MERLIN HOUSING SOCIETY LIMITED

Financial Statements

for the year ended 31 March 2022

Co-operative and Community Benefit Society
Registration Number 30012R

Regulator of Social Housing
Registration Number L4485

Merlin Housing Society Limited

Financial Statements
For the Year Ended 31 March 2022

CONTENTS

Merlin Housing Society Limited

Board Members as at 31 March 2022:
The Board members who served from 1 April 2021 up to the date of approval of these financial statements were as follows:

	Position	Appointment/Retirement Date	Meetings Attended 2021/22
Stephen Dando	Independent Non-Executive Director Chair	Appointed 24 November 2015 Appointed chair 1 April 2020	11/11
Richard Bird	Independent Non-Executive Director	Appointed 2 July 2018	11/11
Carolyn Downs	Independent Non-Executive Director	Appointed 1 December 2021	4/4
Dame Sandra Horley	Independent Non-Executive Director	Appointed 1 May 2022	0/0
Vivienne Horton	Vice Chair and Senior Independent Director	Appointed 2 July 2018 Retired 27 November 2021	5/6
Charles Hutton-Potts	Independent Non-Executive Director	Appointed 1 April 2021	11/11
Richard Penska	Independent Non-Executive Director	Appointed 2 July 2018 Resigned 27 November 2021	5/6
Neil Rimmer	Independent Non-Executive Director	Appointed 2 July 2018	11/11
Sarah Simpson	Independent Non-Executive Director	Appointed 1 April 2020	10/11
Jerry Toher	Independent Non-Executive Director	Appointed 1 April 2020	10/11
Robert Nettleton	Chief Executive	Appointed 31 December 2018	11/11
Paul Walsh	Chief Finance Officer	Appointed 1 August 2021	5/7

Company Secretary	Appointment/Retirement Date
Sarah Beal	Appointed 2 July 2019

Advisors:

External Auditors:

Beever and Struthers
The Colmore Building
20 Colmore Circus
Queensway,
Birmingham, B4 6AT

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:

Shannon Way
Ashchurch
Tewkesbury
GL20 8ND

Merlin Housing Society Limited

Board and Strategic Report
For the year end 31 March 2022

The Board of Merlin Housing Society Limited ('MHS') is pleased to present its annual report and financial statements for the year ended 31 March 2022.

Who are we and what do we do?

MHS is a subsidiary of Bromford Housing Group Limited ('BHG'). 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 almost 46,000 homes, has individual relationships with more than 100,000 customers and has a very strong balance sheet. 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 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.

Be.Honest

- we build trusting relationships based on openness, respect and integrity
- we learn from mistakes and are open when things go wrong
- we do what we say we will
- we're open to being challenged and challenging others

Be.Brilliant

- we collaborate with others, working smarter not just harder
- we see the best in people and believe we can all achieve more
- we're curious about learning new things

Be.Bold

- we do the right thing for our customers and colleagues
- we look for new possibilities and challenge assumptions
- we work with confidence but remain humble
- we empower others to make decisions

Be.You

- we dare to be different – using life experience and personality
- we embrace people's differences to build a better community
- we think big, celebrate success and are positive about what we can do
- we are energised, happy and productive

Fig. 1. Bromford DNA

Board composition, meetings, decisions and delegations

The Board operates as a unitary Board.

From the 1 April 2021, our Board comprised nine members – two Executive Directors (our Chief Executive and Chief Finance Officer) and seven non Executive Directors (NEDs).

NEDs are recruited for their skills and experience and are appointed for an initial term of three years. Reappointment following the initial term is not automatic and NEDs are required to satisfy continuing independence and performance-related criteria before they are appointed for a second, three-year term. Any term beyond six years is subject to rigorous annual review which takes into account the need to progressively refresh the Board.

NEDs are offered ongoing training, support and access to independent professional advice to enhance their decision-making and help them discharge their duties effectively.

The time commitment required from NEDs is currently between 12 and 15 days per annum. The other significant commitments of the Chair, Steve Dando and NEDs were disclosed to the BHG Board before appointment and are summarised in the BHG Annual Report and Accounts.

Board effectiveness

All Board members are expected to contribute to a culture of clear and open debate. This is to promote informed and prudent decision-making and members are expected to keep developing and refreshing their knowledge and skills so they can continue to make positive contributions to Board discussions.

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 (UK Code), this evaluation is facilitated by Altair, an external advisor to provide an independent perspective. There was an independent review of governance effectiveness in 2020 and the chair carried out an internal review in 2021. The findings were very positive:

- the Board is seen as effective and governs appropriately with individuals understanding their roles and responsibilities
- the governance structure and framework provide assurance to the Board and third-party assurance is sought where this is seen as necessary
- the updated skills matrix shows that there are no major skills gaps on the Board, the recent recruitment was targeted to fill the gaps left when the chair of Customer and Communities Influence Network (CCIN) retired.

Our senior independent director carried out a review of the chair's performance.

Board and Committee Decision-making

The Bromford Housing Group (BHG) operates a group structure with coterminous Boards across the four main entities – the parent – BHG and the main operating subsidiaries Bromford Housing Association, Bromford Home Ownership (BHO) and Merlin Housing Society (MHS). The membership of all entities is the same except for BHO where two members, Neil Rimmer and Charles Hutton-Potts are not members. This is in line with our Group Conflicts of Interest Policy and protects the charitable interests of BHG, BHA and MHS. All members of the Board, executive and non-executive make decisions by working together and achieving a general consensus.

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 by the Boards. 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 10 times a year. The annual strategy setting event was held in November.

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 BHG Annual Report and Accounts.

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

Value for Money

Ensuring Value for Money for our customers and our group is ingrained in our culture and enables us to deliver our strategy and to enable customers to thrive. Our value for money statement is published within our Group Annual Report and Accounts.

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, 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 2022.

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 (the UK code). 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 UK 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 Code are met by MHS.

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. MHS does have legacy shareholders and continues to hold an annual general meeting.

The UK Code applies for our financial year 2021 to 2022.

Each year the Board reviews compliance with the UK code and during the financial year ended 31 March 2022, we consider that Bromford has complied with all relevant principles and provisions of the UK Corporate Governance Code 2018.

Risk management and internal control

Risk Overview

Bromford has a risk management process in place through which our principal risks and related controls are identified, assessed and managed. Our Board has overall responsibility for setting our risk appetite and ensuring there is an effective risk management process in place. Applying the principles of risk management effectively allows Bromford to create value by enabling us to take informed decisions whilst protecting value by reducing the uncertainty of achieving our strategy.

We operate a five-step risk management process. These steps are designed to identify problems before they occur, so that risk management activity may be planned and invoked as needed to mitigate impacts on achieving our strategy. We think of risk as those things that could prevent us from achieving our strategic goals. Our approach to risk management is designed to enable the business to deliver its strategic goals while managing the inherent uncertainty that can manifest itself as both opportunities and threats to these outcomes. The Board defines clear statements and tolerances that set out the type and amount of risk we are prepared to assume as we deliver our strategy. Regular reporting to Board highlights any movement in the assessment of key risks.

How we manage our risks

Bromford operates a three lines assurance model, targeted at areas of greatest risk. Using a risk-based approach provides an effective programme of assurance which considers areas that we know are high risk. This approach ensures clear separation between risk and control ownership (first line), oversight, support and challenge (second line) and audit (third line). We regularly reassess our assurance activity as risk is reduced in certain areas and increased where new risks are emerging, resulting in a proportionate assurance application.

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.

Additional assurance is provided from external sources, such as external audit, technical specialists and regulatory checks.

Risk appetite

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

No business is free of risk and to deliver our strategy we often need to take risk. We only take risk that is in line with our risk appetite, our purpose, our DNA and our strategy. Risk we accept must be clearly understood and regularly reviewed and managed effectively. We measure, monitor and report our exposures within agreed tolerances, with forward looking risk indicators and triggers in place. In some areas we have risks for which we have little or no appetite however the nature of these risks mean they cannot be eliminated completely.

	Averse	Minimal	Balanced	Open	Embracing
Legal and regulatory Our risk appetite is minimal, as we will do everything that is reasonably practical to ensure compliance and is averse with respect to landlord asset compliance and health and safety risks, meaning we do everything we can to ensure compliance with landlord obligations.					
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 Our appetite is balanced, as we will not accept risks which threaten our financial viability, but we will be open to diverse investment options.					
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 As an innovative business our strategic risk appetite is open as we have set ambitious plans and have multiple channels for delivery, but we will not compromise on the provision of warm, safe and secure homes.					

Our principal risks

The Board review the principal risks, appetite and tolerances annually and the last review was in November 2021. The risks and associated indicators are monitored monthly by the Board. Business risks are monitored for emerging threats and operational trends, with escalation through executive forums, Audit and Risk Committee and then to Board.

The list of principal risks does not comprise all of the risks Bromford face and they are not presented in order of importance. The nature of the risk means the landscape can alter and we ensure our regular updates to the risks reflect this. Below we set out the profile of risks for Bromford. After making considerable progress with developing, implementing, testing and embedding our business continuity plans we have been successful in removing business continuity as a principal risk, though we continue to monitor it at an operational level.

Below we set out the profile of risks for Bromford.

Death, injury or harm		Direction of travel: improving	Link to strategy: Future ready
Risk: Our approach to health and safety lacks robust controls and oversight. This results in death, injury or harm caused to colleagues, customers, contractors or the public.			
Risk mitigations	Changes in year		
- A well-established health and safety (H&S) policy and framework sets out no one should be harmed by what we do. - Audit and Risk Committee and Board receive independent assurance from technical experts throughout the year. - Monitoring our supply chain to ensure safe practice.	- ISO45001 accreditation received for all geographical areas within Bromford. - Continued covid secure measures to keep colleagues and customers safe. - Refreshed our approach to monitoring, training, documentation and assurance. - 100% legal compliance achieved for landlord compliance.		

Environment and sustainability		Direction of travel: New	Link to strategy: Future ready
Risk: Responding to our 2028 carbon reduction requirements. This may result in material financial implications, regulatory intervention and reputational damage.			
Risk mitigations	Changes in year		
- Delivering EPC rating C by 2028 ahead of the government 2035 requirement. - Roadmap to 2050 net zero carbon developed which is monitored through the sustainability group.	- Overall net zero carbon strategy developed and endorsed by the Board. - Full costs for delivery now embedded in 30 year business plan.		

Financial pressures for customers		Direction of travel: worsening	Link to strategy: Our relationship with customers
Risk: Uncertainty within the external environment leads to increased financial pressure for customers.			
Risk mitigations	Changes in year		
- Our coaching approach is designed to support our customers. - The customer and communities' model is subject to an annual effectiveness review, reported to Board. - Income management policies in place to support colleagues and customers.	- We continue to evaluate the benefits and hardship funds made available from the government and how this can support customers. - 'Money Matters' launched online for Bromford customers to offer help and advice on managing your money.		

Cyber security and network controls	Direction of travel: Improving	Link to strategy: Future ready
Risk: Lack of robust network controls and security protocols. This results in susceptibility to service attacks, hacking and unauthorised access.		
Mitigation Strategies	Changes in year	
- Dedicated Information Security Team and Data Protection Officer responsible for monitoring information security and cyber threat. - Information security management systems aligned to ICO/EIC 27000 standards, with oversight through business forums and Audit and Risk Committee reporting.	- Working closely with third-party IT service partners to manage risk and improve technical standards. - Cyber security assessed as part of the Internal Audit programme. - Ongoing vulnerability and penetration testing.	

Third parties and supply chains	Direction of travel: static	Link to strategy: Future ready
Risk: Failure of third parties and supply chains. This results in adverse cost impact, quality or delays to Bromford.		
Mitigation Strategies	Changes in year	
- Strategic suppliers have been identified and we are working with them to ensure they have fit for purpose business continuity plans. - Business stability of suppliers is tracked through a variety of methods. - Contingency supplier capability assessed for single supply/ strategic goods or services.	- Regular contract review and performance meetings, including Key Performance Indicators ('KPIs') review and proactive supplier and market assessments. - Internal Audit on Procurement completed. - Close monitoring of inflation and working closely with suppliers to manage cost.	

Development and market sales	Direction of travel: static	Link to strategy: Growing the business
Risk: We fail to deliver our new homes and market sales aspirations. Rising costs, market downturn, competition in the market and/or a lack of opportunity could impact our ability to deliver against plan.		
Mitigation Strategies	Changes in year	
- A dedicated forum considers opportunities against strategy to ensure compliance with business policy, tracks programme delivery and monitors the external market for potential impacts.	- Despite ongoing covid restrictions throughout the year, we delivered 1,224 new homes. - Working with suppliers to negotiate and hold prices for key materials needed to construct new homes. - We have set up a dedicated Land Forum, to discuss and approve land led opportunities.	

<table>
<tr><td colspan="2">Financial planning and performance</td><td>Direction of travel:
static</td><td>Link to strategy: Future ready</td></tr>
<tr><td colspan="4">Risk: Our financial and resilience planning and/or monitoring fails to mitigate substantial macro-economic or political events.</td></tr>
<tr><td>Mitigation Strategies</td><td colspan="3">Changes in year</td></tr>
<tr><td>- Robust financial planning, stress testing scenarios and resilience plans are in place, incorporating plausible macro-economic and political impacts, with close tracking at forum, committee and Board level against the financial framework and golden rules.</td><td colspan="3">- 30-year business plan updated to reflect sustainability strategy.
- Ongoing assessment and monitoring of impact of inflation and interest rate changes.
- Moody’s confirmed our credit rating as A2 stable.
- Standard & Poor’s confirmed as A+, outlook upgraded to ‘stable’.
- Moody’s ESG credit impact score confirmed as CIS-2 Neutral to Low.</td></tr>
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<table>
<tr><td colspan="2">People</td><td>Direction of travel:
static</td><td>Link to strategy: Enabling colleagues to thrive</td></tr>
<tr><td colspan="4">Risk: A lack of skilled colleagues who are thriving in their role will impact our ability to achieve our objectives. This may be due to a failure to recruit, retain and/or motivate engaged colleagues.</td></tr>
<tr><td>Mitigation Strategies</td><td colspan="3">Changes in year</td></tr>
<tr><td>- The embedding of our performance management process and both core and leadership competencies to support the ability of colleagues to achieve our objectives.
- Continuation of our leadership 50 development programme including 360 feedback to raise the level of leadership capability.
- Improving leadership capability for recruitment with the use of unconscious bias training, e-learning for recruitment and workshops to improve the quality of candidates appointed.</td><td colspan="3">- The launch of our graduate programme to provide a pipeline of future talent to support succession planning.
- Implementation of a 4% pay award to help with increasing cost of living and pressure in the recruitment market.
- The development of career pathways to assist in the retention of colleagues and to improve the performance of colleagues in role while also providing a route for career development.</td></tr>
</table>

Emerging risks

Emerging Risks are upcoming events which present uncertainty but are difficult to assess at the current stage. We use techniques such as horizon scanning to identify and report these risks and emerging risk management ensures we are adequately prepared for the potential opportunities and threats they pose. Business units consider changing, new or emerging risks through regular review and discussion, we produce insight reports which are shared through the governance channels to highlight new and growing threats. We closely monitor emerging risks that may, with time, become Enterprise Risk Management (ERM) risks. We consider the following to be risks that have the potential to increase in significance and affect the performance of Bromford.

Title	Detail	Area	Time Horizon
Macroeconomic uncertainty	Continued macroeconomic uncertainty post-pandemic and adjustment to Brexit. The full impact of the Ukrainian invasion is unknown, however inflation is set to continue to rise and interest rates are also likely to continue to steadily increase.	Economic	Short-medium term
Energy prices	Further price increases are anticipated in October 2022, with the cost impact currently estimated at a further 25% increase. These energy price increases will impact our customers, our colleagues and our supply chain.	Operational	Short-medium term
Net zero carbon	The carbon zero agenda has been set and Bromford has detailed the approach to delivery. The environmental agenda is subject to change and we may need to adapt our strategy to meet new targets.	Environmental	Long term

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.

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 2022 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.

An internal control system can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Internal audit

Internal audit is an independent assurance function, provided by PricewaterhouseCoopers (PwC), which is available to the Board, Audit and Risk Committee and all levels of management. The role of internal audit is to provide assurance that Bromford's risk management and internal control systems are well designed and operate effectively and that any corrective action is taken in a timely manner. Each year internal audit develops an annual risk-based audit plan for approval by the Audit and Risk Committee which is supported by regular reporting that enables the committee to monitor delivery of the audit plan. The plan is created using a combination of PwC's housing sector experience, internal assessment of the risks to Bromford, the RSH sector risk profile report and feedback from the leadership team. 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 2022

Significant issues were discussed with management and the external auditor in January 2022 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 2022.

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.

Key audit matter	Committee response
Key judgements and estimates	The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for revenues and expenses during the year. The external auditor undertook testing to assess whether the key judgements and estimates have been made appropriately in line with the industry and are disclosed satisfactorily in the financial statements. The committee was satisfied with the outcomes of the audit which noted the results of the work proved satisfactory.
Loan covenants and treasury management	The group has borrowing, which includes undrawn facilities (predominantly revolving credit facilities), with standalone interest rate swaps for periods up to 2032 to manage mark-tomarket exposure. These have been categorised as non- basic and are measured at fair value. The loan covenant calculations as at 31 March 2022 show that the loan covenant position is compliant with funder requirements across the group. Following audit testing across a number of areas the external auditor found no issues of concern in this area. In line with Auditing Standards, the external auditor reviewed judgements and estimates until the point of signing the financial statements. Management gave assurances that the group will remain a going concern and is able to avoid breaching its loan covenants even in a serious stressed scenario. The committee was satisfied with outcomes and management response.
Housing properties	Improvement works are capitalised and the external auditor tested and evaluated a range of areas including the controls over the capitalisation of expenditure on major repairs and components to ensure the requirements of the Statement of Recommended Practice 2018 (SORP) have been met, as well as additional testing on accruals for maintenance expenditure, depreciation charges for the year and sample transactions to the recycled grant fund. The committee was satisfied with the outcomes of the audit which noted no issues of concern.
Property sales	The group generated proceeds from the sale of existing housing properties of £58.8m in the year to 31 March 2022, in addition to £37.0m of first tranche low cost home ownership sales and £13.6m of outright sales. Overall surplus across these categories was £33.5m. The external auditor undertook testing to assess areas including the systems and controls over development of shared ownership first tranche and staircasing sales, outright sales, RTB and RTA sales and other sales and reviewed the carrying value of the group's work-in-progress at the year-end to ensure it is stated at its selling price less costs to complete and sell. The committee was satisfied with the outcomes of the audit which noted no issues of concern.
Pensions	Bromford participates in two LGPS pensions schemes and the Bromford defined pension scheme. At 31 March 2022 the valuations of the schemes rely on a number of actuarial assumptions, which are approved by Bromford. Management gave assurances to the committee that the actuaries used appropriate assumptions and are derived on a consistent basis, year on year. The external auditor noted the financial statements show balances and disclosures in line with the actuarial reports. The external auditor compared the asset split for the group's share of the scheme assets against the total asset split of the pension schemes and found no significant variances. The committee was satisfied that the appropriate assumptions were within a reasonable range.
New homes development	During the year new developments are capitalised by the group. COVID-19 has impacted on development progress in the current year and in terms of access to existing properties to complete works. The group delivered 1,224 new units during 2021/22. The external auditor tested a number of areas including the key controls over the approval and recording of development expenditure and disposals, including development appraisal assumptions and assessed the accounting policies for capitalising development overheads and interest on loans. The committee was satisfied with the outcomes of the audit which noted no issues of concern.

In addition to fulfilling its key responsibilities the committee reviewed the following topics

Area of focus	**Committee action**
Internal auditor	Considered internal audit reports presented to the committee and satisfied itself that management resolved or was in the process of resolving any outstanding issues or actions. Satisfied itself that management has adequate controls over the process for resolving issues and actions arising. Reviewed and approved the internal audit plan and approach for 2022 to 2023.
External auditor	Reviewed the proposed audit plan for the 2021 to 2022 audit, including the key audit risks, audit report from Beever and Struthers on the financial statements and the areas of particular focus for the 2021 to 2022 audit. Assessed the effectiveness of the external auditor and made a recommendation to the Board for the reappointment of Beever and Struthers as the external auditor.
Transformation governance	With an ongoing transformation programme underway, the committee continues to receive regular updates in relation to the governance and risk management in the programme.
Financial crime	Approved the revised anti-money laundering (AML) policy. Approved the AML officer appointment. Monitored fraud reporting and incidents of whistleblowing, including a review of the adequacy of the whistleblowing processes and procedures, prior to reporting to the Board on this activity.
Landlord compliance	The committee continues to receive regular updates in relation to landlord compliance performance. Oversight of the completion of the landlord compliance controls framework, including data reconciliations.
Information security and resilience	Received updates throughout the year on the outcomes of penetration and vulnerability testing, the committee noted that good progress had been made.
Risk management and internal reviews	Endorsed the risk management policy prior to recommending Board approval. The committee noted ongoing improvements to the internal controls and risk management systems. Reviewed the risk appetite statement. Reviewed the second line assurance reports and had oversight of the closure of material actions. Approved the second line assurance plan for 2022/23.
Internal review plan	Reviewed and approved the schedule of internal review activity undertaken by the risk and health and safety business assurance function.
Trading updates	Received and approved Bromford market trading updates.

Financial review (5-year summary)

Income and Expenditure £'000s	**2018**	**2019**	**2020**	**2021**	**2022**
Turnover	46,492	53,540	74,119	72,852	71,168
Operating costs and cost of sales	(30,194)	(35,195)	(50,198)	(43,795)	(39,526)
Surplus on disposal of assets	3,213	1,407	4,588	1,857	5,140
Change in valuation of investment properties	-	-	713	529	1,265
Operating surplus	**19,511**	**19,752**	**29,222**	**31,443**	**38,047**
Gift on acquisition	-	60,669	-	-	-
Net interest charge and other finance costs and fair value adjustments	(4,404)	(4,460)	(9,211)	(9,910)	(9,935)
Surplus for the year after taxation	**15,107**	**75,961**	**20,011**	**21,533**	**28,112**

Statement of Financial Position £'000s	**2018**	**2019**	**2020**	**2021**	**2022**
Housing properties at cost less depreciation	202,731	417,873	448,781	464,577	483,465
Other tangible fixed assets, intangible fixed assets, investments and long-term debtors	29,850	34,352	18,999	20,570	22,606
Net current assets	46,870	4,336	48,091	53,252	60,443
Total assets less current liabilities	279,451	456,561	515,871	538,399	566,514
Loans due after one year	(150,958)	(163,142)	(163,232)	(162,979)	(162,612)
Unamortised grant	(7,971)	(10,760)	(11,176)	(11,411)	(11,185)
Other long term liabilities and provisions	(33,482)	(122,188)	(156,789)	(156,260)	(149,061)
Total net assets	**87,040**	**160,471**	**184,674**	**207,749**	**243,656**
Total reserves	**87,040**	**160,471**	**184,674**	**207,749**	**243,656**

Income and expenditure

The surplus for the financial year was £28.1m (2021: £21.5m). The majority of income 94.1% (2021: 91.6%) is derived from rents and service charges and we are not dependent upon income from asset disposals.

Shared Ownership

Shared ownership sales income for the year was £3.2m (2021: £6.1m). We sold 28 homes at an average 100% sales value of £266k (2021: 60 homes, 100% value: £246k). The average first tranche share sold increased to 42% (2021: 41%).

Costs

Cost control is a core deliverable across the business. Our social housing letting operating margin of 48% (2021: 43%) and overall operating margin before asset sales of 46% (2021: 34%) remain strong. The focus on operating margin is a central part of our Value for Money framework, evidencing not just the cost of what we do but its effectiveness and the outcomes we achieve for our customers.

Over the last year we have seen a decrease of £2.9m (7.2%) in our total operating costs per the Statement of Comprehensive Income from £39.8m in the previous year to £36.9m this year.

Disposals

The gain on disposal of property assets has increased in the year to £5.1m (2021: £1.9m) The increase is due to the increase in of the number of void properties sold, the profit recognised on the disposal of these properties is £3.5m.

Balance sheet

Fixed assets

Details of the movements in fixed assets during the year are set out in notes 11, 14 and 15 to the financial statements.

Sales exposure

We have no completed shared ownership units in inventory at the year end (2021: £nil).

Investment in our homes

This year we invested £20.8m in major repair and refurbishment programmes (2021: £12.3m) and £6.1m in new homes (2021: £10.4m).

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.
- We have accounted for depreciation of assets on a straight-line basis; the depreciation basis is reviewed regularly for each class of asset. During the year we have revised the useful economic life of motor vehicles as follows; motor vehicles have been adjusted to six years with a 20% residual value rather than a mix of three to six years and between 0-20% residual value as previously used.
- All of Merlin's debt financial instruments are classified as basic.

Further details of key estimations can be found within our accounting policies on pages 28 to 30.

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.

	2021-22	**2020-21**
Borrowing	£306m	£306m
Undrawn facilities	£190m	£190m
Cash and cash equivalents	£90.3m	£63.3m
Fixed rate borrowing	100%	100%
Cost of borrowing	3.4%	3.4%
Interest cover covenant	2.9 times	2.9 times
Debt per unit	£16k	£18k

Cash and liquidity

Rigorous control of cash is a key focus for us. Operating cash flow was again strong at £62.3m (2021: £56.2m) and represents 164% (2021: 177%) of operating surplus, an excellent cash conversion performance. Cash balances are invested at group level with Merlin holding £90.3m (2021: £63.3m) at year-end. The increase is due to surplus funds generated from primary activities.

Facilities and funding

External loans are £163m (2021: £163m). Facilities have remained stable over the year. Intra-group on-lending also remained stable at £143m (2021: £143m).

Undrawn facilities are revolving credit facilities (RCFs) which provide flexibility and assist in mitigating the cost of carrying excess funds. At the year-end, £190m (2021: £190m) of RCFs with Lloyds were undrawn.

We use fixed rate borrowings to manage our exposure to increases in interest rates and 100% of our drawn borrowings are at fixed rates (2021: 100%) to lock in low interest rates.

The average cost of borrowing is 3.4% (2021: 3.4%). This has remained consistent with the prior year.

Covenants

We have considerable capacity on both our interest cover and asset gearing covenants and they do not limit our activities.

2. 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.

3. Value for money (VfM)

Details of Bromford's VfM performance are summarised in the Annual Report and Accounts of BHG.. The Regulator for Social Housing metrics for Merlin as a standalone entity are shown below.

Sector metrics

Ref	Metric Name	**2018**	**2019**	**2020**	**2021**	**2022**
1	Reinvestment %	18.0%	14.9%	8.1%	5.2%	4.7%
2A	New supply delivered (Social housing units) %	2.3%	2.3%	2.5%	1.7%	0.9%
2B	New supply delivered (Non-social housing units) %	0.0%	0.0%	0.0%	0.0%	0.0%
3	Gearing %	43%	53%	52%	47%	40%
4	EBITDA MRI	300%	321%	212%	267%	233%
5	Headline Social housing cost per unit (£000s)	3.74	2.80	3.53	3.08	3.45
6A	Operating Margin (social housing lettings) %	35%	35. %	34%	43%	48%
6B	Operating Margin (overall) %	35%	37%	33%	34%	46%
7	ROCE	7.0%	4.3%	5.7%	5.8%	6.7%

The metrics show another strong performance with operating margins at 48% for social housing lettings (2021: 43%) and 46% overall (2021: 34%).

Reinvestment has reduced as development of new properties is now largely taking place in Bromford Housing Association (a fellow subsidiary within the Bromford group), this also explaining new supply delivered reducing from 1.7% to 0.9%. Gearing decreased from 47% to 40% and interest cover decreased to 233% (2021: 267%), the former driven by a higher year end cash position compared to the previous year. EBITDA MRI has reduced due to the increase in major repairs capitalised compared to the prior year.

Headline social housing cost per unit increased compared to 2021 as a result of returning to business as usual as COVID restrictions eased.

Public benefit entity

As a public benefit entity, MHS 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 is responsible for preparing the Annual Report and the association financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Societies Act 2014 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
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

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.

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.

Going concern

The Board, after reviewing the association's budget for 2022 to 2023 and the group 's medium term financial position as detailed in the 30-year business plan is of the opinion that, taking account of severe but plausible downsides, the association has 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.

Viability statement

As required by the provisions of the UK Corporate Governance Code, the Board has undertaken an assessment of the future prospects of the association taking into account its current position and principal risks. The assessment includes changes arising from the challenges to the sector as the covid pandemic and associated restrictions come to an end including rapidly increasing energy prices, supply chain shortages and rising material costs.

This assessment was made using the following core business processes:
Thirty year business plan (the 'plan') – the Board reviews each iteration of the plan during the year as part of its strategic planning process, the most recent business plan was approved in May 2022. 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 group ensuring funding is secured in accordance with Bromford's treasury policy. Current available cash and unutilised loan facilities are over £500m which gives significant headroom for committed spend and other forecast cash flows that arise.

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. 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 Bromford is viable beyond its usual development commitment timeframe.

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

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. 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.

Appointment of Auditor

Beever and Struthers have indicated their willingness to continue in office and will be proposed for re-appointment in accordance with the Companies Act 2006 s.485.

This report was approved for issue by the Board on 26 July 2022 and signed on its behalf by:

Steve Dando

Chair

Independent Auditor's Report to Merlin Housing Society Limited

Opinion

We have audited the financial statements of Merlin Housing Society Limited (the association) for the year ended 31 March 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves and the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies in note 1. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2022 and of the association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We were first appointed as auditor of Merlin Housing Society Limited by the Board for the period ending 31 March 2021. The period of total uninterrupted engagement for the association is for two financial years ending 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the association in accordance with, UK ethical requirements including the FRC Ethical Standard. No non-audit services prohibited by that standard were provided.

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

Materiality for the financial statements as a whole was set at £1,423,360, determined with reference to a benchmark of Turnover (of which it represents 2%). We consider turnover to be the most appropriate benchmark and more appropriate than a profit-based benchmark as the association is a not-for-profit organisation and the focus is on turnover rather than any surpluses, which are reinvested in the association.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £71,168, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Key Audit Matters

Recoverability of stock and work in progress

<u>The risk – significant risk medium value</u>

The association recorded turnover from properties developed for first tranche shared ownership sale of £3.2m (2021: £6.1m). Other property sales (such as staircasing, RTB and asset disposals) generated a surplus of £5.1m (2021: £1.9m). At 31 March 2022, the association held no unsold properties within current assets (2021: £nil). There was no work in progress in relation to properties being developed for sale but still under construction at 31 March 2022 (2021: £0.6m). Refer to page 34 (accounting policies) and page 47 (financial disclosures).

<u>Our response</u>

Our procedures included the following tests of detail:

- **Test of detail:** Agreeing the calculation of the surplus on sale for a sample of sales in the period**.**
- **Assessment of recoverability:** For a sample of development schemes, we reviewed the carrying value of the association's stock and work-in-progress at the year-end including the financial appraisals of each scheme. This

included testing on a sample basis the expected profitability of the current schemes and reviewing post year-end sales of properties held in stock at 31 March 2022.

Our results

We found no evidence that the year-end balance of stock and work in progress is overstated at the year end.
Our review of schemes under development did not identify any indication of work in progress that required provision or impairment write down.
We found no errors in the calculation of surplus on sale of properties.

Valuation of defined benefit pension obligations

The risk – significant risk high value

The association participates in one defined benefit pension scheme, the Avon Pension Fund. The actuaries of the scheme valued the pension liabilities for Section 28 of FRS 102 purposes, the net pension liability on this scheme at 31 March 2022 is £4,120k.

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

Refer to page 35 (accounting policies) and pages 55-59 (financial disclosures).

Our response

Our procedures included the following:

- **Assessing the credentials of the scheme's actuaries:** We reviewed the credentials of the scheme actuaries 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 their valuation.
- **Confirmation of value:** We challenged, with the support of our own actuarial expert, the key assumptions and actuarial methodology applied, including the discount rate, inflation rate and mortality/life expectancy.
- **Test of detail:** We agreed the relevant accounting entries and disclosures in the financial statements to the report prepared by the scheme actuaries.

Our response

We confirmed that the assumptions used in the calculation of the balances in the financial statements are within reasonable parameters and are in line with the recommendations of the scheme's actuaries. We are satisfied that whilst there is some uncertainty in relation to the pension scheme valuation due to the current economic conditions, this does not impact on the true and fairness of the financial statements.

Treasury management and going concern

The risk – significant risk high value

The association posted a full year surplus of £28.1m before actuarial movements on pension schemes (refer to page 28 (accounting policies) and page 24 (financial disclosures)).
At 31 March 2022 the association had borrowings of £162.7m (refer to pages 35-36 (accounting policies) and page 49 (financial disclosures)).
The risk is that the association might have insufficient liquidity to finance its significant development programme, or might breach a funding covenant set out within the agreements in place with a range of funders.

Our response

Our procedures included the following:

- **Assessment of recoverability:** Reviewed the association's 2022/23 budget and longer-term financial forecasts, and the underlying assumptions, to assess the association's ability to service and repay the debt. We also reviewed the stress testing performed by the association on its long-term financial plan.
- **Confirmation of value:** Agreed loan balances to the accounting records and to external confirmation from the funders.

- **Test of detail:** Tested the detailed calculations for loan covenant compliance prepared by management, both for the year ended 31 March 2022 and projected future performance.

Our results
Our audit work concluded that all loan covenants were comfortably met at 31 March 2022. We confirmed that the association held cash reserves of £90.3m at 31 March 2022 and had undrawn loan facilities of £190.0m. The association also has access to onlending from Bromford Housing Group Limited, which held cash reserves of £302.9m at 31 March 2022 and had undrawn loan facilities of £337.7m. This available funding is sufficient to meet committed capital expenditure at 31 March 2022.

Forecast performance at 31 March 2023 shows a similar position, with group gearing and interest cover forecast to be 39% and 305% respectively, against covenant limits of 67% and 110% respectively.

We concluded that across a range of stress testing scenarios carried out on its longer-term financial forecasts, including those linked to the current economic conditions, the group and association remains comfortably within its funding covenants.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Other information
The other information comprises the information included in the Strategic Report, other than the financial statements and our Auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

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

Corporate governance disclosures

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the entity's voluntary compliance with the provisions of the UK Corporate Governance Code.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 17;
- Directors' explanation as to their assessment of the association's prospects, the period this assessment covers and why the period is appropriate set out on page 18;
- Director's statement on whether it has a reasonable expectation that the association will be able to continue in operation and meets its liabilities set out on page 18;
- Directors' statement on fair, balanced and understandable set out on page 17;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 10 - 11;
- Section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 13; and;
- Section describing the work of the audit and risk committee set out on pages 11 - 13.

Responsibilities of the Board
As explained more fully in the Statement of Board's Responsibilities set out on page 17, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the association or to cease operations, or have no realistic alternative but to do so.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

In identifying and addressing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of laws and regulations that affect the association, focusing on those that had a direct effect on the financial statements or that had a fundamental effect on its operations. Key laws and regulations that we identified included the Co-operative and Community Benefit Societies Act, the Statement of Recommended Practice for registered housing providers: Housing SORP 2018, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2019, tax legislation, health and safety legislation, and employment legislation.

- We enquired of the Board and reviewed correspondence and Board meeting minutes for evidence of non-compliance with relevant laws and regulations. We also reviewed controls the Board have in place, where necessary, to ensure compliance.
- We gained an understanding of the controls that the Board have in place to prevent and detect fraud. We enquired of the Board about any incidences of fraud that had taken place during the accounting period.
- The risk of fraud and non-compliance with laws and regulations and fraud was discussed within the audit team and tests were planned and performed to address these risks. We identified the potential for fraud in the following areas: laws related to the construction and provision of social housing, recognising the nature of the association's activities and the regulated nature of the association's activities.
- We reviewed financial statements disclosures and tested to supporting documentation to assess compliance with relevant laws and regulations discussed above.
- We enquired of the Board about actual and potential litigation and claims.
- We performed analytical procedures to identify any unusual or unexpected relationships that might indicate risks of material misstatement due to fraud.
- In addressing the risk of fraud due to management override of internal controls we tested the appropriateness of journal entries and assessed whether the judgements made in making accounting estimates were indicative of a potential bias.

Due to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing fraud or non-compliance with laws and regulations and cannot be expected to detect all fraud and non-compliance with laws and regulations.

Use of our report
This report is made solely to the association, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and Section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to 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 for our audit work, for this report, or for the opinions we have formed.

Beever and Struthers
Chartered Accountants
Statutory Auditor

The Colmore Building
20 Colmore Circus Queensway
Birmingham
B4 6AT

Date:

Merlin Housing Society Limited

Statement of Comprehensive Income
For the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Turnover	2,3	**71,168**	72,852
Cost of sales	2	**(2,591)**	(3,996)
Operating costs	2	**(36,935)**	(39,799)
Gain on revaluation of investment properties	13	**1,265**	529
Gain on disposal of property assets	31	**5,140**	1,857
Operating surplus	5	**38,047**	31,443
Interest receivable	6	**2**	24
Interest and financing costs	7	**(9,953)**	(9,987)
Gift Aid		**16**	**52**
Surplus before tax		**28,112**	21,532
Taxation	10	**-**	1
Surplus for the year after tax		**28,112**	21,533
Actuarial gain	33	**7,795**	1,542
Total comprehensive income for the year		**35,907**	23,075

The notes on pages 28 to 60 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 24 to 60 were approved and authorised for issue by the Board on 26 July 2022 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
At 31 March 2022

	Notes	2022 £'000	2021 £'000
Fixed Assets			
Tangible fixed assets - housing properties	11	**483,465**	464,577
Investment properties	13	**15,851**	14,586
Tangible fixed assets - other	14	**6,743**	5,942
Intangible Fixed Assets	15	**12**	42
		506,071	485,147
Current Assets			
Stocks	16	**159**	848
Trade and other debtors	17	**4,403**	8,469
Investments	18	**2,450**	2,495
Cash and cash equivalents	19	**90,340**	63,297
		97,352	75,109
Creditors: Amounts falling due within one year	20	**(36,909)**	(21,857)
Net current assets		**60,443**	53,252
Total assets less current liabilities		**566,514**	538,399
Creditors - Amounts falling due after more than one year			
Loans	21	**(162,612)**	(162,979)
Deferred Capital Grant	22	**(11,185)**	(11,411)
Other Creditors	21	**(144,138)**	(144,070)
		(317,935)	(318,460)
Provisions for liabilities			
Pension liability	33	**(4,120)**	(11,287)
Other provisions	24	**(803)**	(903)
Total net assets		**243,656**	207,749
Reserves			
Called up share capital	25	**-**	-
Income and Expenditure Reserve		**241,680**	205,773
Restricted Reserve		**1,976**	1,976
Total reserves		**243,656**	207,749

The notes on pages 28 to 60 form an integral part of these financial statements.

The financial statements on pages 24 to 60 were approved and authorised for issue by the Board on 26 July 2022 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
At 31 March 2022

	Restricted reserve	Income and Expenditure Reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2020	1,976	182,698	**184,674**
Surplus for the year	-	21,533	**21,533**
Actuarial gain on defined benefit scheme		1,542	**1,542**
Total comprehensive income for the year	-	23,075	**23,075**
Balance at 31 March 2021	1,976	205,773	**207,749**
Surplus for the year	-	28,112	**28,112**
Actuarial gain on defined benefit scheme		7,795	**7,795**
Total comprehensive income for the year	-	35,907	**35,907**
Balance at 31 March 2022	1,976	241,680	**243,656**

The notes on pages 28 to 60 form an integral part of these financial statements.

Merlin Housing Society Limited

Statement of Cashflows
At 31 March 2022

	2022		2021	
	£'000	**£'000**	£'000	£'000
Net cash generated from operating activities (note 28)		**62,342**		56,182
Cashflow from investing activities				
Purchase of tangible fixed assets - new housing properties	**(6,990)**		(15,615)	
Purchase of tangible fixed assets - other	**(1,098)**		(1,644)	
Purchase of tangible fixed assets - existing housing properties	**(17,318)**		(12,417)	
Purchase of intangible fixed assets	**(1)**		(4)	
Transfers (to)/from investments	**45**		(1,292)	
Grants received	**-**		(148)	
Interest received	**-**		2	
Net cashflow from investing activities		**(25,362)**		(31,118)
Cashflow from financing activities				
Interest paid	**(9,953)**		(10,453)	
Gift Aid	**16**		52	
Net cashflow from financing activities		**(9,937)**		(10,401)
Net change in cash and cash equivalents		**27,043**		14,663
Cash and cash equivalents at the beginning of the year		**63,297**		48,634
Cash and cash equivalents at the end of the year		**90,340**		63,297

The notes on pages 28 to 60 form an integral part of these financial statements.

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. The registered office is Shannon Way, Ashchurch, Tewksbury, GL20 8ND.

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. The group 's financial statements have been prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2018.

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, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

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

The association's financial statements have been prepared in compliance with FRS102. The association meets the definition of a public benefit entity (PBE).

Going concern

The Board, after reviewing the company budgets for 2022/23 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. 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 association capitalises development expenditure in accordance with the accounting policy described on page 32. 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 association 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.

- **Impairment -** The association 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 association carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The association 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. Further details are given in note 33.

- **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 association 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.

  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 association 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 carrying values was considered necessary.

- **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). The association generates the following material income streams:

Rental income receivable
Rental income receivable is shown net of void losses, rent received in advance is deferred and included in creditors. 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. The surplus or deficit arising on a first tranche sale is shown after deducting the cost of the properties and related sale expenses.

Service charge income

Service charge income and costs are recognised on an accrual basis. The association 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 2. 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 3) and matched against the relevant costs.

Properties developed for outright sales
Sales of properties developed for outright sale are included in turnover and cost of sales on legal completion. The surplus or deficit arising on an outright sale is shown after deducting the cost of the properties and related sale expenses.

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 accruals 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 rate method.

Taxation

The association is registered as a charity with HM Revenue & Customs. By virtue of S.478 Corporation Tax Act 2010, the association is exempt from corporation tax. The association pays corporation tax at the rate applicable on any surplus it generates from non-charitable activities.

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 charge arises as a result of an item recognised as other comprehensive income or recognised directly in equity. In such cases, the 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 association 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 association and is not recoverable. The balance receivable or payable at the year-end is within the current assets or current liabilities.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation.

Housing properties

Cost includes the cost of acquiring land and buildings, directly attributable development costs, interest at the average cost of borrowing for the development period and expenditure incurred in respect of improvements which comprise the modernisation and extension of existing properties. 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
• Bathrooms	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	6 (20% residual value) *
• Fixtures, fittings, plant and equipment	5
• Computer hardware	3
• Office buildings	50

* Revised from 3-6 years previously

Works to existing properties

Works to existing properties has been capitalised when:
A component which has been treated separately for depreciation purposes and depreciated over its useful economic life is replaced or restored; or
Subsequent expenditure provides an enhancement of economic benefits in excess of the previously assessed standard of performance. Such enhancement can occur if the improvements result in an increase in rental income, a reduction in future maintenance costs or a significant extension of the life of the property.
Works to existing properties which do not meet the above criteria have been charged to the statement of comprehensive income as incurred.

Non-component works to existing properties

Expenditure incurred which relates to an improvement, which is defined as an increase in the net rental stream or the life of a property, has been capitalised. Expenditure incurred on other major repairs, cyclical and day-to-day repairs to housing properties is charged to the statement of comprehensive income in the period in which it is incurred.

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. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the period ending 31 March 2022, interest has been capitalised at an average rate of 3.76% (2021: 3.93%) that reflects the weighted average effective interest rate on the group ’s borrowings required to finance housing property developments.

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	2-7

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 Statement of Financial Position.

Investment property

Investment property includes commercial and other properties held by the group for reasons other than social benefit or for use in the business. 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.

Valuation of investments

Investments in subsidiaries are measured at cost less any accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

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.

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. Cost of materials is based on the cost of purchase on an average costing basis. Net realisable value is the estimated selling price less costs to complete and sell.

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

Cash and cash equivalents

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

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 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.

Defined Contribution Pensions

The association provides a defined contribution stakeholder pension scheme for employees not included in the defined benefit scheme. The employer contribution to the scheme is charged to the Statement of Comprehensive Income as it becomes payable. The assets of the scheme are kept separately from those of the association.

Defined Benefit Pensions

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 association has a participating interest.

The association 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. Remeasurement of the net assets/defined liability are recognised in other comprehensive income. Defined benefit schemes are funded in separate trustee administered funds.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained triennially and are updated at each reporting date.

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.

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 rate 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:

- Cash is held at cost;
- Financial assets such as current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest rate method;
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest rate method;
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest rate 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:

- The best evidence of fair value is a quoted price in an active market;
- 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;
- 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:

- All equity instruments regardless of significance; and
- 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:

- 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;
- 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.

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.

Carrying Amounts

The carrying amounts of the Society's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

2022

2. Turnover and operating surplus	Note	Turnover	Cost of sales	Operating costs	Gain on revaluation of investments	Surplus on disposal	Operating surplus
		£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings							
Housing accommodation	3	52,994	-	(28,297)	-	-	24,697
Supported housing accommodation	3	10,953	-	(5,097)	-	-	5,856
Shared ownership accommodation	3	1,708	-	(982)	-	-	726
		65,655	-	(34,376)	-	-	31,279
Other social housing activities							
First tranche shared ownership sales		3,237	(2,549)	-	-	-	688
Supported people contract income		493	-	(774)	-	-	(281)
Agency services		147	-	(66)	-	-	81
Sales and development		-	(42)	(616)	-	-	(658)
Other		34	-	(1)	-	-	33
Gain on revaluation of investments		-	-	-	1,265	-	1,265
Gain on disposal of property, plant and equipment		-	-	-	-	5,140	5,140
Non-social housing activities							-
Market rents		514	-	(260)	-	-	254
Sewerage services		-	-	(140)	-	-	(140)
Commercial rents		1,088	-	(702)	-	-	386
Properties developed for outright sale		-	-	-	-	-	-
		71,168	(2,591)	(36,935)	1,265	5,140	38,047

2021

2. Turnover and operating surplus	Note	Turnover	Cost of sales	Operating costs	Gain on revaluation of investments	Surplus on disposal	Operating surplus
		£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings							
Housing accommodation	3	51,905	-	(29,943)	-	-	21,962
Supported housing accommodation	3	10,822	-	(5,894)	-	-	4,928
Shared ownership accommodation	3	1,430	-	(494)	-	-	936
		64,157	-	(36,331)	-	-	27,826
Other social housing activities							
First tranche shared ownership sales		6,093	(4,021)	-	-	-	2,072
Supported people contract income		649	-	(856)	-	-	(207)
Agency services		172	-	(84)	-	-	88
Sales and development		8	(2)	(1,073)	-	-	(1,067)
Other		130	27	(335)	-	-	(178)
Gain on revaluation of investments		-	-	-	529	-	529
Gain on disposal of property, plant and equipment		-	-	-	-	1,857	1,857
Non-social housing activities							-
Market rents		499	-	(211)	-	-	288
Sewerage services		-	-	(114)	-	-	(114)
Commercial rents		1,144	-	(795)	-	-	349
Properties developed for outright sale		-	-	-	-	-	-
		72,852	(3,996)	(39,799)	529	1,857	31,443

3. Income and expenditure from social housing lettings

	2022				2021
	Housing accommodation £'000	**Supported housing for older people and My Place £'000**	**Shared Ownership £'000**	**Total £'000**	Total £'000
Income					
Rent receivable net of identifiable service charge	**51,057**	**8,039**	**1,347**	**60,443**	59,073
Service charge income	**1,714**	**2,868**	**345**	**4,927**	4,620
Charges for support services	**115**	**46**	**10**	**171**	116
Amortised government grants	**108**	**-**	**6**	**114**	343
Other grants	**-**	**-**	**-**	**-**	5
Turnover from social housing lettings	**52,994**	**10,953**	**1,708**	**65,655**	64,157
Expenditure					
Management	**6,095**	**1,724**	**648**	**8,467**	7,656
Service charge costs	**3,825**	**1,140**	**28**	**4,993**	5,034
Routine maintenance	**5,770**	**779**	**16**	**6,565**	10,249
Planned maintenance	**2,553**	**(106)**	**15**	**2,462**	2,837
Major repairs expenditure	**1,517**	**58**	**11**	**1,586**	1,081
Bad debts	**303**	**9**	**(29)**	**283**	80
Depreciation of housing properties	**8,234**	**1,493**	**293**	**10,020**	9,394
Operating expenditure on social housing lettings	**28,297**	**5,097**	**982**	**34,376**	36,331
Operating surplus on social housing lettings	**24,697**	**5,856**	**726**	**31,279**	27,826
Voids	**(529)**	**(302)**	**(4)**	**(835)**	(802)

4. Accommodation - owned, managed and in development

	2022 Number	2021 Number
Under management at the end of the year		
General needs housing - social rent	**9,622**	9,587
General needs housing - affordable rent	**534**	530
Supported housing	**1,801**	1,801
Low-cost home ownership	**476**	451
Leasehold	**712**	706
Units to be remodelled	**41**	54
	13,186	13,129
Under development at the end of the year		
General needs housing - social rent	**106**	-
General needs housing - affordable rent	**-**	24
Supported housing	**-**	-
Low-cost home ownership	**33**	2
Total social housing units	**13,325**	13,155
Non-social housing		
Staff accommodation	**2**	2
Market rent	**86**	86
Commercial	**57**	57
Office and resource	**6**	6
Retained freehold	**94**	94
Total non-social housing units	**245**	245
Total units	**13,570**	13,400
Owned and managed	**13,075**	13,118
Owned and managed by others	**16**	16
Managed for others	**299**	186
Under development	**139**	26
Units to be remodelled	**41**	54
Total Units	**13,570**	13,400
Garages/parking spaces	**2,464**	2,604
Garages not lettable	**93**	98
Total garages	**2,557**	2,702

5. Surplus on ordinary activities

The surplus on ordinary activities is stated after charging	**2022**	2021
	£'000	£'000
Operating lease rentals		
- office land and buildings	**-**	30
- vehicles	**-**	120
Current auditor's remuneration		
- Audit of financial statements	**30**	30

6. Interest receivable and income from investments

	2022	2021
	£'000	£'000
Interest receivable from cash, deposits and intragroup loans	**2**	24

7. Interest payable and similar charges

	2022	2021
	£'000	£'000
Interest on loans, overdrafts and other financing		
Repayable wholly within five years	**616**	874
Repayable wholly or partly in more than five years	**4,684**	4,619
	5,300	5,493
On loans from Bromford Housing Group Limited	**4,380**	4,392
Other finance charges	**135**	335
Amortised net finance costs	**50**	238
	9,865	10,458
Interest payable capitalised on housing properties under construction 3.74% (2021: 3.96%)	**(152)**	(756)
	9,713	9,702
Interest on pension scheme liabilities	**1,379**	1,331
Expected return on employer assets	**(1,139)**	(1,046)
	9,953	9,987

8. Colleague costs

	2022	2021
	£'000	£'000
Wages and salaries	**6,128**	9,103
Social security costs	**580**	811
Other pension costs	**811**	1,324
	7,519	11,238

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

	2022	2021
	No.	No.
Asset management	**118**	157
Central services	**12**	11
Development, construction and sales	**5**	13
Housing management and support	**58**	87
	193	268

A full-time equivalent employee is classed as working a 37.5 hour week.

The 2021 association average number of fulltime equivalent employees have been amended to align reporting categories year on year The details above relate to colleagues directly attributable to Merlin Housing Society. 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 Annual Report and Accounts.

9. Directors' emoluments

Emoluments of directors are paid through Bromford Housing Group Limited and are disclosed in the Group Annual Report and Accounts. Directors’ emoluments are part of the overheads recharged to the association, however they cannot be separately identified.

10. Taxation on surplus on ordinary activities

	2022	2021
	£'000	£'000
Current tax		
UK corporation tax credit on ordinary activities	**-**	-
Over provision in previous years	**-**	(1)
Total current tax	**-**	(1)
Deferred tax		
Origination and reversal of timing differences	**-**	-
Tax on surplus on ordinary activities	**-**	(1)

Total tax reconciliation

	2022	2021
Surplus on ordinary activities	**28,112**	21,532
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**5,341**	4,091
Surplus relating to charitable period	**(5,341)**	(4,091)
Adjustment in respect of prior years	**-**	(1)
	-	(1)

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					
At 1 April 2021	482,612	6,882	23,590	2,154	515,238
Additions	-	5,924	-	174	6,098
Replacement of components	19,263	-	-	-	19,263
Transferred on completion	12,355	(12,355)	4,062	(4,062)	-
Disposals	(997)	-	(839)	-	(1,836)
Components disposed	(912)	-	-	-	(912)
Transfer from group company	-	3,228	-	2,150	5,378
At 31 March 2022	**512,321**	**3,679**	**26,813**	**416**	**543,229**
Depreciation					
At 1 April 2021	50,340	-	321	-	50,661
Charge for the year	9,662	-	-	-	9,662
Disposals	(541)	-	(18)	-	(559)
At 31 March 2022	**59,461**	**-**	**303**	**-**	**59,764**
Net book value					
At 31 March 2022	**452,860**	**3,679**	**26,510**	**416**	**483,465**
At 31 March 2021	432,272	6,882	23,269	2,154	464,577

	2022 £'000	2021 £'000
Housing property net book value in respect of long leaseholds	**4,362**	4,362
Housing property net book value in respect of freeholds	**479,103**	460,215
	483,465	464,577
Component depreciation within the depreciation charge	**7,986**	5,899
Development administration costs capitalised during the year	**165**	13
Aggregate amount of interest and finance cost included within the cost of housing properties	**4,505**	4,353

Properties held for security

Bromford Housing Association - Registered Social Housing Provider - has property pledged as security existing use value for social housing (EUV – SH) and market value subject to tenancy (MV - STT) of £583m (2021: £583m). The number of units on which security was pledged amounted to 9,854 (2021: 9,064).

12. Expenditure on work to existing properties

	2022 £'000	2021 £'000
Replacement of components	**19,263**	11,195
Amounts charged to Statement of Comprehensive Income	**1,586**	1,081
	20,849	12,276

13. Investment properties held for letting

	2022 £'000	2021 £'000
At 1 April	**14,586**	14,057
Gain from adjustment in value		
Commercial investment properties	**182**	195
Market rent investment properties	**1,083**	334
At 31 March	**15,851**	14,586

Investment properties (commercial and market rent) were valued at 31 March 2022 by professional qualified external valuers.

The valuation of investment properties was undertaken by Jones Lang Lasalle Limited, in accordance with the Royal Institute of Chartered Surveyors Valuation Standards. In valuing the properties, the following significant assumptions were applied:

Discount rate	7%-8.5%
Level of long term rent increase	1%

14. Tangible fixed assets – other

	Freehold offices £'000	Fixtures, fittings & Equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2021	8,127	1,105	2,180	806	12,218
Additions	628	290	180	-	1,098
Disposals	(960)	(781)	(1,702)	-	(3,443)
At 31 March 2022	**7,795**	**614**	**658**	**806**	**9,873**
Depreciation and impairment					
At 1 April 2021	2,592	995	2,109	580	6,276
Charge for the year	158	52	63	24	297
Released on disposal	(960)	(781)	(1,702)	-	(3,443)
At 31 March 2022	**1,790**	**266**	**470**	**604**	**3,130**
Net book value					
At 31 March 2022	**6,005**	**348**	**188**	**202**	**6,743**
At 31 March 2021	5,535	110	71	226	5,942

15. Intangible fixed assets

	Software £'000	Total £'000
Cost		
At 1 April 2021	1,824	1,824
Additions	1	1
Disposals	(1,531)	(1,531)
At 31 March 2022	**294**	**294**
Depreciation		
At 1 April 2021	1,782	1,782
Charge for the year	31	31
Disposals	(1,531)	(1,531)
At 31 March 2022	**282**	**282**
Net book value		
At 31 March 2022	**12**	**12**
At 31 March 2021	42	42

16. Stocks and work in progress

	2022 £'000	2021 £'000
Consumable stock	**159**	272
Cost of first tranche element of shared ownership properties	**-**	576
	159	848
Shared ownership properties		
Completed	**-**	-
Under construction	**-**	576
	-	576

17. Trade and other debtors

	2022	2021
	£'000	£'000
Amounts falling due within one year		
Rent arrears	3,042	1,867
Less: provision for bad debts	(1,478)	(1,172)
	1,564	695
Trade debtors	3	-
Amounts due from group companies	-	3,952
Other debtors	2,458	3,421
Prepayments and accrued income	378	401
	4,403	8,469

18. Current asset investments

	2022	2021
	£'000	£'000
Opening fair value at 1 April	2,495	1,181
Additions to investments	-	1,292
Withdrawals from investments	(46)	-
Interest	1	22
Fair value at 31 March	2,450	2,495

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

19. Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash at bank	90,340	63,297
	90,340	63,297

Included in the above are balances totalling £304k (2021: £304k) which are held in trust for shared ownership leaseholders.

20. Creditors: amounts falling due within one year	**2022**	2021
	£'000	£'000
Prepaid rental income	**3,664**	2,682
Local Authority RTB share of proceeds	**2,012**	1,817
Trade creditors	**1,936**	861
Amounts due to group companies	**20,825**	8,653
Social security and other taxes	**129**	180
Funds held on trust	**2**	1
Deferred capital grant	**118**	119
Recycled capital grant fund	**72**	122
Other creditors	**1,135**	1,396
VAT shelter liability	**84**	84
Accruals and deferred income	**6,932**	5,942
	36,909	21,857

21. Creditors: amounts falling due after more than one year	**2022**	2021
	£'000	£'000
Loans	**162,612**	162,979
Loans due to group companies	**143,000**	143,000
Leaseholder sinking funds	**956**	936
Deferred capital grant	**11,185**	11,411
Recycled capital grant fund	**182**	134
	317,935	318,460
Loan repayment profile		
Repayable within one year	**-**	-
Repayable between one and two	**-**	-
Repayable between two and five years	**-**	-
Repayable after five years	**162,700**	163,117
Less: Loan finance costs	**(88)**	(138)
	162,612	162,979

The interest risk profile of loan liabilities are as follows	**2022**	2021
	£'000	£'000
Floating rate	**-**	-
Fixed rate - average 3.40% (2021: 3.40%)	**162,700**	163,117
	162,700	163,117

Undrawn committed borrowing facilities (all secured) at 31 March were	**2022**	2021
	£'000	£'000
Expiring within one year	**-**	-
Expiring between one and two	**-**	-
Expiring between two and five years	**190,000**	190,000
Expiring after five years	**-**	-
	190,000	190,000

22. Deferred capital grant	**2022**	2021
	£'000	£'000
At 1 April	**11,530**	11,302
Grants received in year	**-**	128
Transferred to third party	**-**	(276)
Transferred to group company	**(119)**	-
Recycled to Recycled Capital Grant Fund	**(117)**	(7)
Recycled Capital Grant Funds utilised	**119**	-
Disposal Proceeds Funds Utilised	**-**	445
Amortised in year	**(110)**	(62)
At 31 March	**11,303**	11,530
Amount due to be released within one year	**118**	119
Amount due to be released in more than one year	**11,185**	11,411
	11,303	11,530

23. Other capital grant funds	**2022**	2021
	£'000	£'000
At 1 April	**256**	694
Inputs to reserve		
Grants recycled	**117**	7
Interest accrued	**-**	-
Utilised		
New build	**(119)**	(445)
	254	256
Amounts due within one year	**72**	122
Amounts due after more than one year	**182**	134
	254	256
Amount three years or older where repayment may be required	**-**	97*

*Consent has been given by Homes England for use in 2022 to 2023

24. Provision for liabilities and charges	**£'000**
At 1 April	903
Additions in year	94
Utilised in year	(194)
At 31 March	**803**

25. Share Capital	2022	2021
	£	£
Issued and fully paid (nominal value £1 each)		
At 1 April	**28**	30
Issued during the year	**3**	2
Cancelled during the year	**(5)**	(4)
At 31 March	**26**	28

The share capital of the association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. The shares are non-withdrawable and non-transferable. When a shareholder ceases to be a shareholder, the share is cancelled and the amount paid up becomes the property of the association.

26. Reserves

Income and expenditure reserve - represents the net surplus which is not restricted.

Restricted reserve - under the terms of an agreement with South Gloucestershire Council, a proportion of the proceeds from disposal of vacant dwellings is to be held in a reserve. The reserve is used, inter alia, for the provision of affordable housing within the council area. This arrangement commenced in the financial year 2016 to 2017.

27. Analysis of changes in net debt	At 1 April 2021 £'000	Cashflows £'000	Amortisation of premium / loan costs £'000	At 31 March 2022 £'000
Cash at bank and cash equivalents	63,297	27,043	-	**90,340**
Short term investments	2,495	(45)	-	**2,450**
	49,815	26,998	-	**92,790**
Other loans				
Loans due within one year	-	-	-	**-**
Loans due after more than one year	(162,979)	367	-	**(162,612)**
Change in net debt resulting from cashflows	(113,164)	**27,365**	**-**	**(69,822)**

28. Cash flow from operating activities	**2022**	2021
	£'000	£'000
Surplus for the year	**28,112**	21,533
Adjustments for non-cash items		
Depreciation of tangible fixed assets	**9,959**	9,863
Amortisation of intangible assets	**31**	38
Amortisation of government grant	**(110)**	(62)
Decrease in stock	**689**	2,705
Decrease/(increase) in trade and other debtors	**116**	(549)
Increase/(decrease) in trade and other creditors	**1,671**	(474)
Increase in intergroup balances	**10,746**	11,472
(Decrease)/increase in provisions	**(100)**	375
Pension costs less contributions payable	**388**	285
Carrying amount of tangible fixed assets disposals	**2,070**	1,615
Adjustments for investing or financing activities		
Movement in value of investment property	**(1,265)**	(529)
Interest payable	**10,053**	9,987
Interest receivable	**(2)**	(24)
Gift Aid	**(16)**	(52)
Taxation	**-**	(1)
Net cash generated from operating activities	**62,342**	56,182

29. Capital commitments

	2022	2021
	£'000	£'000
Capital expenditure contracted for but not provided for in the financial statements	**11,204**	7,148
Capital expenditure authorised by not yet contracted for	**-**	541

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	**675**	610
Proceeds from the sale of properties	**-**	789
Loans and reserves	**10,529**	6,290
	11,204	7,689

30. Grant and financial assistance

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

	2022	2021
	£'000	£'000
Held as deferred capital grant	**11,303**	11,530
Recognised as income in Statement of Comprehensive Income	**16,204**	16,094
	27,507	27,624

31. 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	**1,555**	**(1,126)**	**429**	**-**
Right to buy	**2,373**	**(2,351)**	**22**	**-**
Right to acquire	**1,323**	**(132)**	**1,191**	**-**
Other property disposals	**3,672**	**(174)**	**3,498**	**117**
Total 2022	**8,923**	**(3,783)**	**5,140**	**117**
Total 2021	4,143	(2,736)	1,857	-

32. Related party transactions

There were gift aid receipts in the year as follows

	2022 £'000	2021 £'000
Oakbrook Limited	**16**	52

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

	2022 £'000	2021 £'000
Administrative recharges	**55**	55
Property purchase	**2**	792
	57	847

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

	2022 £000	2021 £000
Included within creditors due within one year	**141**	251

Bromford Housing Group Limited and its subsidiaries has indemnified its Board Members, Executive Team, directors and employees for insurance cover no longer provided within its current directors’ and officers’ liability insurance for the year ending 31 March 2023. The maximum exposure across the group for this indemnity is £10 million and expires on 31 March 2023. This is described in more detail in note 35.

33. Pension obligations

During the year the association participated in one defined benefit scheme, the Avon pension fund (LGPS), which is a multi-employer defined benefit scheme.

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 2022	At 31 March 2021
	£’000	**£’000**
Creditors due less than one year		
Royal London DC scheme	(21)	(33)
	(21)	(33)
Provisions for Pensions		
Avon pension fund (LGPS)	(4,120)	(11,287)
	(4,120)	(11,287)

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 2022 by a qualified independent actuary.

Contributions for year ended 31 March 2022:

	£'000
Employee	161
Employer	825
Total	**986**
Agreed contribution rates for future years:	
Employer	21.7% – 32.8%
Employee	In line with local government pension scheme regulations

Principal actuarial assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2019 updated to 31 March 2022 by a qualified independent actuary:

	At 31 March 2022	At 31 March 2021
Rate of inflation – CPI	3.10%	2.95%
Rate of increase for pensions in payment	3.10%	2.95%
Rate of increase in salaries	3.10%	2.95%
Discount rate for scheme liabilities	2.75%	2.20%

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 2022**	At 31 March 2021
Current pensioners (years)	21.5	21.5
Future pensioners retiring in 20 years (years)	22.5	22.5
Females		
Current pensioners (years)	23.5	23.8

Future pensioners retiring in 20 years (years)	24.8	25.4

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 2022 **£'000**	At 31 March 2021 £'000
Fair Value of fund assets	58,443	51,805
Present value of defined benefits obligations	(54,323)	(63,092)
Pension deficit	**(4,120)**	**(11,287)**

The fair value of the assets:

	31 March 2022 **£'000**	31 March 2021 £'000
Equities	14,015	12,278
Government Bonds	4,237	4,611
Other Bonds	22,490	21,810
Property	2,282	2,383
Cash	543	984
Other	10,756	9,739
Total fair value of assets	**54,323**	**51,805**

Reconciliation of Assets and Liabilities

Reconciliation of assets at 31 March 2022:

	£'000
Assets at start of period	51,805
Interest on plan assets	1,139
Re-measurements	1,444
Administration expenses	(15)
Employer contributions paid	825
Employee contributions	161
Benefits paid	(1,036)
Assets at end of period	**54,323**

Total return on plan assets 1 April 2021 to 31 March 2022	**4.8%**

Reconciliation of liabilities at 31 March 2022:

	£'000
Liabilities at start of period	63,092
Service Cost	987
Interest Cost	1,379
Employee contributions	161
Re-measurements	(6,351)
Curtailments	211
Benefits Paid	(1,036)
Liabilities at end of period	**58,443**

Analysis of the amount charged to operating costs in the Statement of Comprehensive Income at 31 March 2022:

	£'000
Employer service cost (net of employee contributions)	987
Expenses (including service charge and curtailments)	226
Total operating charge	**1,213**
Analysis of pension finance income/(costs)	
Expected return on pension scheme assets	1,139
Interest on pension liabilities	(1,379)
Amounts (charged) / credited to financing costs	**(240)**

Analysis of gains and losses recognised in the Statement of Comprehensive Income at 31 March 2022:

	£'000
Actuarial gains on pension scheme assets	1,444
Experience loss on pension scheme liabilities	(79)
Gains from changes in assumptions	6,430
Actuarial gains recognised	**7,795**

Movement in deficit during the year:

	£'000
Deficit in scheme at 1 April 2021	(11,287)
Employer service cost (net of employee contributions)	(987)
Employer contributions paid	825
Pension administration expenses	(15)
Curtailments	(211)
Net interest/return on assets	(240)
Re-measurements	7,795
Deficit in scheme at 31 March 2022	**(4,120)**

The notes below are taken from a report prepared by Mercer Limited, the actuaries for the Avon LGPS fund.

Guaranteed Minimum Pension (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 had already launched a consultation on the issues surrounding GMP equality and increases on GMPs and 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".

The clear implication is that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is 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 and so, unless instructed otherwise, no allowance was made specifically for GMP equalisation in the accounting liabilities. This is consistent with previous accounting disclosures (and the most recent valuation, which holds no explicit reserve for GMP equalisation).

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 2022. Government policy in this area is still to be determined, thus it was concluded that the most consistent/safest approach is to include the additional indexation liabilities in the accounting figures, therefore the figures above include the increase in past service liabilities as a “past service cost” (the schedule of figures will separately identify the element of the past service cost which relates to the GMP increases).

34. Contingent liability

A deed has been entered into by the Board Members of Bromford Housing Group Limited to indemnify its Board Members, Executive Team, directors and employees across Bromford Housing Group Limited and its subsidiaries for insurance cover no longer provided within its current directors' and officers' liability insurance policy. Any claim made would be against the relevant entity with ultimate responsibility for reimbursement being through Bromford Housing Group Limited where required. The maximum exposure across the group for this indemnity is £10 million and it expires on 31 March 2023.

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).

The results of Merlin Housing Society Limited are included in the results of Bromford Housing Group Limited.

Copies of the group financial statements for Bromford Housing Group Limited are available from Shannon Way, Ashchurch, Tewkesbury GL20 8ND.