economic and non-economic scenarios.	The coronavirus pandemic has pushed Brexit into the background for now but has brought its own uncertainties for the economy, consumer confidence and the housing market – the full impact of which will only become clear as we emerge from lockdown. The Bank of England has warned that the UK economy is heading towards its sharpest recession on record – with the economy shrinking 14% this financial year (based on the lockdown being relaxed in June).
It can also impact our ability to access skilled labour.	Close monitoring of the housing market in our key operating areas with diligence.	
Direction of travel: Risk stable	A Brexit risk and action log is updated regularly and remains under scrutiny at board and is included within the chief risk officers report for board.	
Link to strategy: Future ready		

Coronavirus impact: Impact rising as the pandemic has affected UK markets and interest rates. Bromford has stress tested worst case scenarios, implemented weekly updates with budget holders and leaders and commenced recovery plan preparations.

People

Description	Mitigation strategies	Changes in year
A lack of skilled colleagues who are thriving in their role will impact our ability to achieve our objectives.	A clear strategy with values-based recruitment and embedding of our DNA ensures we retain and attract colleagues aligned to our purpose.	Workshops held through the year have allowed us to embed Leader-Led people processes.
This may be due to a failure to recruit, retain and/or motivate engaged colleagues.	Data and insight on recruitment, leavers, movers and elements of our engagement survey used to identify hot spots.	A new terms and conditions offering was launched to provide the option of consistent terms for colleagues, mandatory for new starters and optional for existing colleagues.
Direction of travel: Risk improving	Enterprise surveys and monthly monitoring of key performance and risk indicators inform specific actions.	Work has progressed to move onto a single platform for HR, Learning and Payroll processes.
Link to strategy: Enabling colleagues		

Coronavirus impact: People policies have been revised to support colleagues, new ways of working have been implemented for colleagues to keep people safe and increased wellbeing support is available. Whilst we initially anticipated the likelihood of this risk rising due to a possible rise in sickness levels, numbers have remained stable. We have experienced some difficulties in recruiting due to the inability to meet candidates face to face, but this is against the lowest number of leavers for 3 years and a good response to recent vacancies as we see more candidates experiencing redundancy. This combined with the additional colleague support detailed sees the risk improving.

Customer involvement and engagement

Description	Mitigation strategies	Changes in year
Our neighbourhood coaching model relies on the roll out of the localities approach to build those customer relationships.	Performance and progress against the localities business case is reported monthly (to the business) and six monthly (to board).	Following the government green paper on social housing in August 2018, we have been awaiting the subsequent white paper.
Failure to effectively engage our customers will result in homes and relationships that fail to meet their needs.	Customer and Community Influence Network (CCIN) and Localities Influence Network (LIN) provide a quarterly report to board.	A new customer feedback operating model has been implemented from April 2019.
Direction of travel: Risk improving	An annual effectiveness report of the customer and communities' model is reported to board.	Neighbourhood coaching model implemented up across all geographies.
Link to strategy: Our relationship with customers	Neighbourhood coaches are subject to a robust induction programme.	Following the agreement of a localities business case the structure and models implemented in April 2020.

Coronavirus impact: Static risk with current models supporting customer engagement. Significant coronavirus information has been provided to customers, daily meetings and resource action plans ensure critical services are maintained and customer flagging process monitored.

Financial planning and performance

Description	Mitigation strategies	Changes in year
We fail to accurately financially plan, fail to project, maintain, and access sufficient liquidity, fail to access the capital markets, or borrow new money.	Parameters and decision framework, with rigorous monitoring of key financial ratios and liquidity against future spend.	Significant work completed on the control framework for cashflow planning.
This results in insufficient liquidity or a breach of covenants, and inability to fund service delivery and development programmes requirements.	Stress testing and mitigation plans reviewed and monitored.	The business moved to a single finance platform, which created some initial challenges, but a stabilisation project was initiated to ensure project benefits were realised.
Direction of travel: Risk stable	Prudent treasury strategy and policies enable access to diverse, low risk funding options, maintaining strong dual credit rating.	Several new bonds were completed in year.
Link to strategy: Future ready	Board and treasury committee monitoring of our market, available security, excess charge, and secondary trading of our debut bond support funding strategy and day to day management.	Bromford's Vfm V1 rating was retained following an IDA and continue to benefit from sector leading credit ratings with Moody's and S&P (A2/A+).

Coronavirus impact: Impact and likelihood rising, with interest rate cuts, market availability, income reduction and on-going possibility of impairment. Bromford has run additional stress testing scenarios, are monitoring markets and liquidity, and keeping board and investors appraised regularly. We continue to apply shadow credit ratings on reforecast and updated iterations of our business plan and remain A+/A2 stable. Our pro-active approach to investor relations has resulted in publishing our response to coronavirus, our year end trading update and are now preparing for our annual roadshow..

One of the Board's key responsibilities is to make sure that Bromford has a system of internal controls in place that robustly manages the operational and strategic risks that threaten our business model, future performance, solvency and liquidity.

Merlin Housing Society Limited

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Internal control

The Audit and Risk Committee (the committee) monitors and reviews the effectiveness of the internal control system, conducts an annual effectiveness review and reports the findings to the Board. The system of internal control is designed to manage rather than eliminate risk, to prevent and/or detect fraud and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control, including risk management, for the year to 31 March 2020, and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material misstatement or loss, which require disclosure in the financial statements.

Internal audit

The committee has overseen the conclusion of internal audit plan. The committee works closely with the internal auditor, who report directly to the chair of the Audit and Risk Committee. Throughout the year, the committee carefully monitored the progress of the internal audit function. The committee approves the work of internal audit annually and specifically approving any changes to the audit plan through regular quarterly updates. The scope of work takes account of the function's own assessment of risks, the input of first and second line management and the Audit and Risk Committee itself.

Significant issues considered by the Audit and Risk Committee for the year ended 31 March 2020

Significant issues were discussed with management and the external auditor in January 2020 when the Audit and Risk Committee reviewed the *Audit Plan and Strategy for the year*, and at the conclusion of the audit, when the financial statements were reviewed in July 2020.

The committee also considered all relevant reports and findings presented by the external auditor, and also the adequacy of management's response. In addition, the committee reviewed the external auditor's independence, objectivity and effectiveness of the audit. The audit plan and strategy for the year identified the key audit matters which are considered below.

Recoverability of stock and work in progress	<p>The Group holds stock comprising of properties for sale in relation to shared ownership and outright sales units. This involves the Group to apply estimates in assessing the net realisable value of unsold units and the recoverability of this stock.</p> <p>Management gave assurances to the committee that appropriate assumptions and judgements had been used in arriving at the net realisable value of the units, in addition to the supporting work of the Investment Forum who appraises and monitors the developments of these units. The committee was satisfied from the assurances received, and from the assessments undertaken in the monitoring of these units.</p>
Value of post-retirement benefit obligations	<p>Bromford partakes in two LGPS pension schemes, SHPS (for part year) and the Bromford defined benefit pension scheme. As at March 2020 the valuations of the schemes rely on a number of actuarial assumptions which can differ depending on the actuarial firm involved in the valuation, and the membership profile of the schemes.</p> <p>Management gave assurances to the committee that the actuaries used appropriate assumptions which were based on the most recent valuation and are derived on a consistent basis, year on year.</p> <p>The external auditor presented the audit testing of the pension assets and liabilities. The committee was satisfied that the appropriate assumptions and disclosures have been applied to the pension liabilities presented in the financial statements.</p>

**The Directors' Report
For the year end 31 March 2020**

<p>The impact of uncertainties due to Britain exiting the European Union on our audit</p>	<p>The committee has considered the potential impacts of Brexit on the Group. This includes effects on treasury and finances, the new homes development programme, service delivery, procurement and asset management, and also customers. Key considerations include the monitoring of supply chain management, review of inventory and stockholding measures and development exposures and uncertainty. This is also considered by the Group Board on a regular basis.</p> <p>The assumptions underpinning the business plan forecasts are also well understood, with appropriate stress testing undertaken in respect of likely Brexit conditions. This is informed by the Bank of England assumptions and stress tests and evolving political commentary. In addition, Brexit uncertainty has been considered in the context of judgements and estimates relating to the financial statements.</p>
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Key areas/matters considered by the committee during the year as part of its operation

Area of focus	Committee action
Risk management framework	The committee reviewed the frameworks six months into operation to assess their maturity. The committee were satisfied that the frameworks were operating effectively and on review discussed and made recommendations to board for changes and additions to the key strategic risk register and risk appetite framework.
Strategic Risk Deep Dives	A cycle of reviews was considered for key strategic risks, the key controls and mitigations and forward looking assessments and maturity models, including cyber risk, information security, data and financial reporting.
Appointment of external auditor	The committee considered the process and timetable that would be used to appoint an external auditor across group. The committee agreed the proposals, with three members of the committee sitting on the interview panel.
Regulatory returns	Further to a report to board in March 2019, the committee sought an assurance update on the process for compiling the statistical data return. The committee were satisfied with the next steps, which were endorsed in July 2019.
Data	The committee recognise the importance of data in assisting Bromford to achieve its purpose and has sought assurance throughout the year, with a deep dive, framework updates and data protection reports received across the year. The committee noted good progress made and have asked for revisions to reporting into 2020 to 2021 to provide increased coverage.
Business continuity	The committee sought a report to outline the plan to improve BCP arrangements and received regular updates on progress through the year.
Procurement	Given business obligations to adhere to the European Union Public Contracts Regulations (2015) the committee requested an update following an internal assessment in July 2019. The report highlighted plans to revise frameworks, which were agreed by the committee, and have been implemented.
Criminal Finances Act	The committee received a report on progress in implementing measures to respond to the Criminal Finance Act 2017, approved a revised policy and recommended a board statement detailing Bromford approach to complying with the corporate criminal offence of failing to prevent the facilitation of tax evasion.
Internal review plan	Reviewing and approving the schedule of internal review activity being undertaken by the risk and health and safety business assurance function.
Trading Updates	Receiving and approving Bromford market trading updates.

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

Financial review (5-year summary)

Income and Expenditure £'000s	2016	2017	2018	2019	2020
Turnover	41,960	43,728	46,492	53,540	74,119
Operating costs and cost of sales	(27,847)	(28,019)	(30,194)	(35,195)	(50,198)
Surplus on disposal of assets	405	1,489	3,213	1,407	4,588
Change in valuation of investment properties	-	-	-	-	713
Operating surplus	14,518	17,198	19,511	19,752	29,222
Gift on acquisition	-	-	-	60,669	-
Net interest charge and other finance costs and fair value adjustments	(3,983)	(4,202)	(4,404)	(4,460)	(9,211)
Surplus for the year after taxation	10,535	12,996	15,107	75,961	20,011

Statement of Financial Position £'000s	2016	2017	2018	2019	2020
Housing properties at cost less depreciation	147,345	168,722	202,731	417,873	448,781
Other tangible fixed assets, intangible fixed assets, investments and long-term debtors	4,223	4,512	29,850	34,352	18,999
Net current assets	53,926	56,634	46,870	4,336	48,091
Total assets less current liabilities	205,494	229,868	279,451	456,561	515,871
Loans due after one year	(97,738)	(114,188)	(150,958)	(163,142)	(163,232)
Unamortised grant	(5,118)	(6,414)	(7,971)	(10,760)	(11,176)
Other long term liabilities and provisions	(43,040)	(41,479)	(33,482)	(122,188)	(156,789)
Total net assets	59,598	67,787	87,040	160,471	184,674
Total reserves	59,598	67,787	87,040	160,471	184,674

Income and expenditure

The surplus of £20.0m (2019: £76.0m) includes the first full year of Severn Vale results being reported in Merlin but does not include the one-off surplus of £60.7m included in last year's results. With this removed from the 2019 surplus, the underlying surplus has increased by £4.7m demonstrating another strong financial performance for Merlin.

The majority of income (86.3%) is derived from rents and service charges and we are not dependent upon income from asset disposals.

Rental income

We aim to maximise rental income within a customer affordability framework. Performance on bad debts and arrears remains strong despite the difficult economic conditions.

Shared Ownership

Shared ownership sales income for the year was £10.2m (2019: £5.0m). We sold 94 homes at an average 100% sales value of £246k (2019: 51 homes, 100% value: £219k). The average first tranche share sold increased slightly to 44% (2019: 43%).

Costs

Cost control is a core deliverable across the business. Our social housing letting operating margin of 34.4% (2019: 35.2%) and overall operating margin after asset sales of 39.4% (2019: 36.9%) remain strong. The focus on operating margin is a central part of our Value for Money framework. The framework evidences not just the cost of what we do but its effectiveness in delivering the outcomes we achieve for our customers.

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

Over the last year we have seen an increase of £11.7m (2019: 36.3%) in our total operating costs per the Statement of Comprehensive Income from £31.9m in 2018/19 to £43.6m in 2019/20. This was primarily due to the first full year of the costs relating to legacy Severn Vale operations. This increased costs by £8.0m.

Disposals

Disposal profits in the year were £4.6m (2019: £1.4m). The increase is due to the disposal of our student housing portfolio generating £4.0m in profit.

Balance sheet

Fixed assets

Details of the movements in fixed assets during the year are set out in note 11 to the financial statements.

Sales exposure

Exposure to unsold Shared Ownership stock is not a material issue for Merlin. We have completed shared ownership units to the value of £1.9m (2019: £2.3m).

Investment in our homes

In 2019/20 we invested £11.1m in major repair and refurbishment programmes (2019: £7.6m) and £33.5m in new homes (2019: £58.8m).

Effects of material estimates and judgments within these financial statements

- On an annual basis we review for potential **Impairment of non-financial assets**; following the review no impairment was required.
- **Development expenditure** is capitalised and subsequently depreciated based on agreed accounting policies. We have accounted for depreciation of assets on a straight-line basis; the depreciation basis is reviewed regularly for each class of asset, and no changes were required.
- **Categorisation of housing properties** where we have undertaken a detailed review of the intended use of all housing properties. Merlin has determined that market rented properties and commercial properties are investment properties and accounted for on that basis.

Further details of key estimations can be found within our accounting policies on page 31 to 33.

Treasury

Treasury activity is undertaken at group level. However, Merlin continues to have specific entity related loans and covenants. The following table highlights the position for key measures for Merlin.

Borrowing	£306m
Undrawn facilities	£290m
Cash and cash equivalents	£48.6m
Fixed rate borrowing	100%
Cost of borrowing	3.4%
Interest cover covenant	2.1 times
Gearing	52%
Net debt per unit	£20k

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

Cash and liquidity

Rigorous control of cash is a key focus for us. Operating cash flow was again strong at £31.0m (2019: £23.4m) and represents 106% of operating surplus, a good cash conversion performance. Cash balances are invested at group level with Merlin holding £48.6m (2019: £14.1m) at year-end.

Facilities and funding

Merlin has external loans of £163m (2019: £163m). Facilities have remained stable over the year, with an £11m repayment of part of a revolving facility with Lloyds which was subject to a fix. This reverted to an undrawn revolving facility. Intra-group on-lending increased by £53m to £143m. At year-end, £290m of revolving facilities with Lloyds were undrawn.

Undrawn facilities are revolving credit facilities which provide flexibility and assist in mitigating the cost of carry on excess funds.

Interest rate management and mark to market position

We use fixed rate borrowings to manage our exposure to increases in interest rates and 100% of our drawn borrowings are at fixed rates (2019: 100%) to lock in low interest rates.

The average cost of borrowing is 3.4% (2019: 3.5%). This has reduced slightly from 2019 due to the £11m repayment of part of a revolving facility with Lloyds which was subject to a fixed rate.

Covenants

We have been moving to a situation where the majority of covenants are based on group numbers and are broadly consistent in their composition. Merlin has specific covenants relating to interest cover and net debt per unit where there is considerable capacity on both covenants and they do not limit our activities.

Operating performance

Operational performance against targets is monitored at Group level and a summary is included within the Annual Report and Accounts of BHG – which are available on the Bromford website www.bromford.co.uk.

Details of Bromford's VfM performance are summarised in the Annual Report and Accounts of BHG – which are available on the Bromford website www.bromford.co.uk. The Regulator for Social Housing metrics for Merlin as a standalone entity are shown below.

Sector metrics

Ref	Metric Name	2016	2017	2018	2019	2020
1	Reinvestment %	11.3%	14.0%	18.0%	14.9%	8.1%
2A	New supply delivered (Social housing units) %	0.2%	1.00%	2.3%	2.3%	2.5%
2B	New supply delivered (Non-social housing units) %	0.0%	0.0%	0.0%	0.0%	0.0%
3	Gearing %	47%	44%	43%	53%	52%
4	EBITDA MRI	98%	195%	300%	321%	212%
5	Headline Social housing cost per unit (£000s)	4.57	4.00	3.74	2.80	3.53
6A	Operating Margin (social housing lettings) %	28.9%	35.3%	35.3%	35.2%	34.4%
6B	Operating Margin (overall) %	26.7%	33.6%	35.0%	36.9%	33.2%
7	ROCE	6.4%	7.1%	7.0%	4.3%	5.7%

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2020

The metrics show another strong performance with operating margins at 34.4% for social housing lettings (2019: 35.3%) and 33.2% overall (2019: 36.9%).

Reinvestment reduced as more development work is focussed through other group companies but completion of legacy units remained high at 2.5% new supply. Gearing decreased slightly while interest cover reduced to 211% (2019: 321%) as major repairs spend increased along with interest charges from new group borrowings.

Headline social housing cost per unit returned to 2018 levels following the large decrease in 2019 when the units from the Severn Vale acquisition were included in the calculation but only 3 months of cost.

Public benefit Entity

As a public benefit Entity, Merlin has applied public benefit entity 'PBE' prefixed paragraphs of FRS102.

Statement of Compliance with the 2018 Statement of Recommended Practice (SORP)

The Board confirms that the Strategic report contained within this Board report has been prepared in accordance with the principles set out in Para 4.7 of the 2018 SORP for Registered Social Housing Providers.

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

The Board are responsible for preparing the Annual Report and the Association financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the association and of the income and expenditure of the association for that period.

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the association or to cease operations or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The directors have decided to prepare voluntarily a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Board are also responsible for preparing a Strategic Report and a Board Report that complies with that law and those regulations.

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

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The Directors' Report For the year end 31 March 2020

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Board to assess the Association's position and performance, business model and strategy.

Information for Auditors

We the members of the Board who held office at the date of approval of these Financial Statements as set out above confirm, so far as we are aware, that there is no relevant audit information of which the Association's auditors are unaware; and we have taken all the steps that we ought to have taken as Board members to make ourselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Going Concern

The board, after reviewing the company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. The Board therefore continues to adopt the going concern basis in preparing the annual financial statements. Accordingly, the financial statements set out on pages 27 to 68 have been prepared on a going concern basis.

Viability statement

As required by the provisions of the UK Corporate Governance Code, the Board has undertaken an assessment of the future prospects of Bromford taking into account its current position and principal risks. This incorporates the impact of the current COVID-19 pandemic.

This assessment was made using the following core business processes:

Thirty year financial plan (the 'plan') – the MHS Board reviews each iteration of the plan during the year as part of its strategic planning process. This process includes detailed stress testing of the plan which involves flexing a number of assumptions underlying the forecast both individually and together under particular scenarios.

Risk management – as set out in the risk section of the strategic report, Bromford has a structured approach to the management of risk and the principal risks identified are reviewed regularly by the Board.

Liquidity – based on the output of the plan and regular reforecasting of cashflows the Board reviews the liquidity position of the Merlin ensuring funding is secured in accordance with Bromford's treasury policy. On 3 May 2018, the Group issued their debut public bond of £300m, and additional private placement of £100m in February 2020. This additional funding during the year allows the Group to meet its corporate objectives.

In undertaking this assessment, a period of three years has been selected. For the initial year of this three year period there is a greater level of certainty because detailed annual budgets are prepared and regularly reforecast. Monthly cashflow forecasts are reviewed by the Board covering a rolling 36 month period and are used to ensure sufficient facilities are in place. While reducing, the largest single area of spend remains the development programme and the bulk of the committed programme completes within this timeframe. Whilst development spend and required facilities are planned over a longer term than three years, the period chosen ensures that Merlin is viable beyond its usual development commitment timeframe.

On the basis of this and other matters considered and reviewed by the Merlin Board during the year, the Board has reasonable expectations that Merlin will be able to continue in operation and meet its liabilities as they fall due over the three year period used for this assessment.

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**The Directors' Report
For the year end 31 March 2020**

Appointment of Auditors

KPMG LLP were appointed as Merlin's external auditor following the merger with Bromford for a period up to 2021. Bromford is currently re-tendering for audit services for the 2020 to 21 financial year.

The report of the Board was approved on 28 July 2020 and signed on its behalf by:

A handwritten signature in blue ink, appearing to be 'SD', is positioned above the name Steve Dando.

Steve Dando - Chair

28 July 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERLIN HOUSING SOCIETY LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Merlin Housing Society Limited ("the Association") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the association as at 31 March 2020 and of the income and expenditure of the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

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

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Valuation of defined benefit pension obligations

(Value of defined benefit pension obligations: £55.7 million; 2019: £69.0 million).

Refer to page 13 (Audit and Risk Committee Report), page 32 (accounting policy) and page 60 (financial disclosures)

The risk

Subjective valuation

This involves the selection of actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. These rates are assumptions which are subjective, with changes leading to revalue the Association's pension liability which could have a significant effect on the position of the Association.

Merlin Housing Society Limited

The Association will complete a transfer out of the legacy Severn Vale Social Housing Pension Scheme liability. This represents a significant unusual transaction

The effect of these matters is that we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Association in completing the valuation of the pension deficit and the movements.

Our response

Our procedures included:

Assessing valuer's credentials

Obtaining the qualification credentials of the Scheme actuary to assess that they are one of the small number of experienced, skilled advisors, appointed to undertake the pension scheme valuations, as we place reliance on the Actuary for valuation of the overall;

Benchmarking assumptions and review of actuarial methodology

Challenging, with the support of our own actuarial specialists, the key assumptions and actuarial methodology applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.

Recoverability of stock and work in progress

(Value of stock and work in progress: £3.3 million; 2019: £5.6 million).

Refer to page 13 (Audit and Risk Committee Report), page 35 (accounting policy) and page 50 (financial disclosures)

The risk

Subjective estimate

Property held in stock and work in progress comprises properties which are speculatively developed and are held for sale. In order to assess the net realisable value of property held in stock, site appraisals are prepared which include forecast revenue and costs and provide an indication of the recoverability of property held in inventory. Site appraisals include a number of judgements that could have a significant effect on the net realisable value of the property held in stock and work in progress.

Our response

Our procedures included:

Our sector expertise

Assessing a risk based sample of development sites, selected using criteria including quantum of work in progress and low profit margin, to obtain an understanding of the status of the site focusing on matters relevant to the site valuation, being the status of the development and whether the appraisal reflects any additional unexpected costs.

Benchmarking assumptions

We challenged the forecast revenue included in a sample of site appraisals by reference to market data.

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Test of detail

Comparing the value carried in the balance sheet with the sales price achieved for a selection of property sales after the balance sheet date.

Assessing transparency

Critically assessing the adequacy of the Association's disclosures in relation to judgement and estimation in relation to stock and work in progress.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Association financial statements as a whole was set at £1.0 million (2019: £0.7 million), determined with reference to a benchmark of Association turnover, of which it represents approximately 2.0% (2019: 2.0%).

We consider total turnover to be the most appropriate benchmark as the Association is a not-for-profit organisation, therefore the focus is on revenue and any surplus generated is variable and reinvested.

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £50,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Association will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Association's business model and analysed how those risks might affect the Association's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Association's available financial resources over this period were:

- A significant downturn in the economy, including a property market crash; or
- Changes in funding streams, political agenda or ability to develop successful partnerships.

As these were risks that could potentially cast significant doubt on the Association's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Association's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic

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second order impacts, such as the impact of Brexit on house prices and future funding, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Association's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement page 19 that they have carried out a robust assessment of the principal risks facing the Association, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Association's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 18, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the Association'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 Association'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 Association and the Association's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

4 August 2020

Merlin Housing Society Limited

Statement of Comprehensive Income for the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Turnover	2,3	74,119	53,540
Cost of sales	2	(6,589)	(3,285)
Operating costs	2	(43,609)	(31,910)
Gain on revaluation of investment properties	13	713	-
Gain on disposal of property assets	32	4,588	1,407
Operating surplus	5	29,222	19,752
Interest receivable	6	40	125
Interest and financing costs	7	(9,345)	(4,585)
Fair value on business acquisition		-	60,669
Gift Aid		94	-
Surplus before tax		20,011	75,961
Taxation	10	-	-
Surplus for the year after tax		20,011	75,961
Actuarial gain/(loss)	34	4,192	(2,690)
Total comprehensive income for the year		24,203	73,271

The notes on pages 31 to 68 form an integral part of these financial statements

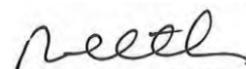
The association's results relate wholly to continuing activities.

There were no recognised gains and losses other than those included in the Statement of Comprehensive Income.

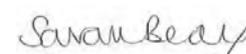
The financial statements on pages 27 to 68 were approved and authorised for issue by the Board on and were signed on its behalf by:



Steve Dando – Chair



Robert Nettleton - Chief Executive



Sarah Beal - Company Secretary

Merlin Housing Society Limited

**Statement of Financial Position
As at 31 March 2020**

	Notes	2020 £'000	2019 £'000
Fixed Assets			
Tangible fixed assets - housing properties	11	448,781	417,873
Investment properties	13	14,057	13,339
Tangible fixed assets - other	14	4,770	5,336
Intangible Fixed Assets	15	76	377
		<u>467,684</u>	<u>436,925</u>
Assets: amount receivable after more than one year			
Debtors	17	96	15,300
Current Assets			
Stocks	16	3,553	5,555
Trade and other debtors	17	13,817	4,537
Investments	18	1,181	9,723
Cash and cash equivalents	19	48,634	14,131
		<u>67,185</u>	<u>33,946</u>
Creditors: Amounts falling due within one year	20	<u>(19,094)</u>	<u>(29,610)</u>
Net current assets		<u>48,091</u>	<u>4,336</u>
Total assets less current liabilities		<u>515,871</u>	<u>456,561</u>
Creditors - Amounts falling due after more than one year			
Loans	21	(163,232)	(163,142)
Deferred Capital Grant	22	(11,176)	(10,760)
Other Creditors	21	(144,001)	(90,789)
		<u>(318,409)</u>	<u>(264,691)</u>
Provisions for liabilities			
Pension liability	34	(12,260)	(15,548)
Other provisions	24	(528)	(15,851)
Total net assets		<u>184,674</u>	<u>160,471</u>
Reserves			
Called up share capital	25	-	-
Income and Expenditure Reserve		182,698	158,495
Restricted Reserve		1,976	1,976
Total reserves		<u>184,674</u>	<u>160,471</u>

The notes on pages 31 to 68 form an integral part of these financial statements

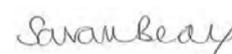
The financial statements on pages 27 to 68 were approved and authorised for issue by the Board on 28 July 2020 and were signed on its behalf by:



Steve Dando – Chair



Robert Nettleton - Chief Executive



Sarah Beal - Company Secretary

Merlin Housing Society Limited

**Statement of Changes in Reserves
As at 31 March 2020**

	Restricted reserve £'000	Income and Expenditure Reserve £'000	Total £'000
Balance at 1 April 2018	1,508	85,532	87,040
Surplus for the year	-	75,961	75,961
Actuarial loss on defined benefit scheme	-	(2,690)	(2,690)
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	73,271	73,271
Transfer to restricted reserve	468	(468)	-
Gift Aid	-	160	160
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2019	1,976	158,495	160,471
Surplus for the year	-	20,011	20,011
Actuarial gain on defined benefit scheme	-	4,192	4,192
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	24,203	24,203
Transfer to restricted reserve	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2020	<u>1,976</u>	<u>182,698</u>	<u>184,674</u>

The notes on pages 31 to 68 form an integral part of these financial statements

Merlin Housing Society Limited

**Statement of Cash Flows
For the year ended 31 March 2020**

	2020		2019	
	£'000	£'000	£'000	£'000
Net cash generated from operating activities (note 27)		31,033		23,830
Cashflow from investing activities				
Cash from acquisition of Severn Vale	-		6,280	
Purchase of tangible fixed assets - new housing properties	(31,942)		(52,688)	
Purchase of tangible fixed assets - other	(9,962)		(55)	
Purchase of tangible fixed assets - existing housing properties	(77)		(1,625)	
Purchase of intangible fixed assets	(80)		(482)	
Purchase of tangible asset investments	(5)		-	
Proceeds from sale of investments	11,997		-	
Grants received	593		2,472	
Interest received	-		122	
Net cashflow from investing activities		(29,476)		(45,976)
Cashflow from financing activities				
Interest paid	(9,148)		(3,971)	
New secured loans	53,000		141,048	
Repayment of borrowings	(11,000)		(152,060)	
Gift Aid	94		160	
Finance lease payments	-		(4)	
Net cashflow from financing activities		32,946		(14,927)
Net change in cash and cash equivalents		34,503		(36,973)
Cash and cash equivalents at the beginning of the year		14,131		51,104
Cash and cash equivalents at the end of the year		48,634		14,131

The notes on pages 31 to 68 form an integral part of these financial statements

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

Legal status

Merlin Housing Society Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing (RSH) as a Private Registered Provider of Social Housing. In July 2019, Merlin Housing Society Limited joined the Bromford Group and in January 2020 Severn Vale Housing Society was acquired by Merlin.

1. Principal accounting policies

The accounting policies across Bromford Group have been aligned for financial reporting and any reference to the Group also apply to Merlin. These financial statements are prepared in accordance with Financial Reporting Standard 102 – the applicable financial reporting standard in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice: Accounting 2018 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 and the Housing and Regeneration Act 2008

The accounts are prepared on the historical cost basis of accounting as modified by the revaluation of investment properties and are presented in sterling £1,000.

The Association meets the definition of a public benefit entity (PBE).

Going concern

The board, after reviewing the company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. The Board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Judgements and key sources of estimation uncertainty

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

- **Development expenditure** - The Group capitalises development expenditure in accordance with the accounting policy described on page 35. Initial capitalisation of costs is based on management's judgement that the development scheme is likely to proceed. Costs capitalised in this way are regularly reviewed and any costs identified as abortive are charged in the Statement of Comprehensive Income.
- **Categorisation of housing properties** - The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented properties and commercial properties are investment properties. **Property investments** of £14.1m of investment properties are based on an open market value from independent valuers. In light of the negative impact of COVID-19 the independent valuers have included a material uncertainty clause in respect of the valuations. The Directors still consider these to be the best estimate of the property investment values. A 10% increase/(decrease) in the valuation would increase/(reduce) the Group asset valuation by £1.4m.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

- **Impairment** - The Group has identified a cash generating unit for impairment assessment purposes during development and construction at a programme level, with subsequent impairment assessment once in management at a property scheme level.

Other key sources of estimation and assumptions:

- **Tangible fixed assets** - Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- **Revaluation of investment properties** - The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine the fair value at the reporting date. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long-term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 13.
- **Categorisation of debt** – Merlin’s loans have been treated as ‘basic’ in accordance with paragraphs 11.8 and 11.9 of FRS 102.
- **Pension and other post-employment benefits** - The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the actuary considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary and pension increases are based on expected future inflation rates for the respective sector.

During the year, on 1 October 2019, the Merlin section of SHPS transferred into the Bromford Defined Benefit Scheme ending involvement in SHPS. Further details are given in note 36.

- **Impairment of non-financial assets** - Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income.

Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

Following a trigger for impairment, the Group perform impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm’s length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Group as the existing property. The cash flows are derived from the business plan for the next 30 years and do not include any restructuring activities that the Group is not yet committed to nor any significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Following the assessment of the indicators of impairment no adjustment to impairment was required during the year.

- **Leases** - A review of all leases has been carried out to classify leases as either operating or finance. These decisions depend upon 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.
- **Rent arrears and bad debt provisions** - The amount of arrears that will not be collected is estimated on experience of collection of different types of debt. The impact of changes in welfare reform including universal credit and benefit caps have been estimated based on data provided from pilot studies and the Group's experience based on a small population.

Turnover and revenue recognition

Turnover is measured at the fair value of the consideration received or receivable and excludes VAT (where applicable). Merlin generates the following material income streams:

Rental income receivable

Rental income is recognised from the point when properties under development reach practical completion and are formally let. For schemes managed by agents, income is shown as rent receivable and management fees payable to agents are included in operating costs.

Shared ownership first tranche sales

Income from first tranche sales is recognised at the point of legal completion of the sale.

Service charge income

Service charge income and costs are recognised on an accrual basis. The Group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge.

Until these are returned or recovered, they are held as creditors or debtors in the Statement of Financial Position.

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

Supporting people

Supporting People contract income received from Administering Authorities is accounted for as income in Turnover as per note two. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings note three and matched against the relevant costs.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

Grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. If there are specific performance requirements, the grant is recognised in Turnover when the performance requirements are met.

Where developments have been financed wholly or partly by social housing grant (SHG) and other grants, the income is recognised in Turnover (using the accrual model) over the estimated useful life of the assets excluding land) which it funds.

Other Income

Other income is included at the invoiced value of goods and services provided.

Loan interest costs

Loan interest costs are calculated using the effective interest rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined based on the carrying amount of the financial liability at initial recognition.

Loan finance issuance costs

Arrangement fees, agency fees and related legal fees payable when entering new loans are capitalised then charged to the statement of comprehensive income over the life of the loan via the effective interest method.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that where a tax change arises as a result of an item recognised as other comprehensive income or recognised directly in equity, that tax charge is also recognised in other comprehensive income or directly in equity as appropriate.

Both the current and deferred income tax charge is calculated based on tax rates and laws that have been enacted or substantively enacted by the reporting date where the Group and its 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 and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Value Added Tax

The Group charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. All amounts disclosed in the accounts are inclusive of VAT to the extent that it is suffered by the Group/ Association and is not recoverable. The balance receivable or payable at the year-end is within the Current Assets or Current Liabilities.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion.

Freehold land is not depreciated.

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

The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

	Years
• Boilers	15
• Heating systems	30
• Kitchens	20
• Bathroom	30
• Roofs	50 to 65
• Windows and doors	25 to 30
• Structure – houses	100 to 130
• Structure – flats	75 to 100
• Structure – rooms and bedsits	40

The Group depreciates housing properties held on long leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected economic useful lives which are as follows:

	Years
• Motor vehicles	3
• Fixtures, fittings, plant and equipment	5
• Computer hardware	3
• Office buildings	50

Low cost home ownership properties

The costs of low-cost home ownership properties are split between current and fixed assets based on the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales treated as sales of fixed assets.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

Intangible fixed assets

Intangible assets are stated at cost, less accumulated amortisation. Amortisation is charged on a straight-line basis over the expected economic useful life of the asset as follows:

	Years
• Architect fees	3
• Computer software	3
• Business Transformation costs (ProgrammeOne)	7

Property managed by agents

Where the Group carries the majority of the financial risk on property managed by agents, the total income and costs arising from the property are included in the Statement of Comprehensive Income.

Where the agency carries the majority of the financial risk, only the income and costs solely attributable to the Group are included in the Statement of Comprehensive Income.

In both cases, the assets and associated liabilities are included in the Group's Statement of Financial Position.

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit and loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to Statement of Comprehensive Income over the term of the lease.

Investment property

Investment property includes commercial and other properties held by the Group for reasons other than social benefit. Investment property is measured at cost on initial recognition, which includes purchase cost and any directly attributable expenditure, and subsequently at fair value at the reporting date. Fair value is determined annually by external valuers and is derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 30 days which cannot be accessed within 24 hours. They are recognised initially at cost and subsequently at fair value at the reporting date. Any change in valuation between reporting dates is recognised in the statement of comprehensive income.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

Stock and properties held for sale

Stocks of materials are stated at the lower of cost and net realisable value. Work in progress and finished goods include labour and attributable overheads.

Short-term 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 Statement of Comprehensive Income statement in other operating expenses.

Social Housing and other Government grants

Where developments have been financed wholly or partly by social housing grant (SHG) and other grants, the amount of the grant received has been included in the Statement of Financial Position as deferred income. This income is recognised in Turnover (using the accruals model) over the estimated useful life of the assets excluding land) which it funds. SHG received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

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

SHG must be recycled by the Group if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes England. However, SHG may have to be repaid if certain conditions are not met. In that event, the amount repayable is shown in the Statement of Financial Position as a subordinated unsecured repayable debt.

Recycling of Capital Grant

Social Housing Grant which has been recycled is transferred to the Recycled Grant Fund and appears as a creditor until it is either used to fund the acquisition of new properties or is repaid.

Holiday pay accrual

Unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods is recognised as a liability in the Statement of Financial Position. This is measured at the undiscounted salary cost of the accrued future holiday entitlement.

Retirement benefits

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services.

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

MHS participates in the defined benefit Avon Pension Fund scheme which is closed to new employees. The amounts charged to operating surplus are the costs arising from the employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to surplus for the year and included within finance costs. Re-measurement of the net assets/defined liability are recognised in other comprehensive income. Defined benefit schemes are funded in separate trustee administered funds.

A SHPS pension scheme liability as at 2 January 2019 was transferred from Severn Vale Housing Society to Merlin Housing Society Limited as part of the acquisition of Severn Vale. The movements represent those since acquisition and have been estimated from the full year's movements provided by the actuaries for the SHPS scheme.

Financial instruments

Financial assets and financial liabilities are initially measured at the transaction price adjusted, where the financial asset or liability is not required to be held at fair value, for any directly attributable costs of acquisition.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

Debt instruments that meet the conditions in paragraph 11.8(b) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.

Commitments to receive or make a loan to another entity which meet the conditions in para 11.8(c) of FRS 102 are measured at cost less impairment.

Financial instruments held by the Group are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method;
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method;
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method;
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment;
- An investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares are held at fair value
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

Financial assets and financial liabilities at fair value are classified using the following fair value hierarchy:

- a) The best evidence of fair value is a quoted price in an active market;
- b) When quoted prices are unavailable, the price of a recent transaction for an identical asset, adjusted to reflect any circumstances specific to the sale, such as a distress sale, if appropriate;
- c) Where there is no active market or recent transactions then a valuation technique is used to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Impairment of Financial Assets

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

The following financial instruments are assessed individually for impairment:

- a) All equity instruments regardless of significance; and
- b) Other financial assets that are individually significant.

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

An impairment loss is measured as follows on instruments measured at cost or amortised cost:

- a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate;
- b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

If, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in Statement of Comprehensive Income immediately.

Segmental reporting

Merlin's reportable segments are based on its operational divisions which offer distinguishable services, are managed separately and are regularly assessed by the chief operating decision makers, the group's executive board. Operating division results include items directly attributable to the segment, together with apportioned centralised costs. Central costs are allocated based on a number of factors including number of homes and staff costs within each of the respective operations. The presentation of these financial statements and accompanied notes reflect the association and group's management and internal reporting. The information reviewed within the management accounts to assess performance and make strategic decisions are consistent with and closely aligned to these financial statements.

The material operating segments are disclosed in notes 2 where information about income and expenditure attributable to the material operating segments are presented on the basis of tenure type. This is appropriate based on the similarity of the services provided, the nature of the risks associated, and the nature of the regulatory environment in which the group operates.

Assets and liabilities are not reported by operating segment or tenure, other than housing properties which are split by tenure type and are shown in note 11.

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

2020

2. Turnover and operating surplus	Note	Turnover	Cost of sales	Operating costs	Gain on revaluation of investments	Surplus on disposal	Operating surplus/ (deficit)
		£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings							
Housing accommodation	3	49,140	-	(33,127)	-	-	16,013
Supported housing accommodation	3	10,637	-	(6,537)	-	-	4,100
Shared ownership accommodation	3	1,486	-	(535)	-	-	951
		<u>61,263</u>	<u>-</u>	<u>(40,199)</u>	<u>-</u>	<u>-</u>	<u>21,064</u>
Other social housing activities							
First tranche shared ownership sales		10,166	(6,507)		-	-	3,659
Supported people contract income		598	-	(1,178)	-	-	(580)
Agency services		1	-	-	-	-	1
Sales and development		15	-	(1,127)	-	-	(1,112)
Other		284	(82)	(505)	-	-	(303)
Gain on revaluation of investment properties		-	-	-	713	-	713
Gain on disposal of property, plant and equipment		-	-	-	-	4,588	4,588
Non-social housing activities							
Market rents		597	-	(71)	-	-	526
Sewerage services		11	-	(143)	-	-	(132)
Commercial rents		1,184	-	(386)	-	-	798
		<u>74,119</u>	<u>(6,589)</u>	<u>(43,609)</u>	<u>713</u>	<u>4,588</u>	<u>29,222</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

		2019				
2. Turnover and operating surplus	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	Surplus on disposal £'000	Operating surplus/ (deficit) £'000
Social housing lettings						
Housing accommodation	3	37,516	-	(24,470)	-	13,046
Supported housing accommodation	3	8,621	-	(5,142)	-	3,479
Shared ownership accommodation	3	576	-	(640)	-	(64)
		<u>46,713</u>	<u>-</u>	<u>(30,252)</u>	<u>-</u>	<u>16,461</u>
Other social housing activities						
First tranche shared ownership sales		5,012	(3,285)	-	-	1,727
Supported people contract income		512	-	(557)	-	(45)
Sales and development		24	-	(697)	-	(673)
Other		108	-	18	-	126
Gain on disposal of property, plant and equipment		-	-	-	1,407	1,407
Non-social housing activities						
Market rents		167	-	(9)	-	158
Sewerage services		-	-	(110)	-	(110)
Commercial rents		1,004	-	(295)	-	709
Properties developed for outright sale		-	-	(8)	-	(8)
		<u>53,540</u>	<u>(3,285)</u>	<u>(31,910)</u>	<u>1,407</u>	<u>19,752</u>

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

	2020			2019	
	Housing accommodation £'000	Supported housing for older people and My Place £'000	Shared Ownership £'000	Total £'000	Total £'000
3. Income and expenditure from social housing lettings					
Income					
Rent receivable net of identifiable service charge	47,536	7,752	1,105	56,393	43,053
Service charge income	1,387	2,751	342	4,480	3,304
Charges for support services	102	90	32	224	248
Amortised government grants	115	2	7	124	108
Other grants	-	42	-	42	-
Turnover from social housing lettings	49,140	10,637	1,486	61,263	46,713
Expenditure					
Management	5,684	1,604	311	7,599	5,557
Service charge costs	3,352	1,840	66	5,258	2,833
Care and support costs	-	-	-	-	-
Routine maintenance	9,148	998	32	10,178	9,819
Planned maintenance	6,088	541	17	6,646	2,718
Major repairs expenditure	1,700	174	2	1,876	2,711
Bad debts	195	15	7	217	(54)
Depreciation of housing properties	6,960	1,365	100	8,425	6,668
Operating expenditure on social housing lettings	33,127	6,537	535	40,199	30,252
Operating surplus on social housing lettings	16,013	4,100	951	21,064	16,461
Voids	(728)	(200)	(8)	(936)	(354)

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

4. Accommodation - owned, managed and in development

	2020	2019
	Number	Number
Under management at the end of the year		
General needs housing - social rent	9,495	9,293
General needs housing - affordable rent	496	340
Supported housing	1,849	1,802
Low-cost home ownership	408	342
Leasehold	658	648
Units to be remodelled	19	-
	12,925	12,425
Under development at the end of the year		
General needs housing - social rent	153	233
General needs housing - affordable rent	46	94
Supported housing	-	-
Low-cost home ownership	52	102
	13,176	12,854
Total social housing units	13,176	12,854
Non-social housing		
Staff accommodation	10	11
Market rent	86	86
Commercial	79	79
Student accommodation	-	282
Retained freehold	6	6
	181	464
Total non-social housing units	181	464
Total units	13,357	13,318
Owned and managed	12,867	12,874
Owned and managed by others	15	15
Managed for others	205	-
Under development	251	429
Units to be remodelled	19	-
	13,357	13,318
Total Units	13,357	13,318
Garages/parking spaces	2,602	2,699
Garages not lettable	98	-
	2,700	2,699
Total garages	2,700	2,699

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

5. Surplus on ordinary activities

The surplus on ordinary activities is stated after (crediting)/charging	2020 £'000	2019 £'000
Operating lease rentals		
- office land and buildings	27	136
- vehicles	496	197
Current auditor's remuneration		
- Audit of financial statements	45	46
- Other services	-	42
	<u> </u>	<u> </u>

6. Interest receivable and income from investments

	2020 £'000	2019 £'000
Interest receivable from cash, deposits and intragroup loans	<u>40</u>	<u>125</u>

7. Interest payable and similar charges

	2020 £'000	2019 £'000
Interest on loans, overdrafts and other financing		
Repayable wholly within five years	1,438	31
Repayable wholly or partly in more than five years	4,819	4,602
	<u>6,257</u>	<u>4,633</u>
On loans from Bromford Housing Group Limited	3,474	681
Other finance charges	263	224
Amortised net finance costs	119	25
	<u>10,113</u>	<u>5,563</u>
Interest payable capitalised on housing properties under construction 3.96% (2019: 4.03%)	<u>(1,139)</u>	<u>(1,243)</u>
	8,974	4,320
Interest on pension scheme liabilities	637	1,475
Expected return on employer assets	<u>(266)</u>	<u>(1,210)</u>
	<u>9,345</u>	<u>4,585</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

8. Colleague costs	2020	2019
	£'000	£'000
Wages and salaries	13,083	12,733
Social security costs	1,173	1,195
Other pension costs	1,840	2,227
	16,096	16,155
Redundancy costs	-	286
	16,096	16,441

The average number of full-time equivalent employees (including Executive Directors) employed during the year

	2020	2019
	No.	No.
Asset management	231	197
Central services	70	70
Development, construction and sales	19	17
Housing management and support	189	160
	509	444

In 2019 a full time equivalent employee was classed as working a 35 hour week, and following new terms and conditions introduced in late 2019, in 2020 a full time equivalent is now classed as working a 37.5 hour week. 2019 group figures have been amended to align reporting categories year on year

The details above relate to colleagues directly attributable to Merlin. Colleagues in the Group are employed on a joint and several basis by Bromford Housing Group Limited and its members. Details of the number of FTE's whose total remuneration exceeds £60k are disclosed in the Group Accounts.

9. Directors' emoluments

As part of the merger with Bromford, all of Merlin's Executive Directors ceased to be paid by Merlin and were transferred onto the Bromford Housing Group payroll on 1 July 2019. Accordingly, their remuneration is disclosed in the accounts of that company from this date.

Emoluments of Directors are paid through Bromford Housing Group Limited and are disclosed in the Group accounts. Directors' emoluments are part of the overheads recharged to the Association, however they cannot be separately identified.

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

10. Taxation on surplus on ordinary activities

	2020	2019
	£'000	£'000
Current tax		
UK corporation tax credit on ordinary activities	-	-
Under/(Over) provision in previous years	-	-
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	<u>-</u>	<u>-</u>
Tax on loss on ordinary activities	<u>-</u>	<u>-</u>
Total tax reconciliation		
Surplus on ordinary activities	<u>19,917</u>	<u>75,961</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	3,784	14,433
Surplus relating to charitable period	(3,784)	(14,433)
	<u>-</u>	<u>-</u>

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2020

11. Tangible fixed assets - housing properties	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership housing properties £'000	Shared ownership properties under construction £'000	Total £'000
Cost					
As at 1 April 2019	395,616	31,981	18,401	9,187	455,185
Additions	-	24,353	-	4,675	29,028
Replacement of components	11,112	-	-	-	11,112
Transferred on completion	35,350	(35,350)	6,585	(6,585)	-
Disposals	(485)	-	(387)	-	(872)
Components disposed	(550)	-	-	-	(550)
Other re-categorisation	331	3,619	(193)	(3,675)	82
As at 31 March 2020	441,374	24,603	24,406	3,602	493,985
Depreciation					
As at 1 April 2019	37,189	-	123	-	37,312
Charge for the year	8,074	-	98	-	8,172
Disposals	(240)	-	(1)	-	(241)
Other re-categorisation	(39)	-	-	-	(39)
As at 31 March 2020	44,984	-	220	-	45,204
Net book value					
As at 31 March 2020	396,390	24,603	24,186	3,602	448,781
As at 31 March 2019	358,427	31,981	18,278	9,187	417,873
				2020	2019
				£'000	£'000
Housing property net book value in respect of long leaseholds				-	-
Housing property net book value in respect of freeholds				448,781	417,873
				448,781	417,873
Component depreciation within the depreciation charge				6,332	5,229
Development administration costs capitalised during the year				1,145	878
Aggregate amount of interest and finance cost included within the cost of housing properties				3,597	2,458

Properties held for security

Merlin has property pledged as security value (EUV - SH and MV - STT) of £617m (2019: £392m). The number of units on which security was pledged amounted to 10,166 (2019: 10,041).

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

12. Expenditure on work to existing properties	2020	2019
	£'000	£'000
Replacement of components	11,112	7,629
Amounts charged to income and expenditure account	1,876	2,711
	<u>12,988</u>	<u>10,340</u>

13. Investment properties held for letting	2020	2019
	£'000	£'000
As at 1 April	13,339	2,293
Investment properties acquired from Severn Vale	-	11,046
Additions	5	-
Gain from adjustment in value		
Commercial investment properties	78	-
Market rent investment properties	635	-
As at 31 March	<u>14,057</u>	<u>13,339</u>

Investment properties (commercial and market rent) were valued at 31 March 2020 by professional qualified external valuers.

The valuation of market rent properties was undertaken by Jones Lang Lasalle Limited, whilst the commercial properties were valued by Brunton Knowles. Both valuations were carried out in accordance with the Royal Institute of Chartered Surveyors Valuation Standards. In valuing the properties, the following significant assumptions were applied

Discount rate	6.5%-9%
Annual inflation rate	1%
Level of long-term rent increase	<u>1%</u>

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2020

14. Tangible fixed assets - other

	Freehold offices £'000	Fixtures, fittings & Equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost					
As at 1 April 2019	6,592	1,078	2,180	802	10,652
Additions	-	23	15	9	47
Disposals	-	(17)	(97)	-	(114)
As at 31 March 2020	6,592	1,084	2,098	811	10,585
Depreciation and impairment					
As at 1 April 2019	2,444	888	1,791	193	5,316
Charge for the year	74	67	196	196	533
Released on disposal	-	(17)	(17)	-	(34)
As at 31 March 2020	2,518	938	1,970	389	5,815
Net book value					
As at 31 March 2020	4,074	146	128	422	4,770
As at 31 March 2019	4,148	190	389	609	5,336

15. Intangible fixed assets

	Software £'000	Other £'000	Total £'000
Cost			
As at 1 April 2019	2,158	347	2,505
Additions	80	-	80
Transfer to group company	-	(347)	(347)
Disposals	(418)	-	(418)
As at 31 March 2020	1,820	-	1,820
Depreciation			
As at 1 April 2019	2,128	-	2,128
Charge for the year	34	-	34
Disposals	(418)	-	(418)
As at 31 March 2020	1,744	-	1,744
Net book value			
As at 31 March 2020	76	-	76
As at 31 March 2019	30	347	377

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

16. Stocks and work in progress	2020	2019
	£'000	£'000
Consumable stock	292	258
Cost of first tranche element of shared ownership properties	3,261	5,297
	3,553	5,555
Shared ownership properties		
Completed	1,914	2,276
Under construction	1,347	3,021
	3,261	5,297
17. Trade and other debtors	2020	2019
	£'000	£'000
Amounts falling due within one year		
Rent arrears	3,395	2,252
Less: provision for bad debts	(1,036)	(802)
	2,359	1,450
Trade debtors	9	245
Amounts due from group companies	9,945	1,081
Government grant debtor	52	254
Other debtors	769	434
Prepayments and accrued income	683	1,073
	13,817	4,537
Amounts falling due after more than one year		
Government grant debtor	96	148
Major repairs provision	-	15,152
	96	15,300

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

18. Current asset investments	2020	2019
	£'000	£'000
Opening fair value at 1 April	9,723	1,723
Additions to investments	339	8,000
Withdrawals from investments	(905)	(7)
Disposals	(8,000)	-
Interest	24	7
Fair value at 31 March	1,181	9,723

Current asset investments include monies held by lenders in support of bond finance. These monies are placed in accounts charged by the lenders.

	2020	2019
	£'000	£'000
The analysis of these monies is		
EIB Bond	-	563
AHF bond	1,181	1,160
Money held in support of bond finance	1,181	1,723
Investment properties held for resale	-	8,000
Total current asset investments	1,181	9,723

19. Cash and cash equivalents	2020	2019
	£'000	£'000
Cash at bank	48,209	13,937
Cash equivalents	425	194
	48,634	14,131

Included in the above are balances totalling £228k (2019: £240k) which are held in trust for shared ownership leaseholders.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

20. Creditors: amounts falling due within one year	2020	2019
	£'000	£'000
Prepaid rental income	2,113	1,569
Loans	-	11,335
Local Authority RTB share of proceeds	1,310	1,935
Trade creditors	3,151	954
Amounts due to group companies	3,174	502
Social security and other taxes	250	350
Funds held on trust	-	14
Deferred capital grant	126	129
Recycled capital grant fund	97	168
Disposal proceeds fund	445	445
Other creditors	1,380	564
Vat shelter liability	382	1,228
Accruals and deferred income	6,666	10,417
	19,094	29,610

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

21. Creditors: amounts falling due after more than one year	2020	2019
	£'000	£'000
Loans	163,232	163,142
Loans due to group companies	143,000	90,000
Leaseholder sinking funds	849	763
Deferred capital grant	11,176	10,760
Recycled capital grant fund	152	26
	<u>318,409</u>	<u>264,691</u>
Loan repayment profile		
Repayable within one year	-	11,335
Repayable between one and two	-	265
Repayable between two and five years	-	866
Repayable after five years	306,607	243,193
Less: Loan finance costs	(375)	(2,517)
	<u>306,232</u>	<u>253,142</u>
The interest risk profile of loan liabilities are as follows	2020	2019
	£'000	£'000
Floating rate	-	-
Fixed rate - average 3.40% (2018: 3.51%)	306,607	255,659
	<u>306,607</u>	<u>255,659</u>
Undrawn committed borrowing facilities (all secured) at 31 March were	2020	2019
	£'000	£'000
Expiring within one year	-	-
Expiring between one and two	-	-
Expiring between two and five years	290,000	279,000
Expiring after five years	-	-
	<u>290,000</u>	<u>279,000</u>

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

22. Deferred capital grant	2020	2019
	£'000	£'000
At 1 April	10,889	8,067
Grants received in year	593	2,940
Recycled to RCGF	(54)	-
Amortised in year	(126)	(108)
Amortised grant on disposal	-	(10)
As at 31 March	11,302	10,889
Amount due to be released within one year	126	129
Amount due to be released in more than one year	11,176	10,760
	11,302	10,889

23. Other capital grant funds	Disposal proceeds fund	Recycled capital grant fund	2020	2019
	£'000	£'000	£'000	£'000
At 1 April	445	194	639	300
Inputs to reserve				
Acquired from Severn Vale	-	-	-	216
Grants recycled	-	54	54	121
Interest accrued	-	1	1	2
Utilised				
New build	-	-	-	-
	445	249	694	639
Amounts due within one year	445	97	542	613
Amounts due after more than one year	-	152	152	26
	445	249	694	639
Amount three years or older where repayment may be required	445*	97*	542*	182

*Consent has been given by Homes England for use in 2020/21

24. Provision for liabilities and charges	Major repairs	Other	Total
	£'000	£'000	£'000
As at 1 April	15,152	699	15,851
Utilised in year	(4,976)	(341)	(5,317)
Released in year	(10,176)	(202)	(10,378)
Additions in year	-	372	372
As at 31 March	-	528	528

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2020

25. Share Capital	2020	2019
	£	£
Issued and fully paid		
As at 1 April	34	32
Issued during the year	-	6
Cancelled during the year	(4)	(4)
As at 31 March	<u>30</u>	<u>34</u>

26. Analysis of changes in net debt	As at 1 April 2019 £'000	Cashflows £'000	Movement in creditors due within one year £'000	As at 31 March 2020 £'000
Cash at bank and cash equivalents	14,131	34,503	-	48,634
Short term investments	<u>1,723</u>	<u>(542)</u>	-	<u>1,181</u>
	15,854	33,961	-	49,815
Other loans				
Housing loans due within one year	(11,335)	11,000	335	-
Housing loans due after more than one year	<u>(253,142)</u>	<u>(52,755)</u>	<u>(335)</u>	<u>(306,232)</u>
Change in debt resulting from cashflows	<u>(248,623)</u>	<u>(7,794)</u>	<u>-</u>	<u>(256,417)</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

27. Cash flow from operating activities	2020	2019
	£'000	£'000
Surplus for the year	20,011	75,961
Adjustments for non-cash items		
Depreciation of tangible fixed assets	8,705	7,145
Amortisation of intangible assets	34	230
Amortisation of government grant	(126)	(110)
Decrease in stock	2,002	4,755
Decrease/(increase) in trade and other debtors	14,804	9,070
Decrease/(increase) in current asset investments	542	-
Decrease in trade and other creditors	30	(7,654)
(Decrease)/increase in intergroup balances	(6,192)	108
(Decrease) in provisions	(15,323)	(8,011)
Pension costs less contributions payable	533	(2,706)
Carrying amount of tangible fixed assets disposals	1,140	763
Carrying amount of intangible fixed asset disposals	347	-
Profit on disposal of investments	(3,997)	-
Fair value on acquisition	-	(60,669)
Adjustments for investing or financing activities		
Movement in value of investment property	(713)	502
Interest payable	9,345	4,571
Interest receivable	(15)	(125)
Gift Aid	(94)	-
Net cash generated from operating activities	31,033	23,830
28. Capital commitments	2020	2019
	£'000	£'000
Capital expenditure contracted for but not provided for in the financial statements	15,523	53,232
Capital expenditure authorised by not yet contracted for	-	2,415
These commitments are to be financed by the receipt of social housing grant and a mixture of loan finance, reserves and proceeds from the sales of housing properties as follows		
Social housing grant	440	584
Proceeds from the sale of properties	2,554	16,496
Loans and reserves	12,529	38,567
	15,523	55,647

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2020**

29. Other financial commitments

The minimum lease payments due under operating leases are as follows

	Land and buildings		Vehicles and office equipment		Total leases	
	2020 £'00	2019 £'00	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Operating leases which expire						
Within one year	30	30	365	58	395	88
Within two to five years	-	-	69	-	69	-
After more than five years	-	-	-	-	-	-
	30	30	434	58	464	88

30. Grant and financial assistance

The total accumulated government grant and financial assistance received or receivable at 31 March was as follows

	2020 £'000	2019 £'000
Held as deferred capital grant	11,302	10,889
Recognised as income in Statement of Comprehensive Income	15,968	15,842
	27,270	26,731

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

31. Financial instruments

The company's financial instruments may be analysed as follows

	2020 £'000	2019 £'000
Financial assets		
Financial assets measured at amortised cost		
Rent debtors	2,359	1,450
Other receivables	10,871	17,314
Investments in short term deposits	1,181	9,723
Cash and cash equivalents	48,634	14,131
Total financial assets	63,045	42,618
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade creditors	3,151	954
Other creditors	148,653	92,179
Funds held on trust	-	14
Financial liabilities that are debt instruments measured at amortised cost		
Loans payable - due within one year	-	11,335
Loans payable - due after more than one year	163,232	163,142
Total financial liabilities	315,036	267,624

32. Sale of properties not developed for outright sale and other fixed assets

	Proceeds of sales £'000	Cost of sales £'000	Surplus £'000	Capital grant recycled £'000
Further tranches of shared ownership	676	(475)	201	-
Right to buy	1,549	(1,698)	(149)	-
Right to acquire	687	(146)	541	-
Other property disposals	12,011	(8,014)	3,997	-
Other fixed asset disposals	-	(3)	(3)	-
Total 2020	14,923	(10,336)	4,587	-
Total 2019	4,143	(2,736)	1,407	10

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

33. Related party transactions

There were gift aid receipts in the year as follows

	2020	2019
	£'000	£'000
Oakbrook Limited	<u>94</u>	<u>160</u>

Merlin Housing Society had the following transactions with Oakbrook Limited, a non-regulated member of the group

	2020	2019
	£'000	£'000
Administrative recharges	98	93
Property purchase	<u>2,654</u>	<u>4,782</u>
	<u>2,752</u>	<u>4,875</u>

Merlin Housing Society has the following balances with Oakbrook Limited, a non-regulated member of the group

	2020	2019
	£000	£000
Included within debtors	<u>-</u>	<u>1,081</u>
Included within creditors due within one year	<u>603</u>	<u>2,008</u>

Under section 33 of FRS102 defined benefit pension schemes are considered to be related parties. Merlin is a member of the Avon defined benefit scheme. Details of transactions with the schemes are disclosed in note 36.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

34. Pension obligations

During the year the Association participated in two schemes, the Social Housing Pension Scheme (SHPS) and the Avon pension fund (LGPS). Both of the schemes are multi-employer defined benefit schemes.

The Association also participates in the Royal London Defined Contribution scheme to meet its obligations for auto-enrolment which applied from October 2013.

Further details of pension obligations are given under each scheme below.

Summary of Pension Schemes balances (Group)

	At 31 March 2020	At 31 March 2019
	£'000	£'000
Creditors due less than one year		
Royal London DC scheme	45	54
	45	54
Provisions for Pensions		
Avon pension fund (LGPS)	12,260	13,337
SHPS	-	2,211
Total	12,260	15,548

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

Avon Pension Fund

The Avon Pension Fund (APF) is a multi-employer defined benefit scheme administered by Bath and North East Somerset Council under the regulations governing the Local Government Pension Scheme.

The latest triennial actuarial valuation was carried out at 31st March 2019 and this has been updated to 31 March 2020 by a qualified independent actuary.

Contributions for year ended 31 March 2020:

	£'000
Employee	222
Employer	765
Employer deficit	30
Total	1,017
Agreed contribution rates for future years:	
Employee (average)	6.7%
Employer	21% – 32.8%

Principal actuarial assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2019 updated to 31 March 2020 by a qualified independent actuary:

	At 31 March 2020	At 31 March 2019
Rate of inflation - CPI	2.1%	2.2%
Rate of increase for pensions in payment	2.2%	2.3%
Rate of increase in salaries	3.6%	3.7%
Discount rate for scheme liabilities	2.4%	2.5%

The post retirement mortality assumptions used to value the benefit obligation for the four years are based on the S2PA CMI 2015 cohort series. The assumed life expectations on retirement at age 65 are:

Males	At 31 March 2020	At 31 March 2019
Current pensioners (years)	23.2	23.7
Future pensioners retiring in 20 years (years)	24.7	26.3
Females		
Current pensioners (years)	25.3	26.2
Future pensioners retiring in 20 years (years)	27.3	29.0

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2020

The information below is in respect of the whole of the plans for which the Group is either the sponsoring employer or has been allocated a share of cost under an agreed policy throughout the periods shown:

	At 31 March 2020	At 31 March 2019
	£'000	£'000
Fair Value of fund assets	43,458	47,168
Present value of defined benefits obligations	(55,718)	(60,505)
Pension surplus / (deficit)	(12,260)	(13,337)

The fair value of the assets:

	31 March 2020	31 March 2019
	£'000	£'000
Equities	11,995	12,688
Government Bonds	1,521	3,821
Other Bonds	2,477	19,386
Property	2,738	3,066
Cash	608	519
Other	24,119	7,688
Total fair value of assets	43,458	47,168

Reconciliation of Assets and Liabilities

Reconciliation of assets at 31 March 2020:

	£'000
Assets at start of period	47,168
Interest on plan assets	1,183
Re-measurements	(5,109)
Administration expenses	(21)
Employer contributions paid	795
Employee contributions	222
Benefits paid	(780)
Assets at end of period	43,458
Total return on plan assets 1 April 2019 to 31 March 2020	2.61%

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**Notes to the Financial Statements
For the year ended 31 March 2020**

Reconciliation of liabilities at 31 March 2020:

	£'000
Liabilities at start of period	60,505
Service Cost	1,199
Interest Cost	1,505
Past service cost *	187
Employee contributions	222
Re-measurements	(7,165)
Curtailments	45
Benefits Paid	(780)
Liabilities at end of period	55,718

Analysis of the amount charged to operating costs in the Statement of Comprehensive Income at 31 March 2020:

	£'000
Employer service cost (net of employee contributions)	1,199
Past service costs*	187
Expenses (including interest cost and curtailments)	388
Total operating charge	1,774
Analysis of pension finance income/(costs)	
Expected return on pension scheme assets	1,183
Interest on pension liabilities	(1,505)
Amounts (charged) / credited to financing costs	(322)

**Includes allowance for the effects of GMP indexation*

Notes to the Financial Statements
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Analysis of gains and losses recognised in the Statement of Other Comprehensive Income at 31 March 2020:

	£'000
Actuarial gains / (losses) on pension scheme assets	(5,109)
Actuarial gains / (losses) on pension scheme liabilities	7,166
Actuarial gains/(losses) recognised	2,057

Movement in surplus / (deficit) during the year:

	£'000
(Deficit) in scheme at 1 April 2019	(13,337)
Employer service cost (net of employee contributions)	(1,199)
Employer contributions paid	795
Past service costs*	(187)
Pension administration expenses	(21)
Curtailments	(45)
Net interest/return on assets	(322)
Re-measurements	2,057
Surplus / (deficit) in scheme at 31 March 2020	(12,259)

**Includes allowance for the effects of GMP indexation*

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, until the 26 October 2018 Lloyds Bank court judgement provided further clarity in this area. For the public service pension schemes, HM Treasury has stated since the judgement that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why there is no change to the existing method as a result of this judgment”.

Therefore, the main public service pension schemes including the Local Government Pension Scheme have concluded that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time. This is consistent with previous accounting disclosures (and the most recent valuation, which holds no explicit reserve for GMP equalisation).

Post-retirement increases on GMPs: At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach state pension age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching state pension age from 6 April 2021 onwards. There is a possibility that all public sector schemes will be required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021. The figures above include the increase in past service liabilities as a “past service cost”.

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McCloud judgement

MHCLG has launched a consultation on how address the McCloud judgement. Following the consultation, there is likely to be a change to the pension liability. However, there is currently insufficient information available to base any calculations of the impact on and a reliable estimate cannot therefore be made. The timing of the consultation means that any resulting changes will be reflected in the pension liability at 31 March 2021.

Social Housing Pension Scheme (SHPS)

The SHPS is a multi-employer DB scheme administered by The Pensions Trust, which includes the liability historically relating to Severn Vale Housing Society, which was transferred to Merlin Housing Society at 2 January 2019 as part of the acquisition.

During the year, on 1 October 2019, the Merlin section of SHPS transferred into Bromford Defined Benefit Scheme. The movements below represent those up to the date of the transfer; movements for the rest of the year are incorporated in the movements of BDBS above.

The latest triennial actuarial valuation was carried out at 31st March 2017 and this has been updated to 30 September 2019 by a qualified independent actuary.

Contributions for period 1 April 2019 to 30 September 2019

	£'000
Employee	-
Employer	104
Employer deficit	-
Total	104

Principal actuarial assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2017 updated to 30 September 2019 by a qualified independent actuary:

	At 30 September 2019	At 31 March 2019
Rate of inflation (RPI)	3.05%	3.25%
Rate of inflation (CPI)	2.05%	2.25%
Rate of increase in salaries	3.05%	3.25%
Discount rate for scheme liabilities	1.85%	2.35%
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 30 September 2019 imply the following life expectancies (no change from 31 March 2019):

	Males	Females
Current Pensioners (years)	21.8	23.5

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Notes to the Financial Statements For the year ended 31 March 2020

Future Pensioners retiring in 20 years (years)	23.2	24.7
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A summary of the movement in pension assets and liabilities for the SHPS is shown below. The information disclosed below is for the period 1 April 2019 to 30 September 2019 only, reflecting the transfer out which occurred:

	30 September 2019	31 March 2019
	£'000	£'000
Fair value of fund assets	-	6,326
Present value of defined benefit obligation	-	(8,537)
Pension surplus / (deficit)	-	(2,211)

Reconciliation of Assets and Liabilities

Reconciliation of assets at 30 September 2019:

	£'000
Fair value of assets at start of period	6,326
Interest income on assets	74
Return on assets excluding interest income	447
Employer contributions paid	104
Contributions by scheme participants	-
Benefits paid and expenses	(162)
Assets transferred out of the scheme	(6,789)
Assets at end of period	-
Total return on scheme assets 1 April 2019 to 30 September 2019	7.94%

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Reconciliation of liabilities at 30 September 2019:

	£'000
Liabilities at start of period	8,537
Service cost	-
Expenses	3
Interest cost	99
Contributions by scheme participants	-
Re-measurements:	
Actuarial loss on changes in financial and demographic assumptions	644
Actuarial loss on scheme experience	63
Benefits paid	(162)
Liabilities transferred out of the scheme	(9,184)
Liabilities at end of period	-

Analysis of the amount charged to operating costs in the Statement of Comprehensive Income at 30 September 2019:

	£'000
Expenses	3
Net interest expense	25
Total operating charge	28
Analysis of pension finance income/(costs)	
Expected return on pension scheme assets	74
Interest on pension liabilities	(99)
Amounts (charged) / credited to financing costs	(25)

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Notes to the Financial Statements For the year ended 31 March 2020

Analysis of gains and losses recognised in the Statement of Other Comprehensive Income at 30 September 2019:

	£'000
Return on scheme assets (excluding amounts included in net interest cost) – gain / (loss)	447
Experience gains and losses arising on scheme liabilities – gain / (loss)	(63)
Effects of changes in the demographic assumptions underlying the present value of liabilities – gain / (loss)	(644)
Gain / (loss) of assets and liabilities transferred out of the scheme	2,395
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) – gain / (loss)	2,135
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) – gain / (loss)	-
Actuarial gains/(losses) recognised	2,135

Movement in surplus / deficit during the period 1 April 2019 to 30 September 2019:

	£'000
Surplus / (deficit) in scheme at 1 April 2019	(2,211)
Employer service cost and expenses	(3)
Employer contributions paid	104
Net interest/return on assets	(25)
Re-measurements included in other comprehensive income (including transfer out)	2,135
Surplus / (deficit) in scheme at 30 September 2019	-

35. Bromford Housing Group Limited

The company's ultimate parent organisation is Bromford Housing Group Limited registered in England and Wales under the Co-operative & Community Benefit Societies Act 2014 (Registered Society Number 29996R).

Copies of the Group financial statements for Bromford Housing Group Limited are available from 1 Exchange Court, Brabourne Avenue, Wolverhampton Business Park, Wolverhampton, WV10 6AU.

36. Post balance sheet events

The COVID-19 pandemic is disclosed as a non-adjusting balance sheet event and the Board has adopted the going concern basis in preparing the annual financial statements.