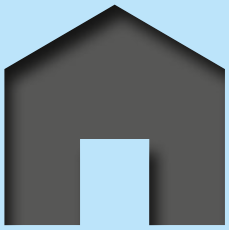
Merlin

www.merlinhs.co.uk



16
17

FINANCIAL
STATEMENTS

NEW HOMES BUILT AT ROYCROFT ROAD THIS FINANCIAL YEAR,
16 AFFORDABLE RENT UNITS IN A MIXTURE OF FLATS AND HOUSES.

SECTION 1

Strategic Report

SECTION 2

Corporate Governance

SECTION 3

Financial Statements

CUSTOMERS OUTSIDE THEIR NEW HOMES BUILT AS PART OF A FLAGSHIP REDEVELOPMENT OF PRECAST REINFORCED CONCRETE PROPERTIES.

SECTION 1

A SNAPSHOT OF OUR BUSINESS

OUR CORE BUSINESS IS THE MANAGEMENT AND MAINTENANCE OF OUR CURRENT HOMES AND INVESTMENT IN NEW ONES.

OUR GOAL IS TO BE **A WORLD CLASS ORGANISATION PROVIDING HOMES IN COMMUNITIES PEOPLE ASPIRE TO LIVE IN.**

8,600
HOMES OWNED OR MANAGED

382
STAFF

18,000
PEOPLE LIVE IN OUR PROPERTIES*

£44m
TURNOVER

* AT 31 MARCH 2017

WE WORK IN THESE LOCAL AUTHORITY AREAS:

THE STORY OF OUR YEAR

GREATER FINANCIAL STRENGTH

36%
OPERATING MARGIN
2% INCREASE FROM LAST YEAR

£48m
INVESTED IN THE LOCAL ECONOMY

1%
RENT ARREARS
MAINTAINED WORLD CLASS PERFORMANCE

£13m
SURPLUS
£2.5m INCREASE FROM LAST YEAR

IMPROVED SERVICES

83%
OF OUR CUSTOMERS SATISFIED WITH ANTI-SOCIAL BEHAVIOUR SERVICES

83%
OF CUSTOMERS SATISFIED THAT RENT IS VALUE FOR MONEY
3% INCREASE FROM LAST YEAR

84%
OF CUSTOMERS ARE SATISFIED WITH OUR OVERALL SERVICES
DOWN **3%** FROM LAST YEAR

INCREASED INVESTMENT

226
REFURBISHED HOMES
55% INCREASE FROM LAST YEAR

421
NEW HOMES UNDER CONSTRUCTION
76% INCREASE FROM LAST YEAR

131
NEW HOMES COMPLETED
66% INCREASE FROM LAST YEAR

31
PEOPLE HELPED TO GET BACK INTO WORK

CHAIRMAN'S INTRODUCTION

I'm delighted to introduce our 2017 Financial Statements, my first as Chair of Merlin. I am proud of what Merlin has achieved, not only in the past year, but over the last three years.

The financial year 2016/17 was the first year of the Government's 1% rent decrease. After the Government's announcement and ahead of the financial year we reviewed our purpose, reconfirmed our core business, and re-doubled our focus on financial resilience.

Despite the challenges of the rent cut and impact of Universal Credit on both Merlin and our customers, we have achieved our highest surplus ever of £13.0m - up from £10.5m last year and £8.8m the year before. This has been achieved by our absolute focus on financial discipline - increasing our operating margin again to 36% (up from 34% last year and 27% the year before), increasing turnover, and keeping an iron grip on our rent arrears at just 1%.

We committed every penny of the surplus back into maintaining our existing homes and building new ones. During the year we invested £21m in developing new homes, completing 131 new affordable homes, an increase of 66% on 2015/16 and, as importantly, increased the number of homes under construction to 421. The 131 homes were built with just £1.5m of grant subsidy. We also invested over £14m in maintaining and upgrading our existing homes including whole house solutions for 226 of our older precast reinforced concrete properties and homes in our Independent Living Community Regeneration Programme.

Our financial framework provides a strong platform from which to raise funding for new homes. In the summer of 2016 we took advantage of the very low gilt rates, executing £35m of long term funding at record lows for a housing association. This together with other elements of our treasury strategy has resulted in Merlin having liquidity of just under £100m at the end of the year.

Our focus on customer satisfaction, specifically delivering quality services for our customers, has remained strong during the year. Overall satisfaction dipped slightly to 84% but satisfaction that rent is value for money increased by 3% to 83%.

During the year we also increased our community investment activities and are particularly proud of establishing the Wellbeing College with partner agencies, helping 31 people back into employment.

The coming financial year will see us continuing to focus on our strategic objectives, increasing further the number of new homes we develop and delivering the start of our 2020 Business Transformation Project whilst navigating further change in our operating environment. In April 2017, elements of deregulation provided us with greater freedoms to deliver our goals. In May Tim Bowles was elected as the first metro mayor to head the new West of England Combined Authority with a clear focus on housing, together with infrastructure and skills. We look forward to working with him, his team and our partner local authorities and to deliver the much needed increase in new homes.

The year concluded with Andrew Frayling stepping down as Chair of Merlin, after five years in the role. Merlin has changed fundamentally during his tenure, as is set out in these Financial Statements, and we wish Andrew well in his new ventures.

I would like to finish by thanking my Board colleagues and the staff for delivering the results that they have, and most importantly the positive impact that our work has had on the lives of our customers.

Vivienne Horton
Chair

OUR BUSINESS MODEL

WE MANAGE AND MAINTAIN AFFORDABLE HOMES AND INVEST IN NEW ONES. OUR VISION IS TO BE A WORLD CLASS ORGANISATION PROVIDING HOMES IN COMMUNITIES PEOPLE ASPIRE TO LIVE IN. OUR CORPORATE PLAN 2015-2019 SETS OUT A STRATEGY FOR ACHIEVING THIS AND HAS FOUR KEY OBJECTIVES TO MEET THIS PURPOSE AND DELIVER THE VISION.

CONTINUOUSLY STRENGTHEN THE ORGANISATION

This requires a combination of commitment to social justice with financial discipline. The focus is on making the right decisions for the long term. However, during the plan surpluses will increase markedly and planned efficiencies and measured risks will help achieve this objective.

Key to this is first class governance and a highly skilled workforce with strong values and behaviours, operating in a safe and supportive environment.

The primary measure of success is an increased surplus

PROVIDE HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME

Two things are vital to the delivery of this objective: effective management of homes and real customer involvement in the shaping and scrutiny of services. We understand that customers will access services at different times and through difference mediums. Reviewing how we operate will help target resources and the work of the Customer Assembly will shape services further. An increase in working in partnership with other agencies also underpins future delivery.

The primary measure of success is customer satisfaction

DELIVER REPAIRS AND MAINTENANCE RIGHT FIRST TIME

Cost effective repairs and maintenance is the most important service we can provide for current customers. This is recognised and clear challenging customer service targets have been set to drive improvement. The focus is on delivering improved services to customers at a competitive price with high levels of satisfaction, achieved through keeping appointments and delivering repairs right first time.

The primary measure of success is customer satisfaction

INVEST RESPONSIBLY IN OUR CURRENT HOMES AND NEW ONES

The focus on current homes is to markedly improve average thermal efficiency through our PRC refurbishment programme and our independent living community regeneration programme. Scrutiny of health and safety data for customer and staff continues to be non-negotiable.

A stepped change will be delivered in the development of new homes largely funded by increased surpluses. The plan sets out sustainable targets for increasing new supply.

The primary measure of success is the delivery of new homes

Critical to delivering our Corporate Plan objectives is understanding our risks, managing our risks and delivering value. Underpinning, and central to everything we strive to achieve, are our values.

OUR VALUES

WE START WITH OUR CUSTOMERS AND WORK BACKWARDS

CUSTOMERS ARE AT THE CORE OF OUR BUSINESS

WE'RE OPEN, HONEST AND KEEP PROMISES

WE ARE ACCOUNTABLE FOR WHAT WE DO

WE AIM HIGH

WE ALWAYS STRIVE TO BE BETTER, DARING TO BE DIFFERENT

WE VALUE PEOPLE AND WORK TOGETHER

THIS IS HOW WE WILL ACHIEVE MUCH MORE

THE MARKET PLACE

THE ECONOMY AND BREXIT

The UK economy has been robust this year and unemployment has fallen to one of the lowest rates in decades. Despite this, wage growth has slowed although inflation has continued to increase.

Britain voted to exit the European Union following a public referendum on the matter in June 2016. The result caused a great deal of uncertainty as the value of the pound dropped and stock markets were impacted.

The Bank of England cut interest rates in August making borrowing conditions more favourable. Low gilt rates increased the value of pension liabilities and pension deficits will continue to be a challenge moving forward.

The triggering of Article 50 in March 2017 commenced the two year process of leaving the EU. The impact of Brexit is not yet clear and won't become so until all the terms of the exit are negotiated and agreed.

Following the referendum result, a new Government was formed. The new Chancellor dropped the fiscal target to achieve a budget surplus by 2019/20. The Chancellor has since renewed commitment to reducing the fiscal deficit through restricting spending increases in order to achieve a surplus as soon as possible.

OUR NEW HOMES AT PARK FARM THORNBURY.

HOUSING SUPPLY

Demand for affordable homes remains high with around 4.5 million people on local authority waiting lists in England and Wales. The Department for Communities and Local Government estimates that 221,000 homes need to be created each year until 2021 to meet the current demand in England.

Affordable housing demand in the south west continues to increase. At the end of 2016/17 there were 8,300 households on the waiting list in Bristol and 4,700 in South Gloucestershire which is our main operating area. It is predicted that the population in the west of England will grow by 16.4% over the next 20 years. Statistics show 21,000 new households are forming each year in the south west but this number of new homes is not being built. The region will also need to contend with an ageing population as people are living longer.

The shortfall in supply and greater availability of mortgage finance has meant that house prices have continued to rise since the market recovery began in 2013. The average house price in the south west is over £256,000 and house prices in the Cotswolds are almost 50% higher. House prices are ten times more than the average salary and prices in rural areas are even higher than urban areas. The average cost of renting has also risen and is now over £700 per month.

WEST OF ENGLAND DEVOLUTION

The West of England Combined Authority (WECA) is comprised of three local authorities in the region - Bath and North East Somerset, Bristol, and South Gloucestershire. The three councils will continue to control delivery of frontline services to their residents. The devolution deal will see in excess of £1bn of investment over the next 30 years in the region focused on housing, skills, transport and infrastructure. The WECA will be chaired by a West of England Mayor, Tim Bowles, who was elected by the public on 4 May 2017 and will oversee strategy in each of these areas.

HOUSING AND PLANNING BILL AND ONS RECLASSIFICATION

In 2015 the housing sector was reclassified by the Office for National Statistics from a private to a public body. As a result, housing debt now appears on the public books. The Government sought to reverse the decision by implementing a number of deregulatory measures which were outlined in the Housing and Planning Act. These measures provide greater freedom to associations in terms of mergers and disposals. In addition, in February 2017 the Housing White Paper was published which set out measures to, amongst other things, boost house building in the UK.

RENT POLICY

The financial year 2016/17 saw the first year of operation with the 2015 rent decrease. This will see a £13 million reduction in our income over the period ending 2020. The Government's white paper sets out plans to consult with providers about a new rent setting formula which we welcome in order to provide income stability for the sector to be able to build the homes the country needs.

WELFARE REFORM

The Government's welfare reforms continue to be rolled out impacting many of our customers. At the end of 2016/17, 60 of our customers were on Universal Credit, with 53 affected by the benefits cap and 397 impacted by the under occupation penalty. Whilst our Income Team are successfully supporting many customers through this, there are further changes ahead. The full roll out of Universal Credit continues across 2018 and 2019 as well as Housing Benefit being restricted to the Local Housing Allowance levels. These new changes will affect up to 2,000 of our customers in the coming years.

OUR PEOPLE

Merlin influences many lives through the quality of homes and related services we provide. In the work we do, each member of our team has significant power; providing a home or a related service enabling customers to build or rebuild their lives. This power carries with it a responsibility to do the best possible job for current and future generations.

We recognise that by working together we will achieve more and make more of a difference.

Without our people we cannot deliver world class service to our customers - we are focused on developing the skills of our current team and ensuring we attract both experienced talent and new and enthusiastic people into our business.

DEVELOPING EXISTING STAFF

Our first two cohorts commenced a Leadership Development Programme in July 2015 and 34 people 'graduated' in March 2017, 31 of whom chose to complete and attained CMI Level 5 as part of the programme. This programme is helping us to create a values driven culture with strong leadership and work towards high levels of employee satisfaction. We will continue to invest in our current and future leaders, with cohort 3 commencing the LDP in 2017.

Our dedicated Learning and Development Team support managers to equip our people with the skills they need. We continue to develop our team at all levels and we completed 1,800 training days during the year - much of it carried out in house.

The team also supports our Health and Safety Team to ensure our people are appropriately trained, supported and audited.

ATTRACTING NEW TALENT

We recruited six new apprentices across the organisation in 2016 and plan to expand this in 2017. We started our first Graduate Programme and will be expanding this in 2017.

We introduced a new Values Based Recruitment Framework to support a values driven culture with strong leadership. We also launched our performance contracts and a Performance Related Pay Scheme in 2016, both a year ahead of target.

The advances we have made over the last three years led to us achieving Investors In People Silver Accreditation in July 2016, almost a year ahead of the target in our Corporate Plan.

GENDER PAY GAP REPORTING

Whilst there is no requirement to publish gender pay gap data until 2018, we decided to start analysing ours now and can report the following based on figures at 31 March 2017:

MEAN PAY GAP	**9.6%**
MEDIAN PAY GAP	**10.7%**

The Office of National Statistics, basing its calculations on data from the Annual Survey of Hours and Earnings, put the overall gender pay gap for all employees in the UK in 2016 at a median of 18.1% (mean is not available).

GENDER SUMMARY

At 31 March 2017, our workforce profile (headcount) was split 52/48 female/male and broken down by salary band (excluding other remuneration) as follows:

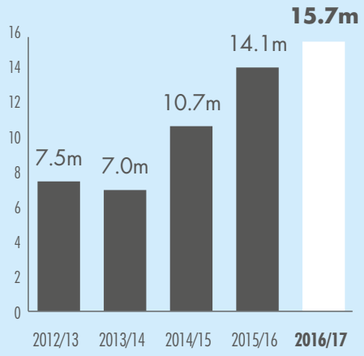
Salary band	Female	Male	Total
0-30k	167	140	307
30-60k	37	46	83
60-100k	3	6	9
Over 100k	1	1	2
Total	**208**	**193**	**401**

WE ACHIEVED IIP SILVER IN JULY 2016 - ALMOST A YEAR AHEAD OF OUR CORPORATE PLAN TARGET.

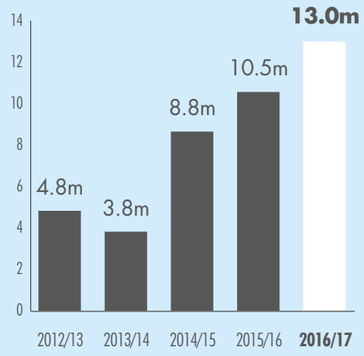
OUR FINANCIAL REVIEW

For the third year running, we are reporting material improvements in our financial results. We increased revenue, operating margin, net surplus and investment capacity during 2016/17. Operating surplus increased to £15.7m (2016: £14.1m), improving our operating margin from 34% to 36%. A net surplus of £13.0m (2016: £10.5m) also improved net margins, with an increase from 25% to 30%.

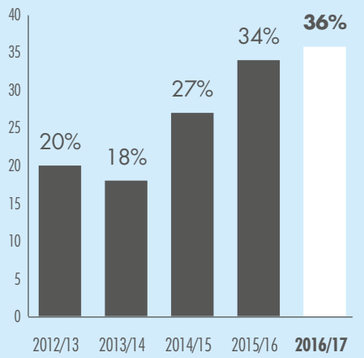
OPERATING SURPLUS
(£m)



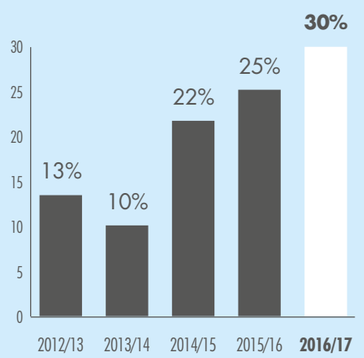
NET SURPLUS
(£m)



OPERATING MARGIN
(% OF TURNOVER)



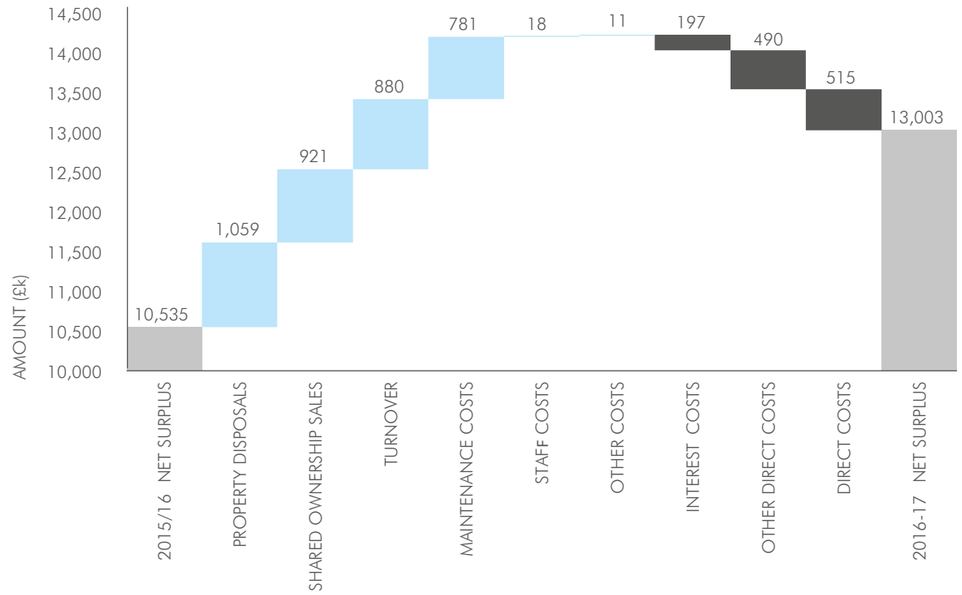
NET MARGIN
(% OF TURNOVER)



Turnover increased by 4.2% overall. The increase consists of an increase in shared ownership sales (2.2%), rents on new housing (1.1%), supported housing (0.9%) and re-lets at affordable and social rent rates (1.0%) offset by the decrease in general needs rents (1.0%).

NET SURPLUS

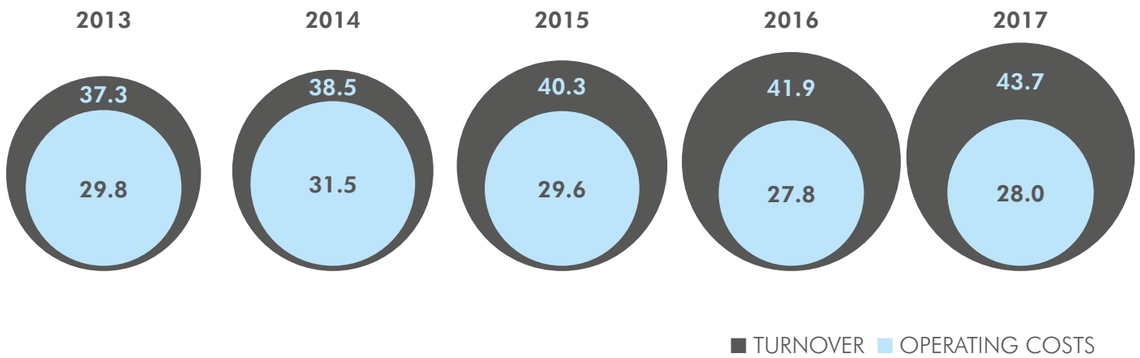
MOVEMENTS IN INCOME AND COSTS



At the same time, the continued focus on cost control has resulted in a further £0.3m (1.2%) decrease in operating costs after adjusting for shared ownership first tranche sale cost. This builds on the £4.0m reduction achieved over the previous two years.

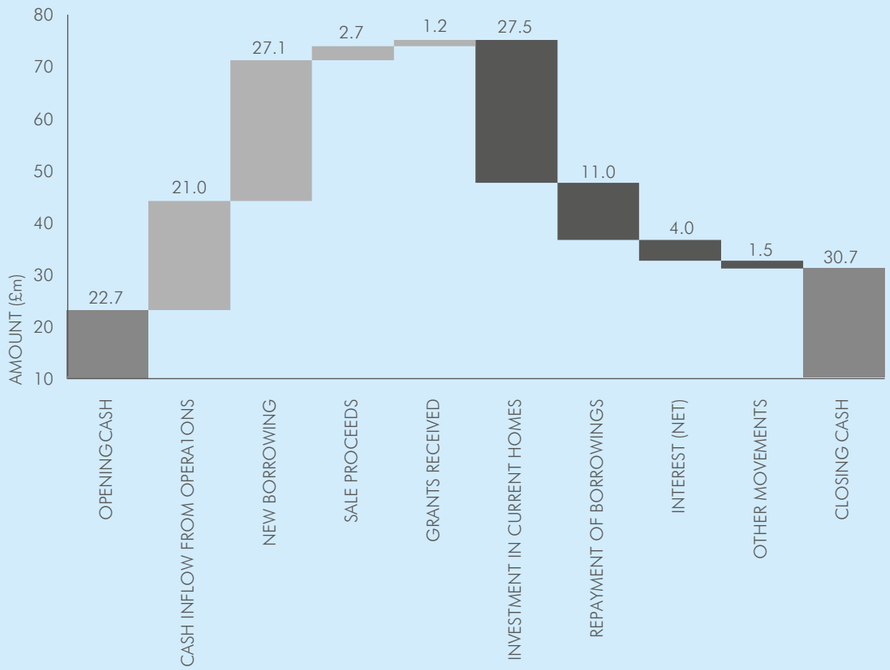
We invested all of the cash generated from operating activities (£21m) into our business. £7m was spent on capital improvements to our existing homes and £21m on building new ones funded from a combination of surplus and new borrowings.

TURNOVER & OPERATING COST (£m)



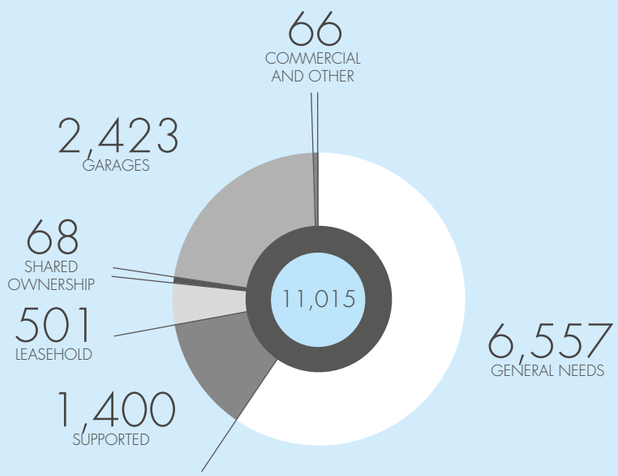
INVESTING IN OUR HOMES

CASH MOVEMENTS



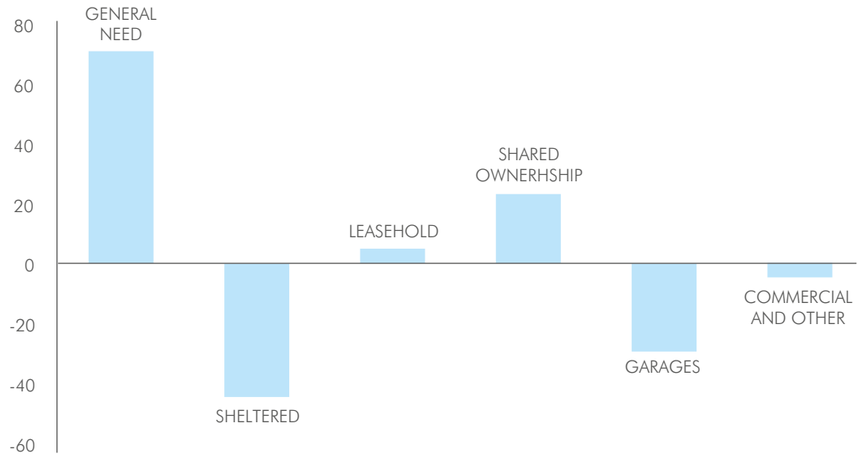
We have increased the overall number of properties in ownership and management through our development activity with 11,015 assets under management (2015/16:10,988).

MERLIN OWNED AND MANAGED ASSETS



We developed 131 new properties in the year for social rent, affordable rent and shared ownership. Twenty six homes were lost through the Right to Buy and Right to Acquire. A further three properties were sold. In addition, a sheltered scheme site was finally disposed of.

CHANGE IN UNITS



Our balance sheet was again strengthened at the year end. Fixed assets (predominantly housing properties) and revenue reserves increased again bringing the total increase since 2013 to 50% and 83% respectively. Assets at net book value were 216% of net debt (£81m), whilst properties on an existing use value for social housing (EUV-SH) basis were worth £328m, 410% of the net loan value.

We have a VAT shelter arrangement agreed with HMRC and South Gloucestershire Council at transfer to enable recovery of VAT relating to major repairs. A provision of £29.5m is included on the balance sheet, offset by a similar debtor (due after one year). This relates to the major repairs arrangements agreed with South Gloucestershire Council at transfer, which has decreased by £6.4m in relation to work undertaken during the year.

Pension liability on the closed local government scheme increased by £5.0m to £11.1m. This is sensitive to fluctuation depending upon actuarial assumptions year on year and has been impacted by low bond yields. This actuarial valuation is based on the roll forward of the triennial valuation undertaken at 31 March 2016. The liability relates to two defined benefit schemes within the Avon Pension Fund. These schemes were closed to new entrants in 2013 with a defined contribution scheme taking their place. However, existing members of the defined benefit scheme retain ongoing membership, and existing liabilities will require continued funding.

INCOME AND EXPENDITURE IN £m

	2013	2014	2015	2016	2017
Turnover	37.3	38.5	40.3	41.9	43.7
Operating expenditure	(29.8)	(31.5)	(29.6)	(27.4)	(27.1)
Cost of sales	-	-	-	(0.4)	(0.9)
Operating surplus	7.5	7.0	10.7	14.1	15.7
Surplus on sales	0.3	0.6	1.0	0.4	1.5
Impairment - non-housing		(1.1)			
Interest receivable				0.1	0.1
Interest payable	(2.9)	(2.8)	(2.9)	(3.8)	(4.1)
Net interest on defined pension liability	(0.1)	0.1	(0.1)	(0.2)	(0.2)
Surplus for the year	4.8	3.8	8.8	10.5	13.0
Operating margin (%)	20	18	27	34	36
Surplus for the year (%)	13	10	22	25	30
Turnover increase (%)	9	3	5	4	4
Operating expenditure increase (%)	9	6	(6)	(6)	(1)

BALANCE SHEET IN £m

	2013	2014	2015	2016	2017
Total fixed assets (net)	115.4	121.2	133.2	151.6	173.2
Net current assets *	64.3	52.7	51.3	53.9	56.6
Total assets less current liabilities	179.7	173.9	184.5	205.5	229.9
Creditors	73.6	73.7	85.7	103.2	121.0
Provisions	64.2	54.2	44.1	36.6	30.0
Pension	4.8	2.2	6.6	6.1	11.1
Revenue reserve	37.1	43.8	48.1	59.6	67.8
Balance	179.7	173.9	184.5	205.5	229.9
* includes cash (or equivalent)	3.5	6.1	14.0	22.7	30.8
Owned and managed (units)	8,014	7,952	7,912	7,970	8,025
Leasehold and other (units)	474	482	496	496	501
Total owned or managed housing (units)**	8,488	8,434	8,408	8,466	8,526
Net debt / unit (£000)	8.7	8.5	8.7	9.5	10.1
Reserves / unit (£000)	4.6	5.5	6.1	7.5	8.5
Average interest cost %	4.1	3.9	3.9	4.6	4.3
Fixed assets (net) increase %	13	5	10	14	14
Revenue reserve increase %	11	18	10	24	14

PLEASE NOTE THAT FIGURES FOR 2014/15 ONWARDS ARE PRESENTED ON AN FRS102 BASIS.
** EXCLUDING COMMERCIAL UNITS AND GARAGES

TREASURY

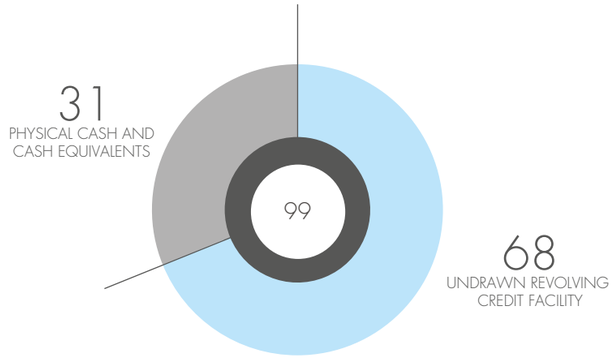
Treasury activities focus on ensuring that we have sufficient liquidity to fund our operations for a minimum of three years when making investment decisions, plus an element for potential opportunities that may arise.

Liquidity is secured from free cash flow from operations, Government grant and external lending facilities. We generated a net operating cash inflow of £21.1m (2016: £19.7m), primarily due to an increase in revenue from first tranche shared ownership sales and continued cost reductions flowing from our efficiency plans.

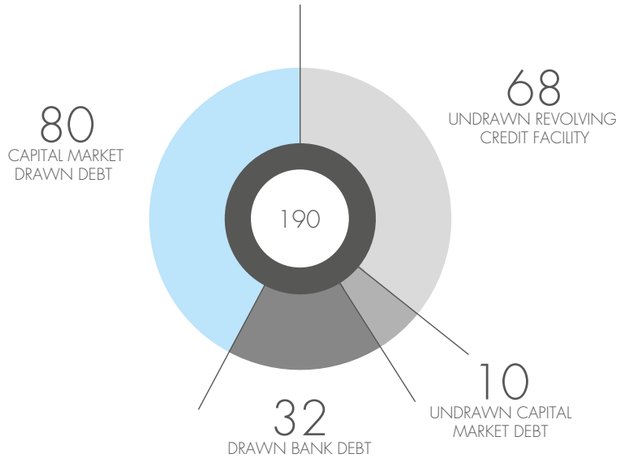
At 31 March 2017, we had drawn loans totalling £112m (2016: £98m) and available undrawn facilities of £78m (2016: £67m). Cash equivalents held at the year-end totalled £31m (2016: £23m), leaving net debt at £81m (2016: £75m) and available liquidity at £99m (2016: £90m).

During the year, we took advantage of the favourable market conditions to fix £35m of debt. We drew the second tranche £10m of Affordable Homes Finance Bond in August 2016 and fixed a £25m European Investment Bank loan at historic low rates for a housing association. £15m was drawn in March 2017 with the remaining £10m forward fixed to December 2017.

CASH AND AVAILABLE FACILITIES (£m)

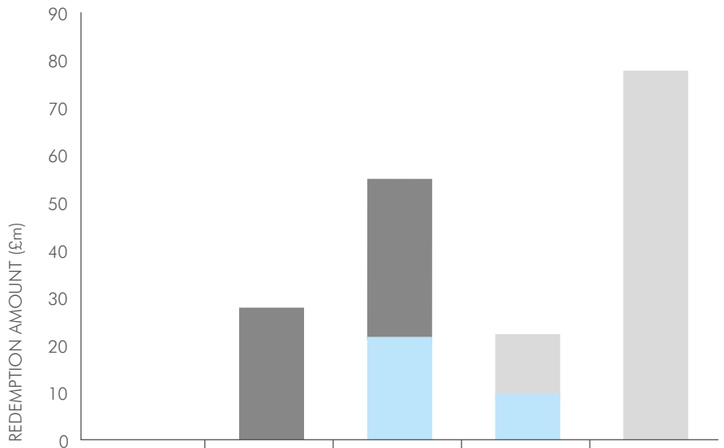


SOURCES OF FUNDING (£m)



The weighted average cost of drawn debt was 4.3% during the year. The weighted average duration of drawn debt is 22.5 years. The treasury strategy ensures that we do not have to refinance material amounts of debt in any one year. A £35m revolving credit facility will need to be refinanced within three years time (18% of loan facilities).

FACILITY REDEMPTION PROFILE



REDEMPTION AMOUNT CONSISTS OF (£m)	WITHIN TWO YEARS	BETWEEN THREE AND FIVE YEARS	BETWEEN FIVE AND TEN YEARS	BETWEEN TEN AND TWENTY YEARS	GREATER THAN TWENTY YEARS
UNDRAWN REVOLVING CREDIT FACILITY	0	35	33	0	0
CAPITAL MARKET DEBT	0	0	0	12	78
BANK DEBT	0	0	22	10	0

PERFORMANCE AND VALUE FOR MONEY

OUR APPROACH AND BUSINESS MODEL

As the financial challenges we face increase, we remain committed to delivering more from our available resources. We are half way through our Corporate Plan 2015/19 and the objectives set out in the plan are as relevant now as they were two years ago. We believe we have to get two fundamental things right; financial performance and customer satisfaction. Improving value for money is integral to our overall strategy and is embedded in our four key objectives.

- CONTINUOUSLY STRENGTHEN THE ORGANISATION
- PROVIDE HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME
- DELIVER REPAIRS AND MAINTENANCE RIGHT FIRST TIME
- INVEST RESPONSIBLY IN OUR CURRENT HOMES AND NEW ONES

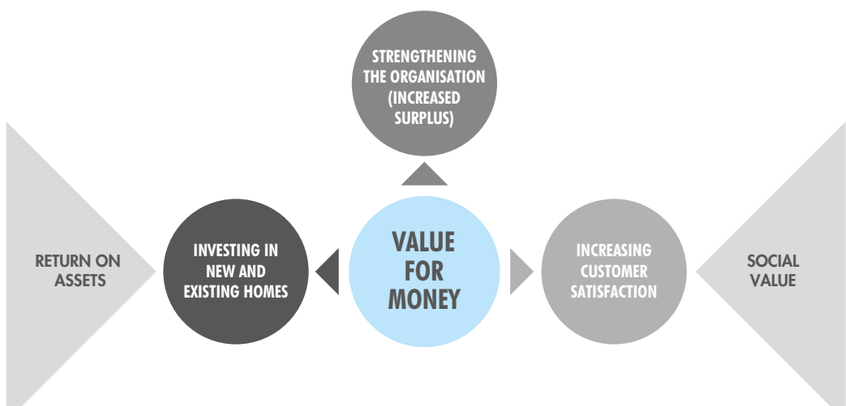
At the headline level, our three key performance indicators tell our story on value for money. Our efforts are directed to increasing surpluses, increasing customer satisfaction and increasing the delivery of new affordable homes. Alongside this we seek to optimise the return on our assets and the social value from the work we do to deliver our key objectives. We also believe it is very important to be transparent in establishing and reporting on targets.

Our sector's regulatory framework requires us to meet the Value for Money standard. This includes a requirement to prepare an annual self-assessment report setting out how we comply with the standard and our plans and priorities for future improvements.

We have set targets in our Corporate Plan to align us with being a world class organisation by 2019. Delivering against these targets will improve value for money performance, enabling us to increase our financial capacity to deliver a new homes development programme of 300 units a year by 2019.

The Board monitors the Corporate Plan and performance throughout the year and continually challenges this in light of changes in our operating environment and any current and anticipated risks that might affect us. We are signed up to the sector scorecard pilot work and will spend time during the year to reflect on how we can complement our performance indicators with those arising from this work. We also believe that it is very important to be transparent in establishing and reporting on targets.

This report sets out our progress to date together with our plans for the future.



OUR PERFORMANCE

As a Board, we are clear that we can only deliver our goals from a strong financial platform. The external environment remains challenging and we need to have the financial strength to cope with shocks in the operating environment while remaining alert to the opportunities that may arise.

Our Corporate Plan launched in February 2015 includes clear and measurable transformational targets, including increasing customer satisfaction from 83% to 90%; increasing the number of new homes built from 14 to 300 per annum and increasing operating margin from 18% to 34%.

In July 2015, the Government increased its austerity measures, with further cuts in benefits, affecting a material number of our customers. At the same time the government announced that the ten year CPI+1% rent settlement would be abandoned and replaced with four years of 1% rent reductions, starting in April 2016. The four years of rent decreases reduced our projected income by £3m per annum (£13m over the four years).

Given the targets we had determined only a few months earlier, the reductions in our projected income provided a significant challenge. We responded in September 2015 by recommitting to many of our Corporate Plan's goals but with some adjustments. This included the following:

- A further increase in cost savings and additional income totalling £2.3m (equivalent to a 5% operating margin), resulting in a 32.7% operating margin by the end of our Corporate Plan
- Recommitting to the number of new affordable homes as set out in the Corporate Plan, with 300 per annum being delivered at the end of the plan
- Retaining our ambition to achieve 90% customer satisfaction at the end of the Corporate Plan, whilst recognising this would need to be kept under review
- Increasing our bad debts by £0.2m per annum as a result of the additional austerity measures

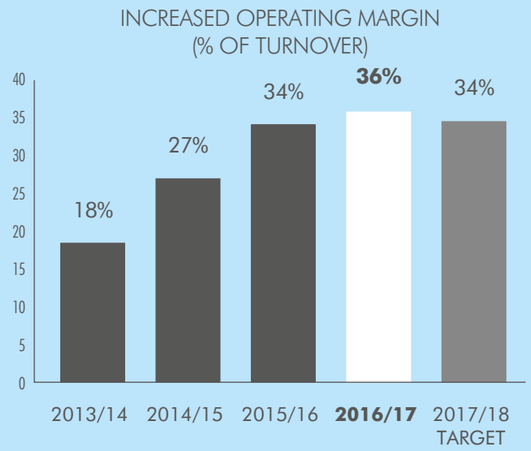
The table below provides further detail on the breakdown of the efficiency savings determined in response to the rent reductions, our progress to date and further planned work.

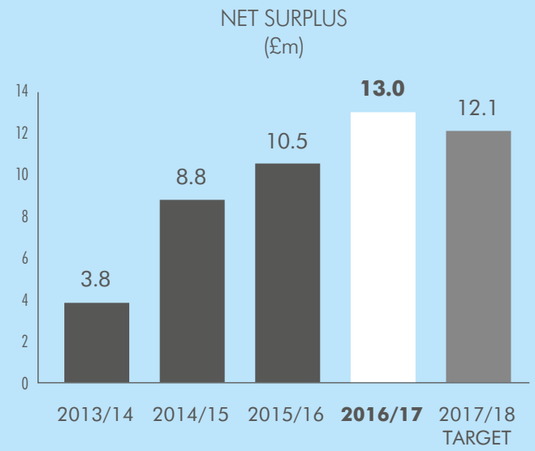
£m	Savings agreed by 18/19	Savings achieved 16/17	Future plans to 18/19
SALARIES AND OVERHEADS	0.9	1.0	0.3
MAINTENANCE	1.0	0.9	0.2
INCREASE SERVICE CHARGE RECOVERY	0.4	0.3	0.2
INCREASE BAD DEBT PROVISION	(0.2)	-	(0.2)
DEPRECIATION	-	0.4	-
ADDITIONAL SERVICES	-	(0.3)	-
TOTAL	**2.1**	**2.3**	**2.8**

We have not only delivered on our original end of Corporate Plan goal, but have also delivered savings determined in response to the rent reduction.

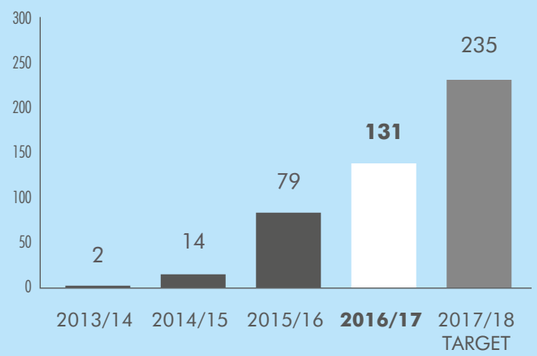
Our plan for the next two years targets further efficiencies, equivalent to a further 1% reduction in operating margin, which will result in our operating margin exceeding 34% in 2018/19.

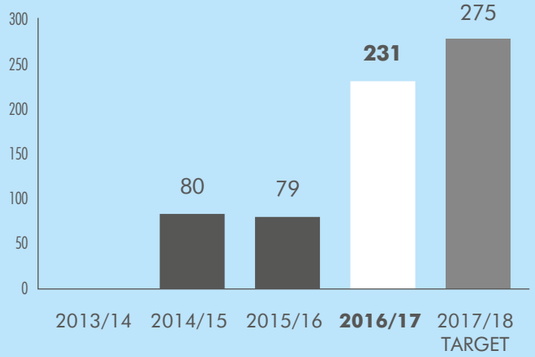
OUR KEY PERFORMANCE INDICATORS





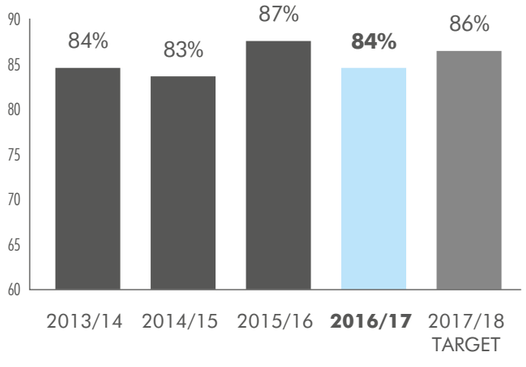
During 2016/17, our general needs rental income reduced by £0.4m in absolute terms as a result of the rent cut. However, as a result of growing our business through the supply of new homes allied to our financial discipline, we have increased operating margin and net surplus to record levels of 36% and £13m respectively.



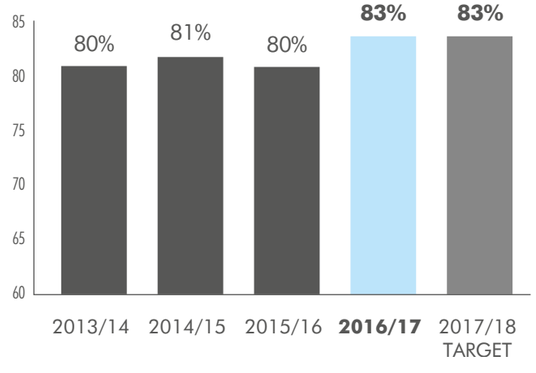


We have increased our development programme responsibly and are on track to develop 300 homes per year by 2018/19. We slightly exceeded our target of 130 new homes this year with 131 homes and substantially increased new starts on site from 79 to 231.

SATISFACTION WITH OVERALL SERVICE PROVIDED (%)



SATISFACTION WITH RENT AS VALUE FOR MONEY (%)



Notwithstanding the housing sector's primary focus being financial viability and cost reduction, the Board remains committed to delivering good quality services as measured independently by improving customer satisfaction. During the year customer satisfaction reduced by 3% but does remain equal to or better than 2013/14 and 2014/15 performance. Our 2016/17 result is directly linked to the reduction in satisfaction with the maintenance service. Positively, satisfaction that rent is value for money increased by 3% to 83% in the year. This is the key satisfaction measure in the Sector Scorecard pilot. We remain committed to our ambitious 2018/19 target of 90% customer satisfaction.

STRENGTHENING THE ORGANISATION

In 2016/17 we continued to deliver our efficiency plans that have now seen a £4.3m reduction in operating costs over the last three years. We have built on our success of the previous two years and report another year of improved financial performance with operating margin 3% higher than budget. Net surplus increased by £2.5m (23%), and we are now delivering top quartile operating and net margins, exceeding the budget for net surplus by 5%. Our plans and programmes to grow the business and deliver greater efficiency have been successful in bringing about the step change asked for by the Board in strengthening the organisation, increasing further our financial capacity for growth and providing greater resilience to address the risks facing our business.

	Actual 14/15	Actual 15/16	Target 16/17	Actual 16/17	Target 17/18
SURPLUS (£m)	8.8	10.5	10.8	13.0	12.1
NET SURPLUS %	22	25	25	30	27
OPERATING MARGIN % (*)	27	34	33	36	34
OVERHEADS AS % OF TURNOVER (*)	8.9	8.0	8.0	8.4	8.0
VOID LOSS %	1.0	0.5	0.8	0.7	0.7
AVERAGE DAYS TO RE-LET EACH VOID PROPERTY	30	22	18	25	19
CURRENT TENANT ARREARS (%)	1.4	0.9	1.3	1.0	1.8
AVERAGE INTEREST COST (%)	3.9	4.6	4.3	4.3	3.8
INTEREST COVER % (EBITDA) (*)	396	513	500	528	506
NET DEBT PER UNIT OWNED (£000)	8.8	9.5	12.1	10.1	12.4

*INCLUDED IN THE SECTOR SCORECARD

KEY: WHERE HOUSEMARK BENCHMARKING FIGURES EXIST, WE USE THIS KEY TO INDICATE OUR POSITION TO HOUSING ASSOCIATIONS LOCATED OUTSIDE OF LONDON WITH MORE THAN 2500 UNITS.

TOP QUARTILE **UPPER MIDDLE QUARTILE** **LOWER MIDDLE QUARTILE** **BOTTOM QUARTILE**

Our key target was to deliver a 33% operating margin by continuing to grow our business and deliver further efficiency savings. The continued focus on cost control together with increased profits from shared ownership sales has contributed to achieving top quartile performance of 36%. Operating costs have been reduced by a further £0.3m this year adding to the £4.0m reduction over the previous two years.

Established clear targets have allowed us to deliver in the following areas:

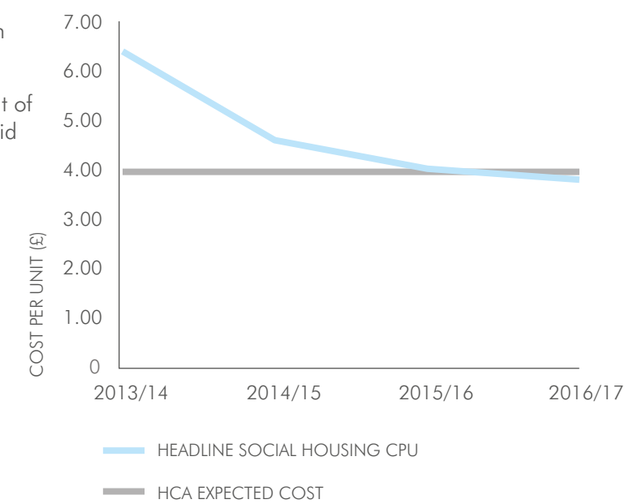
- The Board identified the Independent Living Service not self-financing as a key strategic risk in 2014/15. Since then we have implemented our plans which has meant the creation of a new viable and sustainable service which meets the needs of our customers. This resulted in income increasing by £120k while at the same time reducing costs by £140k - a net improvement of £260k per annum
- Restructuring our assisted gardening service saved £105k slightly behind our target of £130k
- Office accommodation costs were reduced by £50k during the year with further rationalisation set to release £300k of savings by 2018/19
- Responsive repair costs fell by £0.4m as a result of savings achieved through a new repairs and void contract and a new material supplier

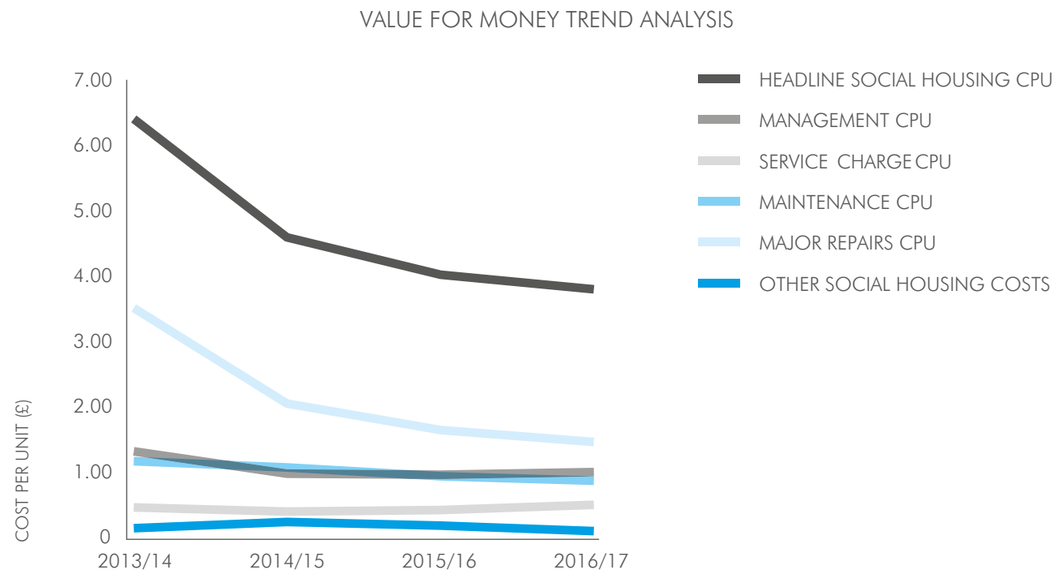
We re-invested some of the savings achieved to address other priority areas including setting aside addition money to cover bad debt (£280k) and on strengthening our risk management function (£100k). In addition our depreciation costs increased by £350k as a result of the direct investment in properties.

HCA UNIT COST ANALYSIS

In June 2016, our regulator published research into understanding the differences in unit cost performance across the sector. This showed that while we have made significant progress in reducing our cost per unit, we remained above the predicted cost of £3.9k per unit for an organisation with our characteristics. We have continued to improve our efficiency and report cost per unit of £3.8k in these results - a reduction of 40% from 2013/14.

MOVEMENT AGAINST HCA EXPECTED COST



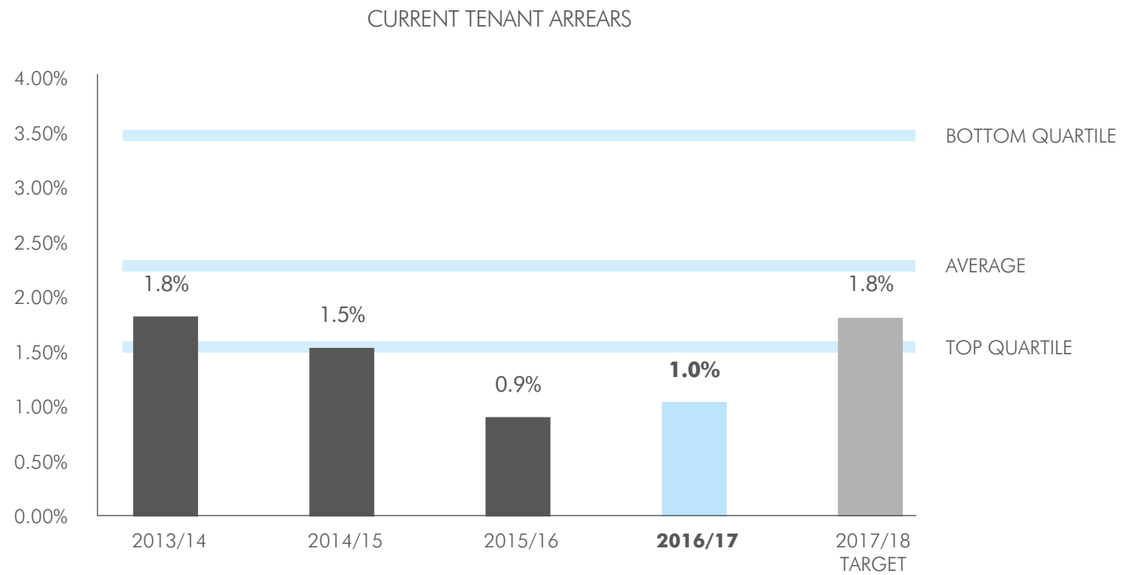


NOTE: SECTOR SCORECARD MEASURES

The biggest movement has been in our major repairs costs as legacy programmes complete and material efficiencies are delivered. Both management and maintenance costs are lower now than in 2013/14. In September 2016, we reviewed our strategy around redevelopment plans for some of our precast reinforced concrete homes , reducing total spend by £37m over the next five years, but reaffirming the commitment to materially improve such homes. Further savings are planned in capital maintenance spend as we implement our revised asset management strategy. This will release savings of £50m in capital works over the next 30 years.

In addition to exceeding our operating margin target, we also outperformed the bottom line net surplus target by £2.2m equating to 5% of turnover. As well as the gains from operational activity, we achieved a 37% margin on first tranche shared ownership sales and commenced a small programme of targeted disposals providing a surplus of £1.3m.

Across the business we have reduced average staffing by 37 FTE over the last two years. This has been the result of tight vacancy management and restructuring areas of the business to deliver our efficiency programme.



Current rent arrears levels ended the year at 1%, exceeding our target of 1.3% and endorsing our strategy to invest in income recovery to respond to welfare reform changes. This is a world class performance when set against top quartile figure of 1.5%, welfare reforms, and the start of Universal Credit roll-out. It maintains our position as one of the top performers across the country in this area.

Whilst our rent arrears performance remains considerably better than top quartile our void re-let performance increased from 22 days in 2015/16 to 25 days in 2016/17. This increase is a result of a number of factors which were responded to in year, and we have prioritised improved performance in this area in 2017/18. Positively, satisfaction with the lettings service was 100% for the last three months of the year. The associated rent lost due to properties being void increased as a result to 0.7% although this remained within our prudent target.

We took advantage of the very low gilt rates in summer 2016 to execute £35m of funding at record low levels for a housing association. We drew £25m during the year resulting in liquidity of £100m at the year-end. A combination of flexibility secured in the agreements and forward planning allowed us to lock into record low rates, bringing our average interest rates on borrowings drawn down to 4.3%.

Our key goals for 2017-18 are to:

- Deliver a 34% operating margin despite the second year of the 1% rent cut and its extension to supported housing. This will consolidate the savings we have achieved to date
- Continue to reshape our planned maintenance programmes releasing £1.3m investment capacity per annum
- Enter the next phase of our efficiency plans in preparing delivery of our 2020 Business Transformation Project and changes to our operating model. This will close two area offices and relocate staff into one office - saving £300k in 2018/19
- Commence a fleet re-procurement exercise to deliver £200k savings in 2018/19
- Targeting disposals of poorly performing assets to deliver £1m of revenue for reinvestment

CUSTOMERS OF OUR FLAGSHIP PRC REDVELOPMENT SCHEME IN COALPIT HEATH CELEBRATE MOVING IN TO THEIR NEW HOMES.

HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME

During 2016/17 significant progress has been achieved in a number of important areas of our business. Customer satisfaction with the service received when they telephone us jumped from 75% to 85%. Satisfaction with the way we tackle anti-social behaviour increased again to 83% - our target was 65%. Satisfaction that rent is value for money increased to 83%, and satisfaction with lettings was 100% for the last three month of the year.

Additionally, we have been nominated for a number of external awards and our Independent Living Service Team gained the Centre for Housing Services two star Excellence standard. These results are a product of understanding our customers' needs and expectations, and developing plans of work to improve service.

However, overall customer satisfaction reduced by 3%. During the year the Board focussed on understanding the reasons for the reduction, particularly given the 4% improvement in satisfaction in the previous year, and our plans to meet increased target levels moving forward. Our 2016/17 result is directly linked to the 6% reduction in satisfaction with the maintenance service. The response to this was to establish a dedicated project group, led by a member of the Executive Team, tasked with improving performance moving forward. Positively, performance for overall satisfaction improved during the year.

As highlighted in last year's report, we recognised that our complaints handling needed to improve. During the year we have prioritised improving this area of service and have recently approved a new policy. Whilst our overall performance target was not met we have delivered improved processes during the year and we expect the above target performance towards the end of the year to continue in order that our 70%, 2017/18 target, is met.

	Actual 14/15	Actual 15/16	Target 16/17	Actual 16/17	Target 17/18
SATISFACTION WITH OVERALL SERVICE PROVIDED %	83	87	87	84	86
SATISFACTION WITH RENT % (*)	81	80	83	83	83
SATISFACTION WITH NEIGHBOURHOOD %	88	89	89	87	89
SATISFACTION WITH COMPLAINT HANDLING	54	71	75	65	70
HOUSING MANAGEMENT COST/HOME £	350	328	315	326	330

*INCLUDED IN THE SECTOR SCORECARD

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Continuing our focus on quality, we have strengthened our Customer Assembly and portfolio groups (our co-regulation structure), to ensure customers have greater influence in shaping and scrutinising services. We appointed a new Chair of the Customer Assembly and recruited new members, merged two of our portfolio groups, which has resulted in all three functioning effectively, and have relaunched the scrutiny function which is now performing well. The Board remains extremely supportive of the Customer Assembly and portfolio groups and have been pleased with the progress made during the year.

In last year's report we referred to four areas that would contribute towards lower operating costs and increased overall customer satisfaction. During the year we have made excellent progress:

- Improved satisfaction with the anti-social behaviour (ASB) service to 83%, our target was 65%
- Met our target to increase service charge recovery by £150k
- Implemented a new risk based approach to delivering neighbourhood management services in our Kingswood office and local lettings plans have been used for a number of new developments and estates / blocks to reduce ASB

The Board has recognised the progress made in strengthening the organisation and improving our financial performance during the first two years of the Corporate Plan. In 2016/17 our work has also focussed on driving forward with the next phase of our Corporate Plan particularly in the delivery of a clear customer led vision of how customers will interact with us in 2020.

During the year our 2020 Business Transformation Project was launched. This will see significant investment in new systems, channel our customer experience online and create a new customer self-service platform. Additionally we will introduce new ways of working so that staff can access systems and information at a time and in a place that suits them. Furthermore, and through the emergence of a new target operating model in 2017/18, we plan to reduce our operating costs and improve service quality to customers.

Our key goals for 2017/18 are to:

- Procure a new 2020 system and finalising a new Target Operating Model
- Strengthen the maintenance service, which will directly influence the required improvements in overall satisfaction so that our 2017/18 target is met
- Continue to improve satisfaction with the ASB service, our 2017/18 target is 88%
- Improve satisfaction with complaints handling - our 2017/18 target is 70%

DELIVER REPAIRS AND MAINTENANCE RIGHT FIRST TIME

Efficient delivering of our repairs service remains a key driver of overall customer satisfaction.

	Actual 14/15	Actual 15/16	Target 16/17	Actual 16/17	Target 17/18
SATISFACTION WITH HOME %	83	86	86	85	86
SATISFACTION WITH REPAIRS %	80	83	83	77	83
DECENT HOMES FAILURES %	0	0	0	0	0
RESPONSIVE REPAIRS AND VOIDS COST PER HOME £	1,066	1,018	950	910	880

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NEW TECHNOLOGY SUPPORTS THE STREAMLINING OF STOCK OUR OPERATIVES CARRY IN THEIR VANS, HELPING DELIVER MORE REPAIRS RIGHT FIRST TIME.

During 2016/17 we delivered a number of efficiency targets. Although we were just off target for reduction in the cost of repairs, we did achieve a 10% drop meaning each repair averaged £91.

We procured a new materials contract with Travis Perkins that will deliver savings of £125k per annum. Dedicated stores opened in January 2017 and this work is linked to ensuring that we use stock appropriately and streamline the stock carried by operatives to enable us to carryout more repairs right first time 85% of the time.

We have further developed our client/contractor relationship with in-house delivery partners Property Solutions, implementing a suite of responsive repairs contracts which include key performance indicators requiring year on year improvement and value for money savings. This should deliver a further 4% saving in our cost of repairs in 2017/18.

During the year we achieved no decent homes failures, this contributed to us maintaining customer's satisfaction with their home. We continue to consult with our customer portfolio group which holds us to account monitoring performance and ensuring compliance with the Homes and Community Agency's Home Standard.

The Board has reviewed repairs performance in some detail. This analysis has identified pockets of poor performance, in particular satisfaction with the repairs service delivered through one of our area offices which has been consistently lower than the others. A clear action plan has been approved, which together with consolidating all staff in one office will provide a clear platform for a consistent approach. A performance coach will also provide a focus on quality for our Customer Service Team where an increased number of appointed jobs is targeted.

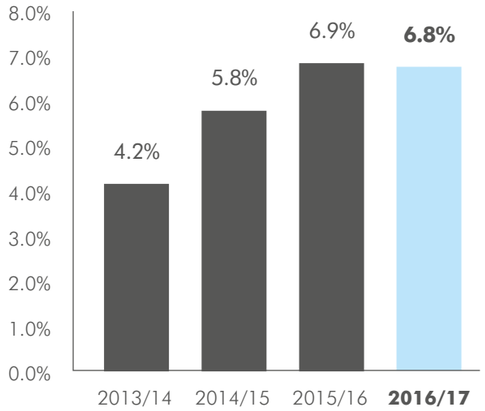
Our key goals for 2017/18 are to:

- Complete delivery of our action plan to help deliver our repairs service "right first time" to allow us to achieve our customer satisfaction target of 86%
- Implement an improved repairs policy that will give clarity to our customers around key responsibilities
- Implement of a new re-let standard. The new standard will help ensure we meet the needs of our customers at first let hence reducing the volume of repairs raised during first six months of a new tenancy

RETURN ON ASSETS

The financial performance of the business measured by return on capital employed remains just under 7%. Over the last four years, our capital employed (assets less current liabilities) has increased by 28% while our operating surplus has increased by 110% as we have focused on financial discipline. During the year, we increased our returns by 11%. We invested all of this return and more back into the business increasing our capital employed by 12% or £24m.

RETURN ON CAPITAL EMPLOYED



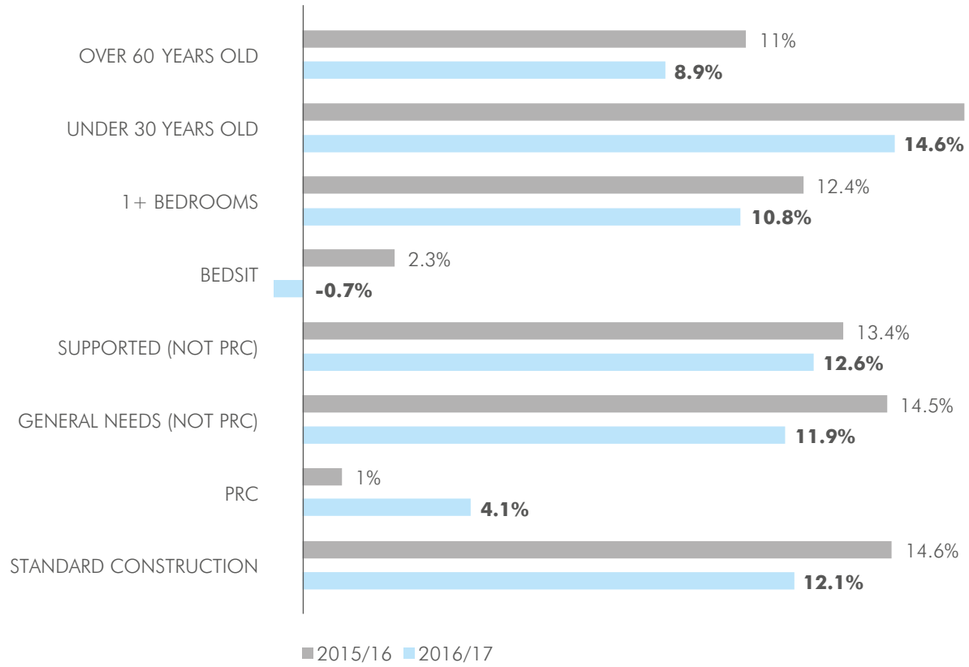
SECTOR SCORECARD MEASURE

NOTE THE 2015/16 FIGURE HAS BEEN RESTATED FOLLOWING AN ADJUSTMENT TO NET CURRENT ASSETS

We utilise data from our asset management system in conjunction with other financial data in our asset model to calculate a range of metrics including the worth of individual assets (net present value modelling), the return on the historic investment (internal rate of return), potential disposal value and options appraisal of the comparative benefits of retention or disposal for each asset. Data is also being accumulated in the asset planning system to provide reference data regarding other indicators of sustainability and asset performance.

Recent changes in the operating environment have had an adverse effect upon future returns. Set against rising cost inflation, the 1% rent reduction has become more significant due to the increased differential in rates. The numbers of older and non-standard properties in Merlin's stock profile (30% and 17% respectively) results in relatively high costs increasing the impact. The updated modelling shows a reduction in returns compared to last year.

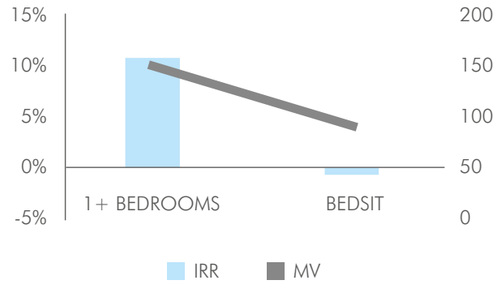
2015/16 & 2016/17 INTERNAL RATE OF RETURN (IRR)



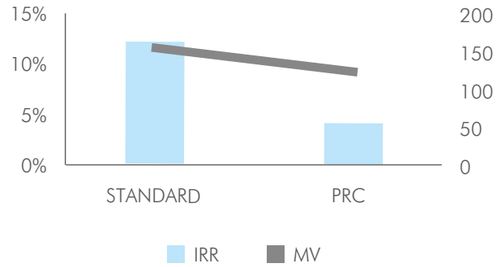
As in previous years, our model has highlighted categories of our stock where performance is poor. We continue to use this data to direct our investment to plan either remodelling or redevelopment. There are two main strands to this work - our precast reinforced concrete (PRC) properties and some of our supported housing particularly those with a high proportion of bedsit units. A review of our model shows that these assets, as a group, still form the bulk of our performance outliers combining below average returns on investment and below average disposal values. During the year the action we have taken to improve PRC properties is beginning to show in the increased expected future returns.

Using the data on an individual property basis, we know 10 % of properties have a negative internal rate of return as per the chart below. As expected, these mainly relate to our sheltered schemes and PRC properties. Our approach is to review properties as they become vacant to take a view on the most appropriate course of action. In the vast majority of cases, that will be to re-let. However, in April 2016, through continued excellent partnership working with South Gloucestershire Council, we struck an agreement to retain capital receipts from the sale of any vacant dwellings so long as we reinvest the proceeds to build additional new homes. This has enabled £320k to be set aside for re-investment and, given the agreement outlined above, we anticipate disposing of around 15 properties this year and reinvesting the receipts into new affordable homes.

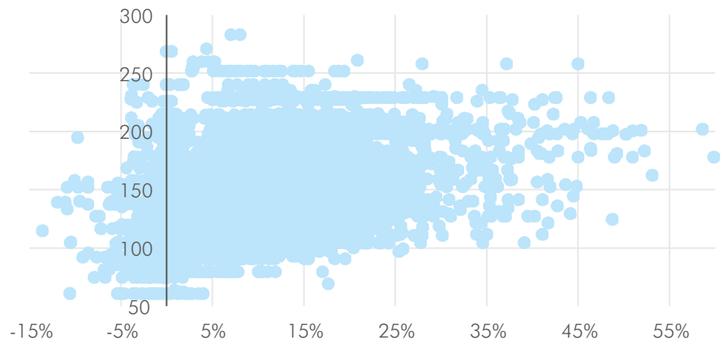
PROPERTIES - BEDROOMS



PROPERTY - CONSTRUCTION



INTERNAL RATE OF RETURN V MARKET VALUE (VACANT POSSESSION)



CUSTOMERS CELEBRATE THE OPENING OF A REFURBISHED INDEPENDENT LIVING COMMUNITY.

INVESTING IN OUR CURRENT ASSETS

In November 2016, the Board approved a revised Asset Management Strategy for the period 2016-2021. The strategy provides an overarching framework to make decisions on retaining, investing in and disposing of property, to ensure that our stock meets the needs of our communities and delivers the standards customers expect, now and in the future, and contributes to the overall financial performance of Merlin.

The Board requested a review of the capital and revenue cost assumptions within the 30 Year Financial Plan. This review was completed in April 2017 and identified the opportunity to reduce the revenue and capital repairs and maintenance commitment within the plan by £54m (net of inflation). This represents a saving of 10% and reduces the cost per unit to £61,000.

Seventeen percent of our portfolio are PRC homes. These homes have an inherently limited lifespan including poor thermal qualities. During 2016/17 our refurbishment programme continued and completed its fourth phase of 226 homes. In total this brings the completed number of refurbished PRC properties to 522 from the start of the programme in February 2013:

	Actual 14/15	Actual 15/16	Target 16/17	Actual 16/17	Target 17/18
HOMES REFURBISHED/ REMODELLED REMODELLED	41	165	167	226	135

In 2016/17 the programme delivered a combination of full external wall insulation to 116 properties and redecoration and cleaning of 110 overclad properties and leasehold flats. A further six leaseholders opted to pay to be included in the external wall insulation programme, a service provided for the first time this phase.

Further progress has been made in investing in our Independent Living Communities. A review of these communities in 2011 identified schemes which required modernisation. During 2016/17 we invested £1.5m in remodelling the third of four schemes (two completed in prior years) which contained a number of bedsits, replacing these with self-contained flats. This scheme, completed in two phases, will have delivered 18 new homes.

Merlin retains a commitment to reduce fuel poverty for its customers by increasing the SAP efficiency rating of our properties to 70. In 2016/17 we installed 50 air source heat pumps at some of our hard to heat properties where gas is not available. We continue to review our work in this area highlighting areas for improvement and piloting other heat pump systems.

DEVELOPMENT OF NEW HOMES

In light of our improving financial position, and following a review of our financial capacity and resilience, the Board approved an updated Development Strategy that will continue to deliver 725 new homes over the corporate plan period to 2018/19 with an additional 300 new homes a year for the following three years to 2021/2022.

During this year we have invested £21m in developing 131 new affordable homes, an increase of 66% on 2015-16.

Starts on site have increased by 292% against the previous year and were ahead of target. This increase in activity reflects the focus within the business and investment in the development team to ensure the number of new homes delivered meets the aspirations in the corporate plan.

	Actual 14/15	Actual 15/16	Target 16/17	Actual 16/17	Target 17/18
HOMES DEVELOPED (*)	14	79	130	131	235
HOMES ACQUIRED	5				
STARTS ON SITE	82	79	225	239	275

*INCLUDED IN THE SECTOR SCORECARD

The number of homes sold for shared ownership increased during the year to 12, generating an income of £1.4million. Sales of shared ownership are planned to increase further in 2017/18 with 28 homes forecast to complete generating an income of £2.5m.

Merlin has been successful in a bid to the Homes and Communities Agency (HCA) to secure £2.5m of grant funding through their 2016/21 Affordable Homes Programme. This funding will support the delivery of 89 new shared ownership homes over a four year period.

The Development and Asset Management Strategies are interlinked allowing us to make the best use of our existing land and assets. In particular, our PRC homes and garage programmes optimise refurbishment or redevelopment options.

Whilst we continue to invest in refurbishing our PRC homes, in some cases the best option for the business is to demolish them and to build modern and efficient new homes. In 2016/17 18 PRC properties were demolished and 39 new homes were built at our flagship development in Coalpit Heath.

With high void levels and anti-social behaviour the redevelopment of a former garage site at James Road, Staple Hill was also completed in 2016/17. The scheme delivered five much needed bungalows which were partly funded with £135k of grant from the HCA.

Oakbrook Homes, the wholly owned design and build subsidiary of Merlin, entered into its first contract to deliver 72 affordable homes with Lovell Partnerships in February 2017. Oakbrook Homes provides a tax efficient model for Merlin to deliver its development programme as it is able to recover VAT on its development fees. Over the next two years it is expected that the VAT savings will be in the region of £150k which can be reinvested into building more new homes.

Our key goals for 2017/18 are to:

- Deliver a further step change in the number of new affordable homes developed, with an ambitious target of 235
- Increase our starts on site to 275
- Undertake the fifth phase of our PRC refurbishment programme improving 135 homes and redevelop our fourth Independent Living Community at Langdale Court
- Contine to build and strengthen relationships with new and existing local authority partners, analysing the markets we work within to ensure we can maximise the return on our investment
- Reinforce our partnerships with our developer and contractor partners to secure further pipeline affordable homes to meet the aspirations of the development strategy

NEWS HOMES AT COALPIT HEATH.

SOCIAL VALUE

We collect customer and community insight so we can understand our communities' greatest challenges and work to invest in areas where we can have the greatest impact. This work is both directly funded by us and complemented by external funding from a range of organisations.

We have increased our measurement on social impact through our 3Ps approach. We seek to understand our impact on:

POUNDS AND PENCE - what did we invest and what did we save?

PERFORMANCE - has our performance improved?

PEOPLE - how many people have been impacted through our work and in what way?

We have analysed customer data to make improvements in five priority areas.

Employment, education, training and skills

Recognising the impact of Universal Credit on our customers and the likely impact on our income we have started to invest in reducing unemployment, increasing educational attainment and improving training and skills in the following ways:

- Supported 31 people into employment through working in partnership with local community groups, statutory partners, support services and agencies
- 24 people have been helped into training, apprenticeship programmes or internships
- Developed a strategic relationship with Remploy, who support disabled people and those with complex needs into work
- All new contracts now include a social value section committing our partners to deliver a range of community initiatives during the year. In 2016/17 this included skills workshops for our customers seeking employment, training programmes and work experience
- Invested 104 hours of staff volunteering time in a range of initiatives

Health and wellbeing

This year we've invested in improving the health and wellbeing of our customers by:

- With South Gloucestershire Council and a range of health partners we launched a new Wellbeing College which works with and improves peoples' ill mental health. During the year 200 people received support from the college. Surveys show that 70% improved their wellbeing and are now better able to cope with managing their tenancy and organising their lives, and 45 people were referred into the Wellbeing mentor service
- Organising South Gloucestershire's first mental health conference, to which 68 customers attended
- Continuing to provide our Independent Living Short Term Response Service, which was used 532 times. This service supports older people and those with vulnerable needs to get customers back on their feet and able to live independently again. It also helps avoid those customers moving into more costly residential support services
- Investing 220 hours of staff volunteering time into improving the health and wellbeing of customers
-

Community safety

Almost 50% of our homes are concentrated within six priority neighbourhoods. From our understanding of deprivation and through working with partners, we have ensured that all services and projects focus on supporting the community to improve levels of deprivation, this includes:

- 83% of customers satisfied with the service provided by the Anti-social Behaviour (ASB) team
- 43 people supported by Survive (Domestic Abuse Partner) or SARI (Racial harassment / Hate Crime Partner)
- Three ASB officers working in conjunction with the police and support agencies
- Investing £45,000 into community safety initiatives

COMMUNITY GROUPS COMPETE FOR FUNDING IN THE DRAGONS' DEN, RUN BY INVOLVED CUSTOMERS WHO HAVE A BUDGET TO HAND OUT EVERY YEAR.

Environment and regeneration

Most of our residents (87%) consider their neighbourhood a good place to live. Our neighbourhood services aim to support this sense of neighbourhood and we share a common aim of empowering and promoting the community and working in partnership with specialists to do this. For this reason we have this year started to invest more heavily into regenerating and improving the local environment in the following ways:

- Launched the Staple Hill Quality of Life project - through this partnership with we will increase the rate of employment, reduce ASB and invest in the physical area
- Invested 600 hours of staff volunteering time into improving the local environment

Financial inclusion

The link between our insight and investment work and our response to welfare reform is strong. Welfare reform has been identified by the Board as one of our strategic risks and through our Welfare Reform Strategy and action plan we have developed solutions which strongly align with data and intelligence in order to deliver tailored services to customers. During the year we also invested 314 hours of staff volunteering into improving financial inclusion for our customers

Our key goals for 2017/18 are to:

- Create a new Community Insight and Investment Strategy
- Invest over £800k in community initiatives through internal and external funding
- Positively impact the lives of over 3,000 people through our community investment work, this includes helping 1,200 people through the Wellbeing College
- Support over 100 people into employment through our 'Into work' programme
- Invest in our communities by delivering 1,667 hours of staff volunteering

KEY RISKS

THE BOARD REGULARLY ASSESSES AND CONSIDERS THE INTERNAL AND EXTERNAL OPERATING ENVIRONMENT, CURRENT AND EMERGING THREATS TO MERLIN, INCLUDING THOSE THAT WOULD THREATEN OUR STRATEGIC OBJECTIVES, BUSINESS MODEL, FUTURE PERFORMANCE, AND SOLVENCY AND LIQUIDITY. THE BOARD RECOGNISES THE CURRENT KEY RISKS TO THE BUSINESS, MITIGATION ACTIVITY AND ANY PARTICULAR THEMES WITHIN THE YEAR. OTHER BUSINESS RISKS ARE MANAGED AS PART OF OUR DAY TO DAY OPERATING AND SERVICE ENVIRONMENT.

CONTINUOUSLY STRENGTHEN THE ORGANISATION

Liquidity & funding - insufficient liquidity or a breach of contracts and agreements can undermine our progressive development strategy. Comprehensive Treasury policies and scrutiny of financial capability metrics on a monthly basis ensure we continue to maintain a prudent liquidity position that provides for committed cash flow items over a 36 month time horizon, and a level of headroom above this. In addition our 30 year financial plan sets out our long term viability and includes stress testing on a range of scenarios, and destruction testing.

Macro-economic and political uncertainty - uncertainty over Government Policy could result in an inability to effectively plan within year resulting in a failure to deliver our corporate plan. A monthly business report tracks investigation into economic and political conditions and highlights key statistics to consider business impact. Following the announcement of a General Election on 8 June the business has reacted to the hold on government activity, which impacts on the completion of grant payments and the Government's plans to introduce a new rent setting framework.

Pensions - pension schemes do not provide fair and impartial pension provision and are unaffordable due to long term demographic, economic and policy changes. We continue to obtain valuations and review membership and cost on a six monthly basis to allow the Board to consider strategies to minimise risk and losses.

Information technology - a lack of robust network controls and security protocols can result in susceptibility to service attacks, hacking and unauthorised access leading to damage to our reputation, loss of data or impacts on core operational service availability. We continue to invest in security and benchmark with the industry to ensure best practise principles are adopted, with external penetration testing results supporting ever increasing protection. Innovating our use of technology and replacing legacy systems is part of a strategic programme underway in 2017.

PROVIDING HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME

Data governance - poor data governance or data architecture can lead to potential inaccuracies in customer, financial, asset or other key data. This can have consequent impacts on service, compliance failures and result in incorrect decision making. We have implemented business wide governance regarding data, including the inception of a dedicated group to oversee the design and operation of controls, data enhancement plans on behalf of the Audit & Risk Committee. In addition we continue to embed the frameworks for data ownership, improve our architecture and preparations for the General Data Protection Regulations in 2018 are underway.

Welfare reform - uncertainty over the impact of welfare reform could lead to increased financial pressure for tenants resulting in potential reduction in income and a change in the nature of our relationship with them. We have continued to evolve our Welfare Reform Strategy with action plans tracked on a monthly basis. Projections and trends within rent arrears are tracked by the Board to enable early identification of changes and potential interventions.

Customer services - external financial conditions may drive a reduction in organisational costs but also negatively impact service delivery to customers, leading a deterioration in customer satisfaction and / or regulatory intervention or enforcement. To complement our existing internal performance management regime, which allows customers to scrutinise performance, be involved in key decision making and identify reductions in satisfaction, a Customer Satisfaction Project, led by the Director for Housing and Communities, looked at how we can improve customer satisfaction levels.

Business transformation (2020 Project) - failure of our strategic project to deliver on time, to quality, to budget or realise the intended benefits could result in negative financial, customer experience, staff or service disruption. Strong project governance has been implemented, suitably resourced project teams and subject matter experts, and mitigation strategies for all project risks. The project is subject to Board oversight and a rolling schedule of external assurance.

INVEST RESPONSIBILITY IN OUR CURRENT HOMES AND NEW ONES

Development - our ability to secure new opportunities and deliver the development programme in the business plan is monitored closely. We recognise the benefit of working closely with partners to help mitigate the risk of cost inflation in what is a competitive market. We exceeded our target for completions in 2016/17 and have secured a strong forward order book for the next 2 years. We have robust procurement processes in place which ensure our partners are financially resilient and able to weather any significant changes to market conditions.

Shared ownership - with a growing development programme the number of homes delivered for shared ownership has increased leading to a potential increase in sales exposure. A slowdown in the housing market and reducing house prices could have a negative impact on cash flow. Each new scheme is supported by a detailed analysis of the sales market which includes sensitivity to reduced sales values and increased sales periods. We work in an area with a strong housing market and in 2016/17 we achieved a faster sales rate than budget.

Health and safety - robust systems of health & safety management are fundamental to maintaining tenant, staff and contractor safety. We have achieved certification to the internationally accepted Health & Safety standard OHSAS 180001, further embedding our internal controls, performance management and Board oversight in this area. We have centralised and improved all our compliance documentation and have monitoring systems in place for all procedures. We continue to experience a year on year reduction in reportable incidents, and will be focusing on further behavioural based safety initiatives during 2017-18.

Non-compliance with HCA consumer standards - failure to meet the HCA's consumer standards caused by non compliance with regulations could result in the death of a member of staff or tenant and/or governance down-grading by regulator. We have robust policies, procedures and risk and performance reporting covering key health and safety aspects of our customer homes including gas, solid fuel, electric, fire, asbestos and legionella. There are comprehensive inspection and service regimes in place for all of these areas, alongside a rolling schedule of internal and external audit and reviews, reportable to the Audit & Risk Committee and Board.

CUSTOMERS WITH THE KEYS TO THEIR NEW SHARED OWNERSHIP HOME.

CORPORATE
GOVERNANCE

SECTION **2**

GOOD GOVERNANCE

Good governance is the foundation of a successful organisation. It is not only about compliance but also about supporting the execution of a clear corporate plan. We recognise that good governance is about 'working smarter, not harder' by taking a principles-based approach to achieving our strategic objectives and aligning our business model to the interests of all of our stakeholders.

Our governance frameworks ensure systems and processes are in place to prevent mismanagement and fraud, while encouraging consistency in behaviours, effective transparency, growth and innovation.

The Board is committed to achieving the highest standards of corporate governance in its oversight of the delivery of our strategies, objectives, risk management and values.

The Board recognises the effectiveness of co-regulation. We work closely with our involved customers on the Customer Assembly, portfolio groups and community action groups to ensure that our customers are at the core of our business and at the forefront of our strategy and service. This culture is supporting a transformational change in customer service in Merlin, ensuring we always start with our customers and work backwards; which is the first of our values.

A board of seven non-executive directors plus the Chief Executive governs Merlin with day-to-day management delegated to the Executive Team. Each non-executive director of the Board holds one fully paid share of £1 in the organisation which is cancelled on leaving the role. Executive Team members hold no interest in our share capital and, with the exception of the Chief Executive, are not members of the Board.

MERLIN BOARD

Vivienne Horton
Chair from April 2017
Appointed: November 2012

Vivienne's professional background is as a solicitor. She was employed in a number of local authorities in senior legal roles before becoming Director of Resources and then Chief Executive of Macclesfield Borough Council where her five key roles were strategic management, community engagement including partnership working, service delivery, performance management and organisational development.

After that role she held a number of positions including Director of Risk at Standards for England - a national strategic regulator responsible for councillor conduct and Director and Head of the Public Sector team at Kennedy Cater a legal costs consultancy.

Andrew Frayling
Appointed: May 2011

Andrew is a Managing Director of his own international engineering software company. Previously he was European Liaison for one of the largest 'Telework' or outsourced telecoms placement projects for the European Commission, organised across cultures, languages and work patterns. He also worked for a number of years with First Nations people on housing in northern Canada.

James Healy
Appointed: September 2015

James has been active in the engineering, construction, finance and general management sectors for more than 50 years. During his career he has worked in six countries, starting with General Electric Company in the USA in 1964.

In 1980 he founded his own engineering services company in Ireland and led it for ten years until he merged it with Fortune 500-listed Jacobs Engineering. After six years as Vice President and Managing Director of Jacobs UK and Irish operations, he left to puruse further investment activities.

Since then he has founded a number of companies and served as Operations Director of Bristol-based Pieminister.

John O'Neill
Appointed: September 2011

John is a director of South Gloucestershire Traded Services. A former general manager in the hotel and catering industry, he is also member of the Institute of Hospitality. In partnership with his wife Sandra John owned and operated Charfield Post Office and stores for twenty years.

John is the South Gloucestershire Councillor for the Charfield Ward which comprises the villages of Charfield, Cromhall, Falfield and Tortworth.

Richard Penska
Chair of Audit and Risk Committee
Appointed: November 2012

Richard is a Fellow of the Chartered Institute of Certified Accountants and has extensive experience of contract and relationship management and is well versed in contract law, administration, negotiation and commercials. He is currently Assistant Director, Corporate Services at North Somerset Council.

Before joining North Somerset Council, Richard held a variety of positions within the Electricity Supply Industry and the Department of Health and Social Security.

Richard has operated at strategic management level within a number of functions, including , Exchequer services, Internal Audit, Risk management and Customer services.

Loretta O'Driscoll
Appointed: March 2013

Loretta currently works for South Gloucestershire Council. Previous roles have included Business Manager Adult Community Learning at South Gloucestershire Council, and in the private sector, as Financial Director for a small manufacturing company and Group Accounts Manager managing the day to day operation of the central accounting function in a multinational business.

Loretta has been involved in fundraising and developing community groups in support of a special school for children with disabilities.

Richard Bird
Appointed: October 2016

Richard has been involved in the housing and development industry for over 40 years. During his first decade, his career developed from planner, to project manager, and ultimately to Head of Production for a PLC home builder. The next four years provided a much wider experience as a Director of construction, housing and development companies within a private limited group.

Returning to the PLC environment in 1991, Richard joined Taylor Woodrow and was appointed to the board of the housing subsidiary a year later.

He was appointed Regional Managing Director in 1994, and in 1996 given responsibility for the South West and Wales. The merger of Taylor Woodrow with George Wimpey in 2007, resulted in Richard being appointed Divisional Managing Director, responsible for four business units in the South West and Wales. He held this post until 2013.

Robert Nettleton
Executive Director and Chief Executive
Appointed: April 2015

Prior to joining Merlin, Robert was Chief Executive at Cornwall-based Coastline Housing. Under Robert's leadership Coastline achieved Investors in People Gold status and a 92% customer satisfaction rating with the overall services provided, making them the best in the south west. Operating margin doubled during his tenure while profits increased fivefold.

Before joining Coastline, Robert was Group Development and Regeneration Director of the LHA-ASRA Group, covering an area from London to North Nottinghamshire. He was responsible for the group's development programme, resident involvement, community investment, and property services.

NON EXECUTIVES WHO LEFT THE BOARD DURING THE YEAR

Mareike Schmidt
(resigned September 2016)

Colin Dennis
(resigned December 2016)

OAKBROOK HOMES LTD

John O'Neill (Chair) - Non executive director (appointed September 2015)

Loretta O'Driscoll - Non executive director (appointed October 2016)

Robert Nettleton - Executive director (appointed September 2015)

Sue O'Neill - Executive director (appointed September 2015)

Mareike Schmidt - Non executive director (appointed September 2015 - resigned October 2016)

EXECUTIVE TEAM

Robert Nettleton - Chief Executive (appointed March 2014)

Sue O'Neill - Director of Finance and Resources (appointed October 2006)

Paul Coates - Director of Housing and Communities (appointed May 2015)

Martyn Blackman - Director of Investment (appointed May 2017)

Laura Haynes - Director of Investment (appointed December 2014 - resigned January 2017)

COMPANY SECRETARY

Andrew Ledger
(appointed November 2011)

REGISTERED OFFICE

Riverside Court, Bowling Hill,
Chipping Sodbury, Bristol BS37 6JX

ADVISERS AND BANKERS

External Auditors: Mazars LLP
45 Church Street, Birmingham B3 2RT

Principal Banker: Lloyds Bank Plc
25 Gresham Street, London EC2V 7HN

OUR STRUCTURE

Merlin Housing Society Limited - Charitable
A registered society under the Co-operative and Community Benefit Societies Act 2014 - Registered Society number 30012R - Homes and Communities Agency number L4485

Oakbrook Homes Ltd - Non Charitable
A private company limited by shares - for the provision of design and build services

Oakbrook Homes Ltd was first registered in October 2015 and agreements between Merlin and Oakbrook Homes were approved by the Board and Oakbrook Homes' Board in March 2016. During 2016/17 contracts have been signed for the development of 72 units at Coalpit Heath, and also the construction of 21 new homes at Beaufort Road and Blackhorse lane sites.

BOARD MEMBERSHIP DETAILS AT YEAR END, REMUNERATION AND MEETING ATTENDANCE

Name and remuneration details	Board	Audit and Risk Committee	Remuneration Committee	Board meeting attendance
ANDREW FRAYLING £12500	CHAIR		•	9 OUT OF 10
VIVIENNE HORTON £7000	DEPUTY CHAIR		CHAIR	10 OUT OF 10
RICHARD PENSKA £7000	•	CHAIR	•	9 OUT OF 10
JOHN O'NEILL £4500	•	•		10 OUT OF 10
LORETTA O'DRISCOLL £4500	•	•		10 OUT OF 10
JAMES HEALY £4500	•	•		9 OUT OF 10
RICHARD BIRD £2250	•			5 OUT OF 5
ROBERT NETTLETON £0	•			10 OUT OF 10

*Included in the sector scorecard

Notes: *The total number of Board meetings held in the year was 10. The Chief Executive receives no remuneration in respect of being a member of the Board. Mareike Schmidt resigned from the Board on 30th September 2016 having attended three meetings and received a remuneration of £2,250 in the year. Richard Bird was appointed to the Board on 1st October 2016. Colin Dennis resigned from the Board on 31st December 2016 having attended three meetings and received a remuneration of £3,375 in the year.*

The current economic, regulatory and political environment presents an increasingly complex challenge and therefore we need a strategic, committed and experienced Board. To this end the Board carried out a collective appraisal of its effectiveness during the year. The results of the self-assessment, which was externally moderated, demonstrated the Board has self-awareness and operates at a level that shows maturity; identifying areas where it can improve while recognising that it is open, inclusive, and performing well.

Richard Bird joined the Board in October 2016 following a selection process for a non-executive Director to add and enhance the existing commercial skills for large volume house building.

In line with its succession planning policy, the Board concluded its search for a new Chair to replace Andrew Frayling. The Board approved the appointment of Vivienne Horton as the new Chair of the Board as at 1 April 2017. Having stepped down from the Chair position Andrew Frayling remains on the Board as a non-executive Director until July 2017 to allow a period of handover.

DELEGATION

The Merlin Board has responsibility for the oversight of the delivery of the corporate plan and strategic risk management. The Board delegates certain governance responsibilities to committees and panels, through its standing orders, and each of these have their own approved terms of reference. Day-to-day operational and risk management is delegated to the Executive Team.

Two committees supported the Board and governance arrangements during the year.

- Audit and Risk Committee - responsible for overseeing internal audit, external audit, the effectiveness of risk management, internal controls, monitoring and challenging management on its identification and mitigation of risk, and reviewing the financial statements and financial performance.
    - The Audit and Risk Committee has delegated responsibility from the Board for ensuring proper arrangements exist for financial reporting, internal and external audit, risk management and internal control and compliance oversight.
    - The Board retains overall responsibility for risk management and internal control including the determination of its strategic risk appetite and tolerance to achieve objectives and to ensure that an appropriate corporate culture has been embedded throughout the organisation.
- Remuneration Committee - responsible for advising the Board on Executive remuneration and Board or committee appointments.
    - The Remuneration Committee has responsibility for appraising the Chief Executive and recommending the remuneration package for the Chief Executive to the Board. The committee also establishes objectives at the start of the year and approves all awards of the Executive Performance Pay Scheme.

In addition, delegated authority is given to the Treasury and Investment Panel.

- Treasury and Investment Panel - responsible for the approval of development schemes and investment opportunities subject to the Board approved Development Strategy and specific delegation criteria.
    - To consider and recommend to the Board (or approve and report, under the delegated authority criteria) development, disposals and material capital programmes.
    - Annually review the Treasury Management Policy and recommend any amendments to Board for approval.

The minutes of committees, and decisions from the panel are reported at each Board meeting.

Audit and Risk Committee Report

OVERVIEW FROM THE CHAIRMAN

The changing legislative, political and financial landscape that we are now operating in, along with our increased development and growth ambition, presents an increased desire to proactively manage risks and opportunities.

The Board, through its business in the year, has further developed its consideration of the financial resilience of the organisation through stress testing, and consideration of its risk appetite to various aspects of its operating environment.

Risk Management reporting is now providing good visibility over the effectiveness of controls over strategic risks and we have overseen good progress maintained towards the attainment of the OHSAS 18008 Health & Safety Standard concluding in our successful certification during 2017.

ROLE AND PERFORMANCE OF THE COMMITTEE

The Audit and Risk Committee has delegated authority from the Board for ensuring proper arrangements exist for financial reporting, internal and external audit, risk management and internal control. The Board retains overall responsibility for risk management and internal control including the determination of the nature and extent of the risks it is willing to take to achieve its strategic objectives (approval of risk appetite) and to ensure that an appropriate culture has been embedded throughout the organisation.

The committee met six times during the period. It is composed of four independent non-executive directors. Membership is detailed on page 51. Meetings are attended by the Executive Team, Chief Risk Officer and Internal Audit. Representatives from the business and external audit regularly make presentations. During the period, one change to membership took place. Committee member Mareika Schmidt left the Board in September 2016.

MATTERS CONSIDERED BY THE AUDIT AND RISK COMMITTEE

The committee considers a suite of risk and assurance information at each meeting to support their monitoring of risk exposures and the control environment across the business, including:

- Oversight of risk and audit reviews, outcomes and action tracking
- Approving risks, metrics and key controls for key strategic risks
- Review of Financial Statements for Board approval
- Annual quality assessment of the internal and external audit functions
- Approval of annual audit plans and strategy
- Annual review of the system of internal control
- Regulatory and legal compliance assessment
- Approval of key risk and control strategies and policies

During the period the committee requested additional reports from senior management and external sources, including:

- A rolling programme of in depth reviews of strategic risks, control environment, metrics and performance
- Risk Framework Review, including risk management enhancement plan
- General Data Protection Regulation impact assessment and action plan
- Thematic papers on risk appetite, data risk profile, IT Security and sector risk profile

Members of the committee joined Board members in Task and Finish Groups on financial planning and stress testing assumptions and mitigations and the review and oversight of our strategic 2020 Business Transformation Project

Richard Penska
Chair of Audit and Risk Committee

OUR APPROACH TO RISK MANAGEMENT

Merlin operates a prudent approach to risk with rigorous management controls and ongoing monitoring to support financial stability and sustainable business growth whilst protecting the integrity of our sector, our customer's needs, our homes and communities that we invest in. Risk appetite is set and approved by the Board, defining the level of risk we are prepared to seek, accept or tolerate. Our risk appetite is articulated within strategies, policies, authorities and limits across key business areas and risk types, defining the way we do business.

Risk identification, assessment and mitigation

Risks are identified, managed and monitored using our risk management framework, methodology and system, applied to business functions, projects, business planning and strategy. The risk management framework and policies are subject to regular review and ongoing development in line with internal standards, regulatory requirements, law and best practice. The Board regularly reviews the internal and external landscape to identify and consider emerging risks and determine mitigation strategies.

The key risks we face, which could significantly impact the delivery of our strategy, are discussed on page 44.

Risk reporting and monitoring

The effectiveness of our controls and mitigation strategies are monitored via our corporate risk and performance management system as part of our risk management and internal control framework. Risk and control monitoring, reporting and escalation through our business and risk governance structures enables Merlin to proactively monitor exposures, and ultimately enables the Board to assess the effectiveness of our risk responses and to consider whether mitigation is successful. Monthly, quarterly and annual risk and control assessment and reporting is in place.

Three lines of defence

Merlin's approach to the management and oversight of risk is based on the three lines of defence model.

- Business management is the first line of defence and has primary responsibility for risk management and control activities
- The risk oversight function, as part of the second line of defence, is responsible for setting and implementing the risk framework, policies and supporting tools and methodologies as well as providing independent and advisory support to the Board and business functions
- The internal audit function, acts as the third line of defence, providing independent and objective assurance on internal control

NEW HOMES AT ENSLEIGH IN BATH.

NEW HOMES AT ROYCROFT ROAD IN FILTON.

BOARD'S RESPONSIBILITIES

The Board is responsible for preparing the report of the Board and the financial statements in accordance with applicable law and regulations. Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the organisation and of the income and expenditure for that period.

In preparing the 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
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

The Board is responsible for keeping proper books of accounts that disclose with reasonable accuracy at any time the financial position of the organisation and enables them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2015and the Housing & Planning Act 2016. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard and to prevent and detect fraud and other irregularities.

Financial statements are published on our website, www.merlinhs.co.uk, in accordance with UK legislation governing the preparation and dissemination of financial statements. This may vary from legislation in other jurisdictions. The Board's responsibilities extend to the maintenance and integrity of the corporate and financial information on the website.

BOARD STATEMENTS

SYSTEM OF INTERNAL CONTROL

A review of the effectiveness of the system of internal control is facilitated on an annual basis involving the Chief Executive, Executive Team, Chief Risk Officer, the Audit & Risk Committee and the Board as a whole.

The internal controls framework is on-going and has been in place for the financial year ended 31 March 2017. No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements.

ACCOUNTABILITY TO CUSTOMERS

The Customer Assembly (CA) and the three Portfolio Groups form the core of a co-regulation framework of involved customers and key operational staff. The Independent Chair of the Assembly has a direct link to the Board attending meetings at least four times a year. The CA also has a Scrutiny Group reporting to it which reviews key services which directly affect customers. During 2016/17 the Scrutiny Group developed a mini-review methodology and a scrutiny report was presented to Board in March 2017. The CA oversees the work of other customer groups as well as the Portfolio Groups, reviewing information on customer feedback via the Complaints Review Panel and aligning plans between all involved groups annually.

DIVERSITY EQUALITY AND INCLUSION (DEI)

We are committed to an active DEI policy from recruitment and selection, through training and development, appraisal and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices are objective, free from bias and based solely on work criteria and individual merit. We take our responsibilities for the needs of our employees, customers and the community at large seriously. The Diversity Equality Inclusion & Partnerships Team lead our work in this area.

We fairly consider any employment applications made by disabled people. We also try to continue employing staff who become disabled during their employment. In the last year, the percentage of staff from a black or minority ethnic background was 1.8%, the percentage of female staff was 52.0% and the percentage of disabled staff was 2.7%.

GOING CONCERN

After making enquiries, the Board has a reasonable expectation that the organisation has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these financial statements.

STATEMENT OF COMPLIANCE

In May 2016 the Board adopted the NHF Promoting Board Excellence for Housing Associations - 2015 edition. Our compliance with the NHF Code of Governance has been subject to internal review. The Board is pleased to report full compliance with the code.

The Board also certifies that we meet the Governance and Financial Viability standard.

The Board has approved an updated Modern Slavery Act transparency statement for 2016/17 which has been published on our website www.merlinhs.co.uk.

The operating and financial review and Board report have been prepared in accordance with applicable reporting standards and legislation.

SHAREHOLDERS

There is a policy for admitting and ending shareholding membership and applications from tenants and leaseholders are accepted. All non-executive directors are also required to be shareholders for the duration of their membership of the Board.

GENERAL MEETING

The Annual General Meeting (AGM) of Merlin Housing Society Limited will be held on 27 July 2017.

EXTERNAL AUDITORS

All of the current Board members have taken the steps that they ought to have taken to ensure they are aware of any information needed by auditors for the purposes of their audit, and to establish that the auditors are aware of that information. The Board members are not aware of any relevant audit information of which the auditors are not aware. Mazars have expressed their willingness to continue in office as our auditors. Accordingly a resolution to reappoint them as auditors will be proposed at the forthcoming annual general meeting.

By order of the Board

Vivienne Horton
Chair
Date: 29 June 2017

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED **31 MARCH 2017**

We have audited the financial statements of Merlin Housing Society for the year ended 31st March 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

RESPECTIVE RESPONSIBILITIES OF THE BOARD AND AUDITOR

As explained more fully in the Statement of the Board's Responsibilities set out on page 57, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the entity's members, as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the entity's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the entity and its members as a body for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON THE FINANCIAL STATEMENTS

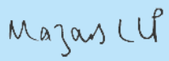
In our opinion the financial statements:

- give a true and fair view of the state of Merlin's affairs as at 31st March 2017 and of Merlin's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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 2015.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion;

- the entity has not kept proper books of account; or
- a satisfactory system of control over transactions has not been maintained; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we require for our audit.



Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street, Birmingham, B3 2RT

YOUNG CUSTOMERS OUTSIDE THEIR NEW HOMES IN COALPIT HEATH.

FINANCIAL
STATEMENTS

SECTION 3

FLATS AT ROYCROFT ROAD FILTON.

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED **31 MARCH 2017**

	Note	2017 £'000	2016 £'000
Turnover	3	43,728	41,960
Cost of sales	3	(884)	(418)
Operating expenditure	3	(27,135)	(27,429)
Operating surplus	3, 5	15,709	14,113
Surplus on sale of tangible assets	7	1,489	405
Interest receivable	8	98	66
Interest payable and financing costs	9	(4,300)	(4,049)
Gift Aid	31	7	
Net surplus		13,003	10,535
Actuarial gain/(loss) in respect of pensions	12	(4,814)	994
Total comprehensive income for the year		8,189	11,529

STATEMENT OF CHANGES TO RESERVES

YEAR ENDED **31 MARCH 2017**

	Restricted Reserve £'000	Revenue Reserve £'000	Total £'000
At 1 April 2016	0	59,598	59,598
Net surplus for the year	-	13,003	13,003
Transfer into restricted reserve	320	(320)	-
Actuarial gain/(loss) in respect of pensions	-	(4,814)	(4,814)
At 31 March 2017	320	67,467	67,787

STATEMENT OF FINANCIAL POSITION

AS AT **31 MARCH 2017**

	Note	2017 £'000	2016 £'000
Fixed Assets			
Tangible assets - housing	13	168,722	147,345
Tangible assets - other	14	3,727	3,618
Intangible assets	15	785	605
		173,234	151,568
Current assets			
Inventories	16	1,060	248
Debtors	17	32,416	38,168
Investments	18	1,940	434
Cash and cash equivalents	18	30,766	22,747
		66,182	61,597
Creditors: Amounts falling due within one year	19	(9,548)	(7,671)
Net current assets		56,634	53,926
Total assets less current liabilities		229,868	205,494
Creditors: Amounts falling due after more than one year	20	120,992	103,208
Provision for liabilities			
Pension provision	12	11,101	6,068
Provisions	26	29,988	36,620
		41,089	42,688
Capital and reserves			
Share capital	24	-	-
Reserve		67,787	59,598
Merlin's funds		67,787	59,598
		229,868	205,494

The financial statements were approved by the Board on 29 June 2017 and signed on its behalf by:

Vivienne Horton
Chair - Board

Richard Penska
Chair - Audit and Risk

Andrew Ledger
Company Secretary

STATEMENT OF CASH FLOWS

YEAR ENDED **31 MARCH 2017**

	Note	2017 £'000	2016 £'000
Net cash generated from operating activities	27	21,082	19,708
Cash flow from investing activities			
Purchase of property plant and equipment		(26,920)	(24,426)
Purchase of intangible assets		(608)	(246)
Proceeds from the sale of tangible assets		2,653	703
Grants received		1,247	2,555
Investment (purchased)/realised		(1,506)	(434)
Interest received		98	66
		(25,036)	(21,782)
Cash flow from financing activities			
Interest paid		(4,133)	(4,061)
New loans		27,106	15,367
Finance lease payments		-	(9)
Repayments of borrowings		(11,000)	(500)
		11,973	10,797
Net increase in cash and cash equivalents		**8,019**	**8,723**
Cash and cash equivalents at beginning of year		22,747	14,024
Cash and cash equivalents at end of the year		30,766	22,747

The results above derive wholly from continuing operations. The notes on pages 66 to 91 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED **31 MARCH 2017**

1. LEGAL STATUS

Merlin is registered as a Community Benefit Society under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Registered Provider of social housing.

At 31 March 2017, there were 34 shareholding members of Merlin (31 March 2016: 36 members).

Merlin has one unregistered subsidiary; Oakbrook Homes Limited. Oakbrook is a company limited by shares and Merlin is the only share holder.

2. ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT JUDGEMENT AND ESTIMATES

The following accounting policies have been applied consistently throughout the year in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

Merlin's financial statements are prepared under the historic cost convention in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102). The statements comply with the Statement of Recommended Practice for Accounting by registered social landlords (SORP 2014) and the Accounting Direction for Private Registered Providers of Social Housing 2015.

The financial statements are presented in thousands Sterling (£k) to the nearest thousand unless otherwise specifically stated.

Going concern

Merlin's business activities, its current financial position and the factors likely to affect its future development are set out within the strategic report. Merlin has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with day to day operations. Merlin has a long-term business plan which shows that it is able to service these debt facilities while continuing to comply with lenders' covenants.

On this basis, the Board has a reasonable expectation that Merlin has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Significant judgements

Preparation of the financial statements requires management to make significant judgements. The following are the significant management judgements made in applying the accounting policies of Merlin that have the most significant effect on the financial statements.

Impairment

From 1 April 2016, Merlin has reduced general needs social housing rents by one per cent per annum and will continue to do so in each year until 2019/20 in accordance with the Housing and Planning Act 2016. Despite cost efficiency savings and other changes to the business, compliance with the new rent regime has resulted in a loss of net income for certain social housing property. This trigger for impairment was assessed and no general impairment was found.

At the end of March 2017 we conducted an impairment review looking for specific indicators of impairment. Based on this assessment we made no impairment charge against our property.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to decent homes standards which may require more frequent replacement of key components. Accumulated depreciation at 31 March 2017 was £26.4m for housing properties and £3.3m for other tangible assets.

Defined benefit obligation (DBO)

Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analysed in note 12). The liability at 31 March 2017 was £11.1m (2016: £6.1m)

Recoverable amount of trade and rental debtors

Trade and rental debtors are included at undiscounted cost net of a provision for bad debts. Total trade and rental debtors at 31 March 2017 was £4.0m (2016: £3.1m) with a provision of £1.4m (2016: £1.2m) made to offset potentially uncollectable amounts. Actual collection may vary from the amounts included.

Basis of consolidation

Merlin accounts do not consolidate the accounts of the association and its wholly owned subsidiary Oakbrook Homes Ltd on the grounds of materiality.

Turnover

Turnover comprises:

a. Rental income from tenants receivable for the period

b. Income from shared ownership first tranche sales

c. Service charge income from tenants and leaseholders receivable;

d. Supporting People funding;

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

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Rental income is deferred to a future period where it does not relate to the current period. Income from first tranche sales is recognised at the point of legal completion of the sale. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with South Gloucestershire Council.

Taxation

Merlin is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore meets the definition of a charitable company for UK Corporation Tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Value added tax

Merlin charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The costs within the income and expenditure account include VAT to the extent that it is suffered by Merlin and is not recoverable from HM Revenue and Customs. The balance of VAT payable or receivable at the year-end is included as a current liability or asset.

Transfer of Housing Stock from Local Authority

Properties were acquired from South Gloucestershire Council for a consideration equivalent to their 'current market value' (i.e. the normal transfer price) plus the cost of bringing them into a good state of repair. Immediately prior to the transfer, the council contracted with Merlin to carry out these refurbishment works for a fixed sum, equal to the expected cost of the required work, and an invoice was issued by Merlin to the council for the full amount of the contract.

The terms of the council's undertaking to refurbish/repair the properties and the terms of the contract with Merlin are essentially similar; in particular, the price is fixed and no time limit imposed. Merlin's workforce and subcontractors are subsequently employed to carry out the work over a number of years.

The underlying substance of the transactions were reflected on a gross basis; recognising the contractual position of Merlin, which has both a valuable asset for which it has paid (the council's obligation to have the refurbishment carried out) and a legally binding obligation to complete the works under the refurbishment contract. These assets and liabilities are recognised in the statement of financial position within debtors and provisions respectively.

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 2016/17.

3. TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

YEAR ENDED **31 MARCH 2017**

	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings (note 4)	40,922	-	(26,035)	14,887
Other social housing activities				
First tranche shared ownership sales	1,405	(884)	-	521
Support contracts	473		(537)	(64)
Independent living contracts	-	-	-	-
	1,878	(884)	(537)	457
Non-social housing activities				
Garages	620		(316)	304
Commercial properties	308		(247)	61
	928		(563)	365
	43,728	(884)	(27,135)	15,709

No independent living contracts are now in operation. They have been replaced by an Enhanced Housing Management charge with turnover and cost shown in social housing lettings.

YEAR ENDED **31 MARCH 2016**

	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings (note 4)	39,696	-	(25,702)	13,994
Other social housing activities				
Frist tranche shared ownership sales	486	(418)	-	68
Support contracts	253	-	(412)	(159)
Independent living contracts	609	-	(816)	(207)
	1,348	(418)	(1,228)	(298)
Non-social housing activities				
Garages	631	-	(286)	345
Commercial properties	285	-	(213)	72
	916	-	(499)	417
	41,960	(418)	(27,429)	14,113

4. TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	Year ended 31 March 2017					Year ended 31 March 2016
	General needs housing	Supported housing and housing for older people	Temporary social housing	Low cost home ownership	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	31,295	5,995	223	84	37,597	37,265
Service charge income	898	1,936	86	3	2,923	2,073
Amortised government grants	77	0	0	0	77	36
Other income	300	23	2	0	325	322
Turnover from social housing lettings	32,570	7,954	311	87	40,922	39,696
Management	(5,771)	(1,687)	(97)	(28)	(7,583)	(7,394)
Services	(1,162)	(2,524)	(63)	0	(3,749)	(3,084)
Routine maintenance	(4,213)	(1,167)	(165)	0	(5,545)	(5,716)
Planned maintenance	(690)	(610)	(1)	0	(1,301)	(1,536)
Major repairs and improvements (non-capitalised)	(2,055)	(366)	(10)	0	(2,431)	(2,992)
Bad debts	(238)	(24)	(7)	0	(269)	30
Depreciation of housing properties	(4,264)	(865)	(19)	(9)	(5,157)	(5,010)
Operating costs on social housing lettings	(18,393)	(7,243)	(362)	(37)	(26,035)	(25,702)
Operating surplus on social housing lettings	14,177	711	(51)	50	14,887	13,994
Void losses	(140)	(74)	(18)	1	(231)	(257)

5. OPERATING SURPLUS

The operating surplus is arrived at after charging:

	2017 £'000	2016 £'000
Depreciation of tangible assets - housing	4,918	4,566
Depreciation of tangible assets - other	403	423
Amortisation of intangible assets	232	155
Loss on disposal of housing property components	176	574
Operating lease rentals		
- land and buildings	77	115
- vehicles	568	616
- other	13	12
Auditors' remuneration (excluding VAT)		
- for audit services	25	23
- for non-audit services	6	32
Total audit services	31	55

6. ASSET IN MANAGEMENT AND MANAGED BY OTHERS

AT 31 MARCH, ACCOMMODATION IN OWNERSHIP OR MANAGEMENT FOR EACH CLASS OF ACCOMMODATION WAS AS FOLLOWS:

	2017 No.	2016 No.
Owned and managed		
General housing - social rent	6,358	6,392
General housing - affordable rent	149	45
General housing - intermediate rent	35	31
Supported housing and housing for older people	1,400	1,444
Low cost home ownership	68	43
Leasehold properties	501	496
Owned and managed by others		
General housing - intermediate rent	15	15
Managed on behalf of others		
General housing - affordable rent	-	-
Total accommodation owned or managed	**8,526**	**8,466**
Other assets owned and managed		
Commercial property and other assets	66	70
Garages	2,423	2,452
Total assets owned and managed	**11,015**	**10,988**

7. SURPLUS ON DISPOSAL OF FIXED ASSETS - MERLIN

	2017 £'000 RTB/RTA	2017 £'000 Other	2017 £'000 Total	2016 £'000 Total
Sales Proceeds	2,633	1,861	4,494	2,658
Other Income	49	-	49	55
Cost of Sales	(459)	(526)	(985)	(448)
Council repayment	(1,771)	-	(1,771)	(1,860)
Surplus	452	1,335	1,787	405
Capital grant recycled	-	(71)	(71)	-
Disposal proceeds fund	(227)	-	(227)	-
	225	1,264	1,489	405

Sales of housing properties are accounted for on their completion date. Under the terms of the transfer agreement, a proportion of the proceeds from Right to Buy (RTB) sales are shared with South Gloucestershire Council. On completion of a RTB, the full proceeds are credited to the statement of comprehensive income and the share payable to the Council is treated as a cost of sale.

8. INTEREST RECEIVABLE

	2017 £'000	2016 £'000
Bank interest	98	66

9. INTEREST PAYABLE AND FINANCING COSTS

	2017 £'000	2016 £'000
Interest on bank loans and overdrafts	2,323	2,403
Interest on capital market loans	2,156	1,578
Net interest on defined benefit liability (note 12)	223	200
Other finance costs	220	216
	4,922	4,397
Interest capitalised on developments under construction	(622)	(348)
	4,300	4,049

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

Interest capitalised: Interest is capitalised on borrowings to finance the development of qualifying assets to the extent that it accrues in respect of the period of development. The interest capitalised is either on borrowing specifically financing the development programme or on net borrowings of the association as a whole to the extent they can be deemed to be financing the development programme. For the period ending 31 March 2017, interest has been capitalised at an average rate of 4.34% (2016: 4.85%)

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

10. EMPLOYEE INFORMATION

AVERAGE MONTHLY NUMBER OF EMPLOYEES EXPRESSED IN FULL TIME EQUIVALENTS:

	2017 No.	2016 No.
Administration	71	70
Housing and support	137	125
Repairs and property maintenance	174	203
	382	398

The basis of the calculation of the full time equivalent was 37 hours equating to one full time equivalent.

	2017 £'000	2016 £'000
Wages and salaries	9,944	10,681
Social security costs	997	905
Redundancy costs	119	295
Compensation for loss of office	-	29
Pension costs	1,517	1,895
	12,577	13,805

The number of persons including directors whose total remuneration exceeds £60,000 per annum is as follows:

	2017 £'000	2016 £'000
£150,000 to £159,999	1	-
£140,000 to £149,999	-	2
£130,000 to £139,999	-	-
£120,000 to £129,999	1	1
£110,000 to £119,999	-	1
£100,000 to £109,999	1	-
£90,000 to £99,999	1	-
£80,000 to £89,999	1	1
£70,000 to £79,999	8	1
£60,000 to £69,999	1	6
	14	12

11. EXECUTIVE AND NON-EXECUTIVE DIRECTORS

	2017 £'000	2016 £'000
Remuneration paid to the executive directors including the Chief Executive was:		
Emoluments	435	510
Employers' pension contributions	41	57
Loss of office	-	29
	476	596

	2017 £'000	2016 £'000
Remuneration paid to the non-executive directors was:		
Emoluments	49	25
	49	25

The remuneration of the highest paid director refers to Robert Nettleton, Chief Executive. Salary for the year ending 31 March 2017 was £134k (2016: £129k) and performance related pay was £13k (2016: £10k). The Chief Executive is an ordinary member of a defined contribution scheme operated through Royal London. The pension scheme is funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements. A contribution by Merlin of £11k (2016: £10k) was paid in addition to the personal contributions of the Chief Executive.

12. PENSION SCHEME

Merlin participates in two pension schemes:

(1) Avon Pension Fund: Defined Benefit Final Salary Pension Scheme

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.

On transfer of the employees to Merlin on 12 February 2007, their associated pension liability was fully funded by South Gloucestershire Council so there was no pension liability at that time. The value of the assets and obligations of the plan at this time were equal. A separate fund was set up for employees who joined post transfer.

The latest triennial actuarial valuation was carried out reflecting the position at 31 March 2016. This identified a total surplus of £885k in the transferring employees fund and a deficit of £616k relating to the Merlin fund. The deficit is being honoured with repayments scheduled over the next nine years with a similar plan to repay the surplus fund. During 2016/17, a repayment of £75k was paid in respect of the previous deficit position from the 2013 valuation.

The employer's contributions to the fund by Merlin for the year ended 31 March 2017 were £1,223k (2016: £1,356k) at an average contribution rate of 21.8% of pensionable salaries (2016: 23.6%).

Adjustments were also made to reflect the position at the 31 March 2017 based on the FRS102 Pension information from the scheme actuary. This resulted in a credit of £4k being reflected against contributions (2016: debit of £268k).

A total of £113k was payable to the scheme at 31 March 2017 (2016: £135k) and this is included in our creditors balance.

(a) Financial assumptions

The main financial assumptions used by the actuary were (all figures - % per annum):

	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Discount rate	2.6	3.6	3.4	4.6	4.4
Rate of increase in salary	3.8	3.5	3.6	3.9	3.9
Rate of increase in pension	2.3	2.0	2.1	2.4	2.4
Rate of inflation	2.3	2.0	2.1	2.4	2.4

(b) Mortality assumptions

The post-retirement mortality assumptions used to value the benefit obligation for the last three years are based on the PA92 medium cohort series. The assumed life expectations on retirement at age 65 are:

	2017 Years	2016 Years	2015 Years	2014 Years	2013 Years
Current pensioner:					
Males	23.5	23.5	23.4	23.3	22.9
Females	26.0	26.0	25.9	25.8	25.9
Future pensioner retiring in 20 years:					
Males	26.0	25.9	25.8	25.7	25.2
Females	28.7	28.9	28.8	28.7	28.2

This means an expected average age of a male is currently 88 and 91 for a female. In 20 years time, this is 91 and 94 respectively.

(c) Obligations and assets

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

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Present value of funded defined benefit obligations	(54,478)	(42,604)	(42,489)	(32,150)	(30,863)
Fair value of plan assets	43,377	36,536	35,922	29,913	26,082
Deficit	(11,101)	(6,068)	(6,567)	(2,237)	(4,781)

(d) Movements in present value of defined benefit obligation

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Benefit obligation at start of year	42,604	42,489	32,150	30,863	25,406
Current service cost	1,223	1,624	1,337	1,594	1,125
Past service cost	-	-	-	-	-
Interest cost on pension scheme liabilities	1,527	1,443	1,508	1,397	1,318
Loss on curtailments	32	-	-	-	231
Remeasurements (liabilities)	9,397	(2,880)	7,571	(1,950)	3,018
Member contributions	370	418	540	506	413
Benefits/transfers paid	(675)	(490)	(617)	(260)	(648)
Value at end of year	54,478	42,604	42,489	32,150	30,863

(e) Movements in fair value of plan assets

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Fair value at start of year	36,536	35,922	29,913	26,082	22,145
Interest on plan assets	1,332	1,243	1,407	1,476	1,242
Remeasurements (assets)	4,583	(1,886)	3,299	914	1,789
Employer's contributions	1,259	1,356	1,411	1,195	1,141
Member contributions	370	418	540	506	413
Benefits/transfers paid	(675)	(490)	(617)	(260)	(648)
Administration expenses	(28)	(27)	(31)	-	-
Fair value at end of year	43,377	36,536	35,922	29,913	26,082

(f) Analysis of the amount charged to the statement of comprehensive income:

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Current service cost	1,223	1,624	1,368	1,594	1,125
Effect of curtailments	32	-	-	-	231
Past service cost	-	-	-	-	-
Expected return on plan assets	-	-	-	(1,476)	(1,242)
Interest cost on plan liabilities	-	-	-	1,397	1,318
Net interest cost	195	200	70	-	-
Administrative expenses	28	27	31	-	-
Total operating charge	1,478	1,851	1,469	1,515	1,432

These amounts are recognised as a net cost within operating costs of £1,255k (2016: £1,624k) and a net interest cost of £223k (2016: £227k) in the statement of comprehensive income. The total amount recognised in the other income section of the statement of comprehensive income in respect of actuarial re-measurements is a loss of £4,814k (2016: gain of £994k).

(g) Major categories of plan assets

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Equities	15,095	15,126	16,200	13,011	14,633
Government bonds	3,470	2,265	3,880	2,573	2,686
Other bonds	16,700	11,874	10,705	8,735	4,799
Cash/liquidity	347	365	683	509	443
Property	2,516	2,631	2,299	1,765	1,747
Other	5,249	4,275	2,155	3,320	1,774
Fair value at end of year	43,377	36,536	35,922	29,913	26,082
Actual return on plan assets	6,251	(644)	4,675	1,461	3,030

(2) Royal London (previously Scottish Life) Defined Contribution Scheme

Merlin started to operate a defined contribution pension scheme from November 2013. The pension cost contributions payable by Merlin to the scheme for the year amounted to £313k (2016: £163k). Contributions amounting to £41k (2016: £31k) were payable to the scheme at the end of the financial year and were included in creditors.

13. TANGIBLE ASSETS - HOUSING

Housing properties

	Land £'000	Social housing properties held for letting £'000	Shared ownership properties £'000	Social housing properties under construction £'000	Total £'000
Cost					
At 1 April 2016	9,655	149,339	305	9,688	168,987
Improvements	-	6,859	-	-	6,859
Completed assets transferred from under construction	3,227	12,350	1,580	(17,157)	0
Transfers	(16)	(396)	-	(64)	(476)
Construction costs	-	-	-	21,080	21,080
Disposals	(73)	(1,289)	-	-	(1,362)
At 31 March 2017	12,793	166,863	1,885	13,547	195,088
Depreciation and impairment					
At 1 April 2016	-	21,627	15	-	21,642
Charged in year	-	4,909	9	-	4,918
Transfer	-	8	(4)	-	4
Released on disposal	-	(198)	-	-	(198)
At 31 March 2017	-	26,346	20	-	26,366
Net book value					
At 31 March 2017	12,793	140,517	1,865	13,547	168,722
At 31 March 2016	9,655	127,712	290	9,688	147,345

Housing properties

Housing properties are principally properties available for rent and are stated at historic cost less accumulated depreciation and any accumulated impairment loss.

Works to existing properties which result in an increase in the net rental income, such as a reduction in future maintenance costs, or result in a significant extension of the useful economic life of the property in the business, are capitalised as direct costs along with their directly associated overheads.

Depreciation of housing properties

Freehold land is not depreciated. Freehold buildings have been broken down into components. Components are different elements of the dwelling which have varying useful economic lives which are depreciated on a straight line basis so as to write down the net book value of the components to their estimated residual value over their expected useful lives. The principle annual rates used for the components are:

Freehold land	No deprecation charged
Structure	100 years
Roofing	50 years
Bathrooms	30 years
Doors	30 years
Electrics	30 years
Heating systems	30 years
Insulation	30 years
Windows	30 years
Lifts	25 years
PV panels	25 years
Kitchens	20 years
Boilers	15 years
Other works	10 years

Acquisitions

In accordance with the accounting requirements for property components, the costs relating to property acquisitions are divided into their relevant component parts and are capitalised and depreciated over their expected useful lives.

Impairment

Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential.

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in surplus or deficit in the Statement of Comprehensive Income. The recoverable amount of an asset is the higher of its value in use and fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and included in surplus or deficit in the Statement of Comprehensive Income.

Valuation

To determine the value on the basis of their existing use value for social housing (EUV - SH), they were professionally valued by Savills UK Limited, a subsidiary of Savills plc. The valuer is external and their valuation is at 31 March 2017. The valuation for loan security purposes was £327.5m (2016: £253.6m). It should be noted that future growth in both capital and rental values may not occur and values can fall as well as rise. Savills also valued the properties on an open market basis, assuming vacant possession and excluding shared ownership, at £1,105m (2016: £1,032m).

14. TANGIBLE ASSETS - OTHER

	Freehold Land	Freehold properties and fittings	Leasehold properties	Commercial properties	Furniture and equipment	Computer equipment	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 April 2016	1,079	3,985	121	44	917	1,872	38	8,056
Additions	-	-	-	-	14	93	43	150
Disposals	-	(182)	(111)	-	(14)	(267)	-	(574)
Transfers	17	234	-	230	-	-	-	481
At 31 March 2017	1,096	4,037	10	274	917	1,698	81	8,113
Depreciation								
At 1 April 2016	-	1,056	106	19	666	1,451	38	3,336
Charged in year	-	141	8	11	86	156	1	403
Transfer	-	1	(1)	-	-	1	-	1
Released on disposal	-	(63)	(111)	-	(15)	(267)	-	(456)
At 31 March 2017	-	1,135	2	30	737	1,341	39	3,284
Impairment								
At 1 April 2016	-	1,102	-	-	-	-	-	1,102
Impairment	-	-	-	-	-	-	-	-
At 31 March 2017	-	1,102	-	-	-	-	-	1,102
Net book value								
At 31 March 2017	1,096	1,800	8	244	180	357	42	3,727
At 31 March 2016	1,079	1,827	15	25	251	421	-	3,618

The net book value of other tangible fixed assets includes £22k (2016 £44k) in respect of assets held under finance leases.

Other tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided evenly on the cost of other fixed assets to write them down to their estimated residual values over their expected useful lives. The principal annual rates used for other assets are:

Freehold Land	No depreciation charged
Freehold Property (non-housing)	25 years
Freehold Property refurbishments	15 years
Furniture and fittings	5 years
IT hardware	5 years
Other equipment	5 years
Motor vehicles	4 years
Leasehold offices - refurbishment works	Over the life of the lease

15. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	£'000
Cost	
At 1 April 2016	2,259
Additions	421
Transfers	2
Disposals	(195)
At 31 March 2017	2,487
Amortisation	
At 1 April 2016	1,654
Charged in year	232
Transfers	1
Eliminated on disposal	(185)
At 31 March 2017	1,702
Net book value	
At 31 March 2017	785
At 31 March 2016	605

Intangible fixed assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is provided evenly on the cost of intangible assets to write them down to their estimated residual values over their expected useful life over 5 years.

16. INVENTORIES

	2017 £'000	2016 £'000
Properties held for sale	872	56
Van stock	155	140
Other stock	33	52
	1,060	248

Stock is valued at the lower of cost and net realisable value. The first tranche proportion of unsold shared ownership units are held on the statement of financial position as inventory until they are sold.

17. DEBTORS

	2017 £'000	2016 £'000
Due within one year		
Arrears of rent and service charges	1959	2,007
Less: Provision for bad debt	(1,345)	(1,171)
	614	836
Government grant debtor	1,271	439
VAT debtor	200	29
Other debtors	550	616
Less: Provision for bad debt	(45)	(34)
	1,976	1,050
Prepayments and accrued income	344	415
	2,934	2,301
Due after one year		
Major repairs provision debtor	29,482	35,867
Total debtors	32,416	38,168

18. INVESTMENT, CASH AND CASH EQUIVALENT

	2017 £'000	2016 £'000
Investments	1,940	434
Cash and cash equivalents	30,766	22,747

Investments is a money market deposit via a trustee account with the Housing Finance Company which is not available overnight. Cash and cash equivalents incudes petty cash, current account balances, overnight bank deposit and overnight money market funds.

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Rent and service charge funds received in advance are shown as creditors and are included within the amounts falling due within one year.

	2017 £'000	2016 £'000
Rent and service charges received in advance	1,312	1,413
Local Authority - right to buy share of proceeds	1,725	1,767
Trade creditors	549	480
Other creditors	165	168
Other taxation and social security	547	379
Accruals	1,126	2,367
Capital creditors	312	53
Capital accruals	2,759	948
Grant received in advance	707	-
Deferred grant income (note 21)	101	78
Disposals proceeds fund (note 22)	227	-
Finance lease (note 23)	18	18
	9,548	7,671

20. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017 £'000	2016 £'000
Financial Instruments (note 23)	114,188	97,738
Deferred grant income (note 21)	6,414	5,118
Recycled Capital Grant Fund (note 22)	121	88
Deposits	18	20
Leaseholder sinking funds	247	218
Finance lease (note 23)	4	26
	120,992	103,208

21. DEFERRED GRANT INCOME

	2017 £'000	2016 £'000
Balance at 1 April	5,196	2,728
Grant received in the year	1,470	2,502
Amortisation to income in the year	(77)	(34)
Released on disposal	(74)	-
Balance as at 31 March	6,515	5,196
To be released within one year	101	78
To be released in more than one year	6,414	5,118
	6,515	5,196

The total amount of Social Housing Grant (SHG) received at 31 March 2017 was £6,733k.

Grants include those received from the Homes and Communities Agency (the HCA), local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals model.

Grants in respect of revenue expenditure are credited to the statement of comprehensive income in the same period as the expenditure to which they relate.

Government grants received for housing properties are subordinated to the repayment of loans by agreement with the HCA.

22. RECYCLED CAPITAL GRANT FUND

	2017 £'000	2016 £'000
Balance at 1 April	88	88
Additions	71	-
Withdrawals	(39)	-
Interest	1	-
Balance as at 31 March	121	88

Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

Disposal proceeds fund

	2017 £'000	2016 £'000
Balance at 1 April	-	-
Additions	227	-
Withdrawals	-	-
Interest	-	-
Balance as at 31 March	227	-

Where disposal is made under right to acquire, a proportion of the receipt is held in a disposals proceeds fund to reflect the obligation under the original grant funding.

23. FINANCIAL INSTRUMENTS

Financial assets - measured at undiscounted amounts receivable

	2017 £'000	2016 £'000
Rent arrears and other debtors (note 17)	3,980	3,091

Financial liabilities - measured at amortised cost
Loans payable

	2017 £'000	2016 £'000
Within one year or on demand	-	-
One year or more but less than two years	-	-
Two years or more but less than 5 years	-	-
Five years or more	114,188	97,738
Loan at nominal value	112,000	98,000
Arrangement/financing fees	1,312	(1,054)
Effective interest adjustments	876	792
	114,188	97,738

Financial assets and liabilities are recognised when Merlin becomes a party to the contractual provisions of the instrument. Financial liabilities are carried at amortised cost.

These financial liabilities include interest bearing loans and borrowings. Non-current debt instruments which meet the necessary conditions in FRS102 are initially recognised at fair value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method with interest related charges recognised as an expense in finance costs in the statement of comprehensive income. Discounting is omitted where the effect of discounting is immaterial.

In accordance with Merlin's accounting policies, arrangement fees are prepaid and then amortised over the life of loan in accordance with the effective interest method.

All loans (£112m) are secured by a fixed charge over Merlin's residential properties. Loans include £32m of bank loan and £80m of capital market loans. Interest is paid on a quarterly and semi-annual basis at interest rates ranging from 1.4% to 5.9% (2016: 2.7% to 5.9%).

At 31 March 2017, Merlin had undrawn facilities of £78m (2016: £67m).

Obligations under finance leases

	2017 £'000	2016 £'000
Due within one year	18	18
Due after more than one year	4	26
	22	44

Financial liabilities - measured at undiscounted amounts payable

	2017 £'000	2016 £'000
Trade and other creditors (notes 19/20)	16,330	12,659

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to Merlin. All other leases are classified as operating leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring the surplus or deficit. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

The obligations under finance leases are repayable by equal instalments in less than five years and relate to photocopiers.

24. SHARE CAPITAL

	2017 £	2016 £
At start of year	36	36
Cancelled during the year	(4)	(3)
Issued during the year	2	3
At end of year	34	36

Share capital at 31 March 2017 comprises 34 shares of £1 each, of which 34 were fully paid at the year end. Each member of Merlin holds a share of £1 in the organisation. The shares provide members with the right to vote at general meetings, but do not provide any rights to dividends or distributions at winding up. Shares cannot be repaid or transferred. They are cancelled when a shareholder ceases to be a member and the £1 becomes the property of Merlin. Therefore, all shareholdings relate to non-equity interests and there are no equity interests in Merlin.

25. FINANCIAL COMMITMENTS

Capital expenditure commitments:

	2017 £'000	2016 £'000
Expenditure contracted for but not provided in the accounts	44,598	19,110
Expenditure authorised by the Board, but not contracted	18,695	31,248
	63,293	50,358

The above commitments will be financed primarily through net operating cash inflows and borrowings available for drawdown under our existing loan facilities.

Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the term of the lease. Total future minimum lease payments under non-cancellable operating leases are as follows:

Operating leases:

	2017 £'000	2016 £'000
Within one year	628	696
Between one and five years	182	849
Over five years	-	10
	810	1,555

26. PROVISIONS FOR LIABILITIES

The major repairs provision is for works to be undertaken to improve the housing stock transferred to Merlin from South Gloucestershire Council in 2007.

Major repairs provisions

	2017 £'000	2016 £'000
At start of year	35,868	43,723
Utilised in year	(6,386)	(7,855)
At end of year	29,482	35,868

Other provisions

	2017 £'000	2016 £'000
At start of year	752	382
Utilised/ Paid in year	(588)	(191)
Provision for redundancies, early retirement	77	147
Insurance Provision	96	-
Office accommodation	-	172
Other provision	169	242
At end of year	506	752
Total provisions for liabilities	29,988	36,620

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can readily be estimated.

27. CONSOLIDATED CASH FLOW FROM OPERATING ACTIVITIES

	2017 £'000	2016 £'000
Surplus for the year	13,003	10,535
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	5,322	4,999
Amortisation of intangible assets	428	155
Decrease / (increase) in inventories	(812)	128
Decrease / (increase) in trade and other debtors	(169)	352
Increase / (decrease) in trade and other creditors	778	90
Increase / (decrease) in provisions	122	
Pension costs less contributions payable	(4)	(68)
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	(1,489)	(351)
Government grants utilised in the year	(77)	(142)
Interest payable	4,078	4,076
Interest received	(98)	(66)
Net cash generated from operating activities	21,082	19,708

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2017 £'000	2016 £'000
Increase / (decrease) in cash and cash equivalents	8,019	8,723
Cash flow from (decrease) / increase in current asset investments	1,506	434
Cash inflow/(outflow) from changes in debt	(14,000)	(15,000)
Change in net debt from cash flows	(4,475)	(5,843)
Net debt at 1 April	(74,819)	(68,976)
Net debt at 31 March	(79,294)	(74,819)

29. ANALYSIS OF NET DEBT

	1 April 2016 £'000	Cash flow £'000	31 March 2017 £'000
Cash at bank and in hand	22,747	8,019	30,766
Current asset investment	434	1,506	1,940
Debt due after one year			
Loans drawn down	(98,000)	(14,000)	(112,000)
Changes in net debt	(74,819)	(4,475)	(79,294)

30. RELATED PARTIES

Non-executive directors who are tenants of Merlin are included on the list on pages 50 & 51. They are charged normal policy rents and receive no favourable treatment in any respect as a result of their directorship. Board Members who are councillors with South Gloucestershire Council are also included on the list on page 50 & 51. South Gloucestershire Council has nomination rights over tenancies for the Society's properties. All transactions with the council are under normal commercial terms and councillors are not able to use their position to their advantage.

31. OAKBROOK HOMES

Merlin Housing Society is the ultimate parent undertaking of Oakbrook Homes Limited - a company limited by shares and registered in England and Wales

Merlin have a £1 ordinary share investment (100% of the company's shares) in Oakbrook Homes Ltd; a design and build company. All of the profits made by Oakbrook were gift aided to the parent company.

Related Party Transactions

Non-regulated subsidiary	Cost in year £'000	Income in year £'000	Balance at year end £'000
Oakbrook Homes Limited	(378)	15	-
Intercompany (debtor)/creditor at year end	(278)	20	(258)

Costs in the year relate to design and build services provided by Oakbrook Home Limited. Income in the year relates to service level agreement charge for work done by Merlin Housing employees on behalf of Oakbrook homes LTD.

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