2017/18

FINANCIAL STATEMENTS

Merlin

www.merlinhs.co.uk

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

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"WE **ENABLE PEOPLE** TO BUILD AND REBUILD THEIR LIVES."

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STRATEGIC REPORT

IN JUNE 2017 WE COMPLETED OUR 500TH HOME AS PART OF OUR £20M PROGRAMME TO REFURBISH PRE-CAST REINFORCED CONCRETE PROPERTIES AND GIVE CUSTOMERS LIKE SANDRA AND MALCOLM GARLAND AN ENERGY EFFICIENT HOME.

A Snapshot of Our Business

OUR PURPOSE IS **TO ENABLE PEOPLE BUILD AND REBUILD THEIR LIVES**

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

WE ASPIRE TO BE A **WORLD CLASS ORGANISATION**

10,900

ASSETS UNDER MANAGEMENT

8,650

HOMES OWNED OR MANAGED

18,000

PEOPLE LIVE IN OUR PROPERTIES

382

AVERAGE FTE **COLLEAGUES**

£46m

TURNOVER

WE WORK IN THESE LOCAL AUTHORITY AREAS:

The Highlights of Our Year

GREATER FINANCIAL STRENGTH

6% INCREASE IN TURNOVER
FROM £44M TO £46M

£15M NET SURPLUS
£2M INCREASE FROM LAST YEAR

35% OPERATING MARGIN
1% DECREASE FROM LAST YEAR

1% RENT ARREARS
MAINTAINED WORLD CLASS PERFORMANCE

IMPROVED SERVICES

86% OF CUSTOMERS ARE SATISFIED WITH OUR OVERALL SERVICE
UP 2% FROM LAST YEAR

90% OF CUSTOMERS SATISFIED WITH ANTI-SOCIAL BEHAVIOUR SERVICES
UP 7% FROM LAST YEAR

82% OF CUSTOMERS SATISFIED WITH REPAIRS
UP 5% FROM LAST YEAR

85% OF CUSTOMERS SATISFIED THAT RENT IS VALUE FOR MONEY
UP 2% FROM LAST YEAR

INCREASED INVESTMENT

£52M INVESTED IN CURRENT AND FUTURE HOMES
UP FROM **£39M** LAST YEAR

186 NEW HOMES COMPLETED
42% INCREASE FROM LAST YEAR

326 NEW HOMES STARTS ON SITE
36% INCREASE FROM LAST YEAR

70 PEOPLE HELPED TO GET BACK INTO WORK
125% INCREASE FROM LAST YEAR

RESIDENTS AND THEIR FAMILIES ENJOYED A TEA PARTY AT BUCKINGHAM HOUSE, FILTON, TO CELEBRATE THE END OF A £1.5M PROGRAMME OF WORKS AT THE COMMUNITY WHICH SAW INDIVIDUAL FLATS BEING REDECORATED AND THE CREATION OF SIX MODERN ONE-BEDROOMED APARTMENTS.

Chairman's Introduction

I'm delighted to introduce our 2018 Financial Statements. I am, again, proud of how Merlin continues to respond to challenges, delivering another set of excellent results, whilst at the same time working to create a new organisation that will deliver even more in the future.

2017-18 was the second year of the Government's 1% rent decrease. It was also the year in which we witnessed the tragic fire at Grenfell Tower, continued uncertainty surrounding Brexit, and a snap general election. Despite the challenges we have achieved our highest surplus ever of £15.1m, up from £13m last year and £10.5m the year before. This has been achieved by our continued focus on financial discipline – increasing our turnover by 6% whilst maintaining a strong operating margin at 35%, up from just 18% four years ago.

Like last year we committed every penny of the surplus back into maintaining our existing homes and building new ones.

During the year we invested £34m in developing new homes, completing 186 new affordable homes. We operate in a high value area, where affordability is a material issue and it's therefore very pleasing to report that 51% of these new homes were for social rent. The new homes were built with just £1m of grant subsidy, and looking forward our increased pipeline will see us deliver in excess of 300 new affordable homes in 2018-19.

This year, we invested over £18m in maintaining and upgrading our existing homes including continuing our strategy of investing in whole house solutions where appropriate. We completed the refurbishment of a further 98 of our older precast reinforced concrete (PRC) homes and commenced work on remodelling our fourth independent living scheme. Over the past three years we have invested £12m in enhancing PRC and independent living communities.

Our financial framework continues to provide a strong platform from which to raise funding for new homes and we again took advantage of this securing additional funding at very low rates, to end the year with liquidity of just under £120m and a weighted average cost of capital of just 3.6%.

Our financial performance is extremely important but it is so because it enables us to do more, make more of a difference and ultimately it enables more people to build and rebuild their lives. Whilst it is great to report another year of excellent income management with our arrears at just over 1%, it is also great to report that our eviction rate was only 0.002% of tenants; this is the result of our focus of working closely with customers.

We continue to focus on customer satisfaction as a key measure of how we're performing and I'm really pleased to be able to report that overall satisfaction, which is measured by an independent body, increased by 2% to 86% year on year, whilst satisfaction with repairs and maintenance increased by 5% during the year. We've continued to increase our community investment activities too with our Wellbeing College. During the year we helped 70 people back into work and increased overall service satisfaction of customers with ill mental health by 4%.

Whilst continuing to deliver against our corporate plan and related goals, we have over the past 18 months focussed increasingly on how we can do more, and deliver further against our purpose. We recognised that we would achieve even more for current and future customers by joining forces with like-minded organisations.

We were delighted to announce our partnership with Bromford in December 2017, which will complete in early July. Bromford is a 29,000 home housing association with 1,200 colleagues, operating in central England – primarily between the West Midlands and Bristol. Most importantly, Bromford's purpose and values align very closely to ours.

Combining Bromford and Merlin will create a new organisation that will have an open market asset value of approaching £6bn, turnover of £250m and the lowest level of debt compared to peers. Coming together will create the strongest organisation in our area of operation, resulting in over 200 Neighbourhood Coaches working with customers in their communities and enabling over £1.5bn of net investment to build 14,000 homes in the next decade – with over 90% of these being affordable. These two objectives will enable more people to build and rebuild their lives.

We were delighted too, to announce at the end of March, that Severn Vale plans to join the new organisation at the start of 2019. Severn Vale is a 4,000 home housing association with 120 colleagues operating from Tewkesbury, in the centre of the new organisation's operating area. But, again, most importantly, Severn Vale's values and purpose also align closely with ours and Bromford's.

Over the past four years we have focussed heavily on the safety of our homes, ensuring that all our Fire Risk Assessments are continually up to date and any issues actioned, all our homes with gas are serviced in line best practice, and focussing heavily on all other safety issues. In 2016 we secured OHSAS accreditation and retained this in 2017. However, following the Grenfell tragedy we commissioned several additional independent reviews. These initially focussed on our two blocks over four stories in height and then widened out on a risk basis. These have not identified any material issues but we have set aside £0.4m in our long term financial plan to implement system upgrades.

The year has also seen even closer working with our Customer Assembly and customer groups that are part of our customer governance and involvement structure. These groups help shape and scrutinise the services we deliver and are vital to the success of Merlin.

I would like to finish by thanking my board colleagues and the staff group 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

"WE WERE DELIGHTED TO ANNOUNCE OUR **PARTNERSHIP WITH BROMFORD** IN DECEMBER 2017. THIS WILL COMPLETE IN EARLY JULY AND WE WERE DELIGHTED TOO, TO ANNOUNCE AT THE END OF MARCH, THAT **SEVERN VALE PLANS TO JOIN THE NEW ORGANISATION.**"

Our Business Model

OUR PURPOSE IS TO ENABLE PEOPLE BUILD AND REBUILD THEIR LIVES. 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 partly 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

Our Market Place

THE ECONOMY

The UK economy has remained robust over 2017-18 but uncertainty is still the constant factor. Inflation has been over the Government's 2% target all year, peaking over the winter. The increase in inflation led to the Bank of England increasing interest rates in November 2017 for the first time in a decade. With wage growth increasing throughout the year and despite inflation now falling again, further gradual rate rises are expected.

The sector has faced challenging times recently and will continue to do so. Brexit uncertainty is continuing with little clarity over how the sector will be affected. We have already seen Moody's downgrade the UK credit rating and subsequently the rating of many associations citing financial links with the UK sovereign.

RENT POLICY

In October, the Ministry of Housing, Communities and Local Government revealed the rent setting formulae for the period 2020 to 2025 that will follow four years of 1% reductions. The re-introduction of the CPI +1% formula used before the rent decrease policy in 2016 is positive. The announcement allows us and other housing associations to plan for the future with an increased level of security and certainty.

WE EXIST FOR CUSTOMERS - LIKE THE SMITH FAMILY

GRENFELL

In June 2017, we witnessed one of the worst fires in the history of modern Britain resulting in the loss of 71 lives in Grenfell Tower. The fire quickly spread to the building's external cladding, engulfing the entire building. The impact of the tragedy has been far reaching for both social housing and the construction industry and resulted in an immediate audit of external cladding on tower blocks.

The final report from Dame Judith Hackitt into building regulations and fire safety recommended the creation of a new regulatory system for high-rise residential buildings. This will be overseen by a single regulator made up of Local Authority Building Control, fire and rescue authorities and the Health and Safety Committee. There will be significant expenditure across the sector to ensure compliance and enforcement are in place, and that all cladding products are fit for purpose. Emergency steps have already been taken by many landlords, especially those with buildings clad with aluminium composite material - the cladding reported to be responsible for the rapid spread of the fire.

HOUSING SUPPLY

With the local authority housing waiting list having approximately 4.5m people on it, the demand for affordable housing remains high across the UK. Current projections suggest that 210,000 new households will be formed each year with an estimated 240-250,000 new homes needed to keep pace. Whilst the supply of new homes is critically important, so too is the need for a greater proportion of them to be genuinely affordable.

The demand for affordable housing across the south west remains high with 8,500 households on the waiting list in Bristol and 4,700 on the list in South Gloucestershire, our main area of operation. The south west has become an increasingly expensive area to live and house prices have continued to rise. The average house price in the south west is £255,000, 13% higher than the UK average, with the average in South Gloucestershire being £250,000 - 10% higher than the UK average.

The average house price in the south west is approximately nine times the average salary, and with the first interest rate rise in November 2017 along with further expected rises, this will no doubt increase the challenges for new owner occupation.

WEST OF ENGLAND DEVOLUTION

The West of England Combined Authority (WECA) is the combined authority of Bath and North-East Somerset, Bristol and South Gloucestershire councils and is led by elected Mayor Tim Bowles. WECA has been given devolved responsibility over spending on the region's transport, housing, adult education, and skills, with the aim of delivering economic growth. In March 2018 the Government agreed to take two housing infrastructure fund projects worth over £330m to the next stage of funding assessment. This will lay the foundations for the increased long-term delivery of housing, to buy and to rent, where it is needed and that people can afford.

MERGERS AND ACQUISITIONS

Mergers have continued to form a major and increasing role in the landscape of the social housing sector over the past two years. Over the year we have seen a number of mergers and partnerships and the continued emergence of large organisations. Mergers are not solely being used to deliver efficiency savings but rather a way to increase resources, drive economies of scale and significantly increase the ability to deliver new homes.
Our partnership with Bromford will create an organisation with nearly 40,000 homes and very significant balance sheet strength; details of which are set out later.

WELFARE REFORM

The rollout of the measures in the Welfare Reform Act are continuing to create pressures for landlords. There has been a vast amount of money spent in readiness for the full rollout of Universal Credit but 86% of landlords still expect the impact of the full introduction to be significant.

In the Autumn budget the Government announced a £1.5bn package to help alleviate the problems faced by those already claiming. At the end of March 2018, we had 87 customers claiming Universal Credit with an average debt of £321 per property.

Our Partnership with Bromford

In December 2017, we announced the proposal to create a partnership with Bromford. The partnership of Bromford and Merlin (new Bromford) brings together two exceptionally strong organisations and will be unique in delivering a very differentiated customer offer, whilst also ambitiously adding to the supply of new affordable homes, ultimately enabling more people to build and rebuild their lives. Importantly, whilst increased efficiency is one of the benefits that will enable the new organisation to do more, it is not the primary objective of Bromford and Merlin coming together.

At the start of the partnership in July 2018, new Bromford will own nearly 40,000 homes, have an annual turnover of £255m, an overall operating margin of 32% (core business 35%) and net debt of only £17k per unit. Employing 1,600 people, our flexible working practices and culture based on beliefs and behaviours will not only attract and retain the best talent but create capacity to expand apprenticeship and other trainee opportunities.

The combined balance sheet will enable us to be strategically bold and ambitious, including investing upfront in neighbourhood coaching across all communities and the expansion of the Wellbeing College. Bromford will employ more than 200 neighbourhood coaches to help our customers achieve what they want in life.

Extending along the M5 and M40 corridors new Bromford will link the West Midlands with Bristol and the West of England. It will be the strongest housing association operating solely in this area and will have the capacity and risk appetite to create transformational partnerships to both develop and regenerate communities.

It will create the largest sustainable development programme in the area of operation, capable of investing £1.5bn over the next decade to develop 14,000 new homes. Most of these homes will be affordable – social rent, affordable rent, and shared ownership – and will include supported housing too. At least half this investment will be focussed on the Gloucestershire growth areas, including South Gloucestershire.

We believe that the coming together of Bromford and Merlin is a fusion of talent, and making the best use of this talent now and for the future is a key objective. Investing in ever-improving technology minimises location as a barrier, enabling most people to work from wherever they wish to deliver the organisation's purpose. Within three years the new organisation will have delivered scalable, ultra-modern systems infrastructure through its transformation project, programme One. This will be easy to use for customers and colleagues alike and this, along with the organisation's strong and clear social purpose and values, will create an attractive proposition for future partnership growth at the appropriate time.

Between now and 2030, the net operating efficiencies are estimated, on a prudent basis, to be £26m. The net sum includes the additional costs of investing in neighbourhood coaching plus all additional costs, including additional funding costs and all one-off transformational costs. Such operating efficiencies are not required for the 14,000 home development programme and so allow a range of strategic choices – including accelerating planned investment in the transformation of older PRC and independent living communities, or additional community initiatives.

The Merger with Severn Vale

In March 2018, we announced the intent of Severn Vale to join new Bromford. Severn Vale's operating area is central to the new organisation's and bringing Merlin, Bromford and Severn Vale together will result in the creation of a housing association with nearly 44,000 homes. It will enable a further £100m of investment to increase the number of new homes by a further 1,000 over the next ten years through our new homes programme. Severn Vale's communities will also benefit from the roll out of neighbourhood coaching.

severnvale housing

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Bromford.

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COLLEAGUES FROM OUR PROPERTY SOLUTIONS TEAM TAKE A BREAK AFTER WORKING TO REFURBISH THE BIG ISSUE OFFICES IN BRISTOL.

Our People

Our organisation 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 enables 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 VALUE PEOPLE AND WORK TOGETHER

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 young people into our business. We recruited six graduates and apprentices across the year.

We have a Values Based Recruitment Framework to support a values-driven culture with strong leadership.

LEARNING AND DEVELOPMENT

Our dedicated Learning and Development Team support managers to equip colleagues with the skills they need. We continue to develop our team at all levels and we completed 3,010 training days during the year – much of it delivered in house.

The team also supports our health and safety professionals to ensure that our teams are appropriately trained, supported and audited.

We have also introduced e-learning and will expand the offer over the coming year, giving us even more channels to support our colleagues.

Since 2014, we have carried out an annual Great Places to Work Survey which measures the culture of our organisation in terms of how engaged our colleagues are. To qualify as a Great Place to Work, an organisation must reach a threshold score of 70%. Ten teams equating to 50% of our organisation have reached this target individually. Our scores for the organisation as a whole are shown below.

2014	2015	2016	2017
44%	58%	57%	65%

LEADERSHIP DEVELOPMENT

We are now running our third cohort on the Leadership Development Programme, with 21 colleagues taking part and working towards to a CMI Level 5 qualification as part of the programme. This 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.

GENDER PAY GAP REPORTING

As we employ over 250 colleagues, we are required to report our gender pay gap as at 1 April each year - we voluntarily reported this a year early in last year's statements. Our mean pay gap at 1 April 2017 is 12.9% (2016: 9.6%), with a median pay gap of 8.0% (2016: 10.7%). Further details can be found on our website.

Gender Summary

At 31 March 2018, our workforce profile (headcount) was split 51% / 49% female / male and broken down by salary band (excluding other remuneration) as follows:

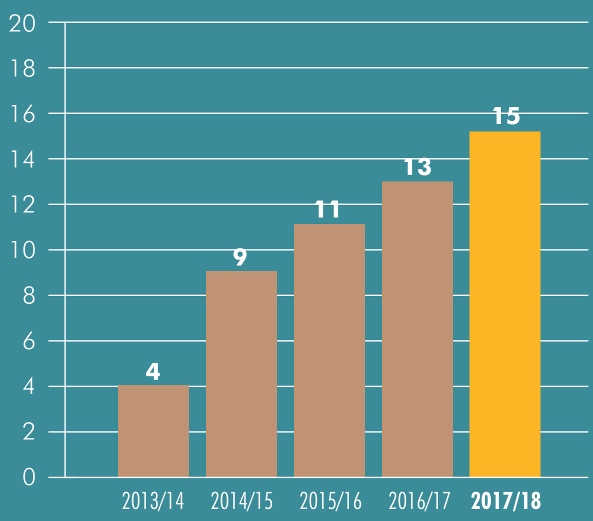
Salary band	Female	Male	Total Headcount
0-30k	147	124	271
30-60k	46	66	112
60-100k	4	6	10
Over 100k	0	3	3
Total	208	193	396

Our Financial Review

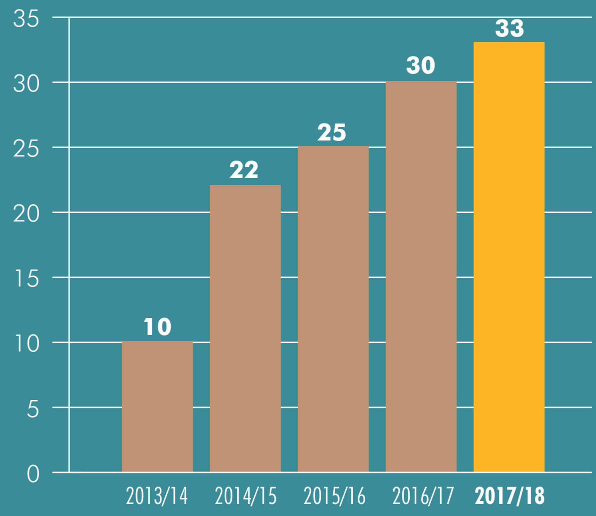
During the year we increased our net surplus for the fourth consecutive year delivering an annual profit of £15.1m (2017: £13.0m). Top line revenue increased by 6% largely through a 147% year on year increase on first tranche shared ownership sales (up to £3.5m) supported by a 2% growth in social housing income as we continued to see additional units come on stream. This is the first year Merlin Group accounts have been produced consolidating the activities of Oakbrook Homes, our design and build subsidiary. Oakbrook Homes gifts all profits to Merlin and hence revenue costs associated with these developments are borne by the group as a whole and are not presented in the individual entity results of Merlin. All figures presented are those of the Group.

Overall operating margin reduced slightly to 35% (2017: 36%) due in large part to increased non-cash pension contributions of £0.6m having a negative 1.3% impact on the margin. Nevertheless, due to increased revenues operating surplus again increased to £16.3m (2017: £15.7m)

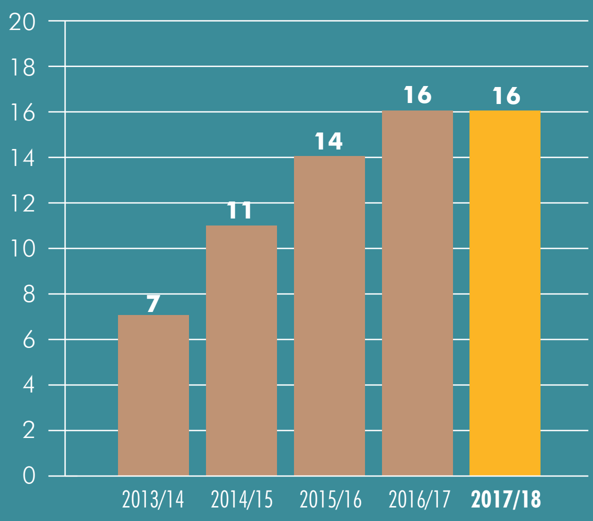
Net Surplus (£m)



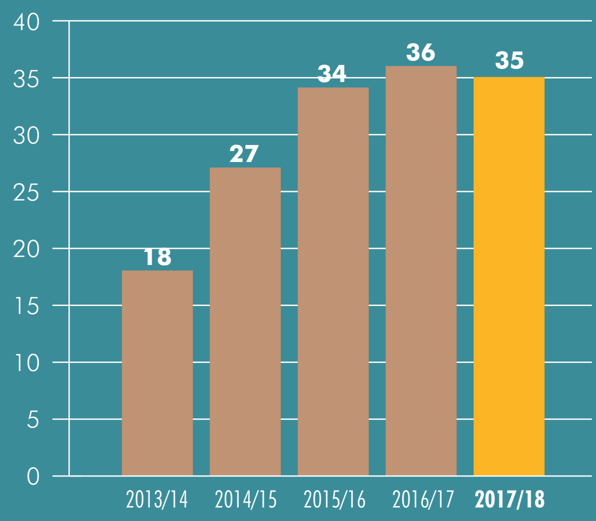
Net Margin (% of Turnover)



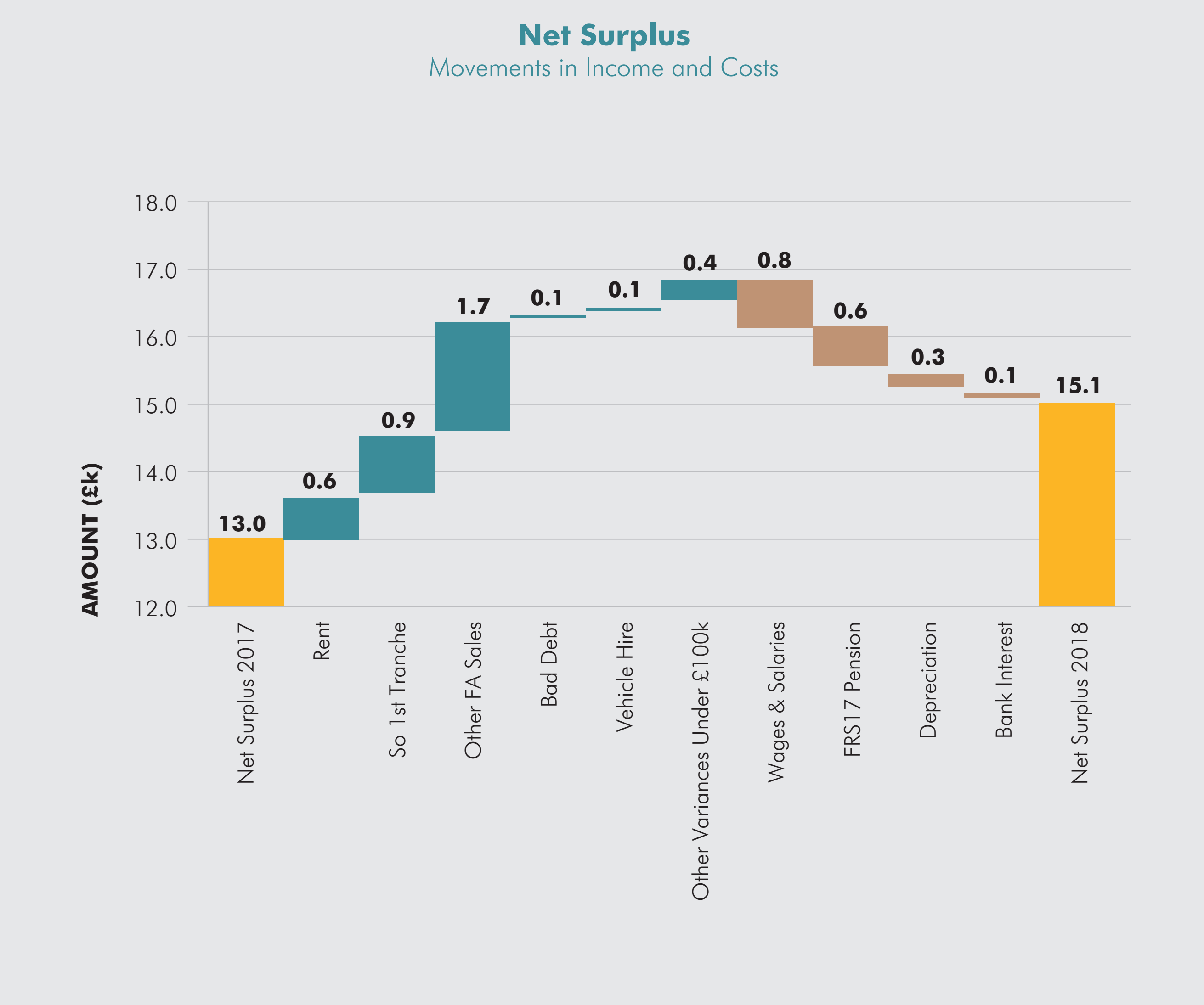
Operating Surplus (£m)

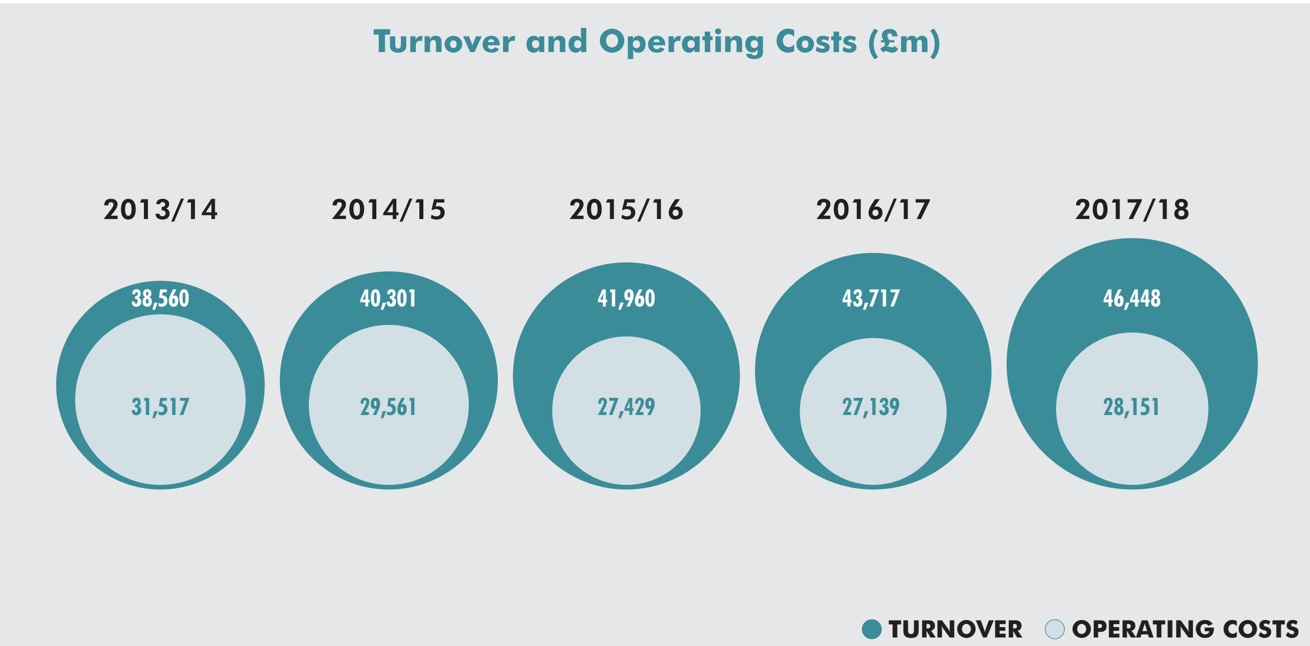


Operating Margin (% of Turnover)



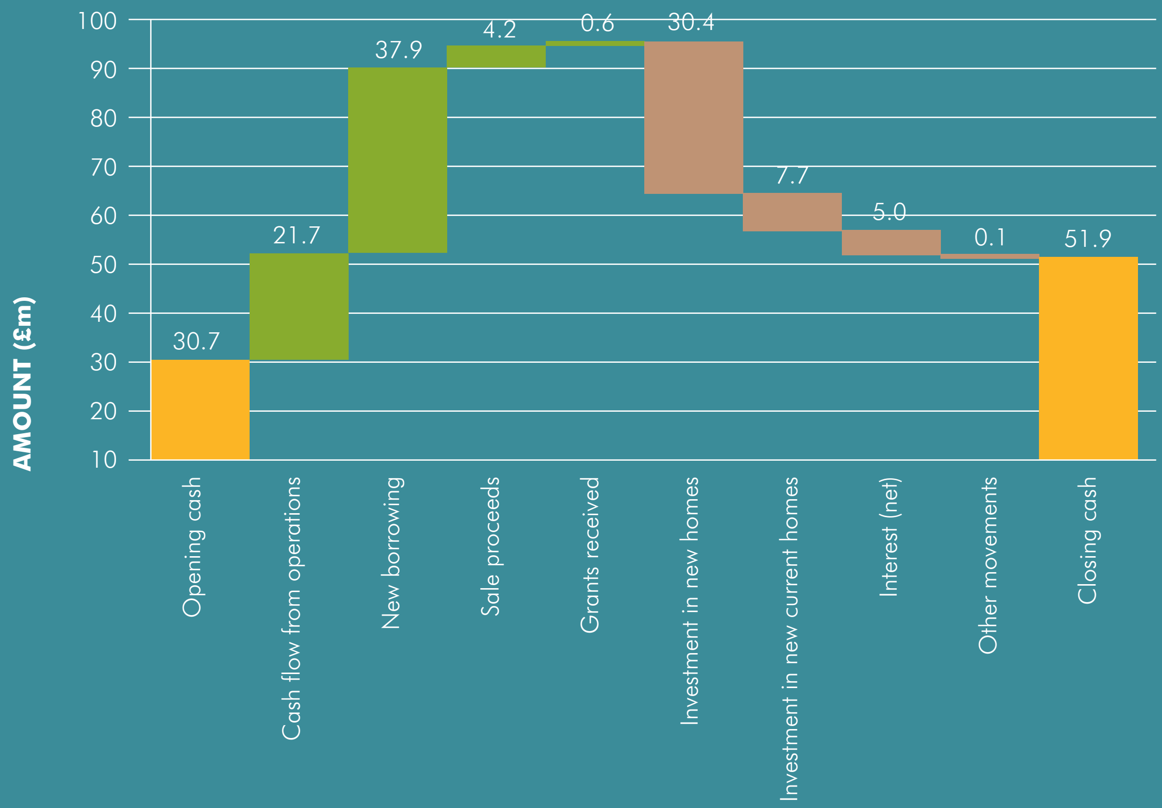
The net surplus was impacted by the significant movements set out below



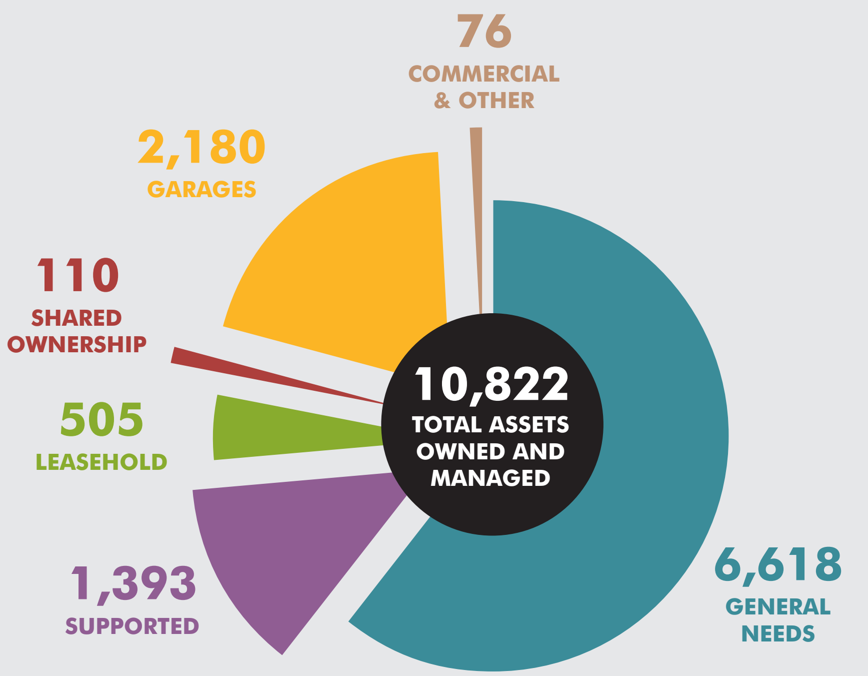


We invested all of the cash generated from operating activities (£22m) into our business supplemented by new borrowing (£38m) and sales and grant receipts (£5m). Spending on capital improvements to our existing homes was £8m, and we spent £30m building new ones (plus £4m of accruals). Overall, our cash holdings increased by £21m during the year.

Cash Generation and Investment



Merlin owned and managed assets



We have increased the overall number of properties in ownership and management through our development activity with 8,626 properties owned and managed at the year-end (2017: 8,526).

We developed 186 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. As part of our PRC redevelopment programme we demolished 44 properties. In addition, a further 16 vacant properties were disposed of where it was not economical to repair. These property sales in addition to the disposal of garage sites and other small parcels of land have generated additional net receipts of £2.2m for reinvestment.

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 2014 to 71% and 95% respectively. Assets at net book value were 220% of net debt (£94m), whilst properties on an existing use value for social housing (EUV-SH) basis were worth £348m, 369% 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 £23.2m 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 £6.2m in relation to work undertaken during the year.

Pension liability on the closed local government scheme decreased by £1.5m to £9.6m. This is sensitive to fluctuation depending upon actuarial assumptions year on year. 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 its place. However, existing members of the defined benefit scheme retain ongoing membership, and existing liabilities will require continued funding.

WE BUILT 30 NEW HOMES ON THE SITES OF A FORMER OLDER PEOPLE'S HOUSING SCHEME AT IRVING CLOSE IN STAPLE HILL AND THE FORMER GARAGES IN NEARBY JAMES ROAD. THE HOMES ARE A MIXTURE OF ONE AND TWO BEDROOM FLATS, TWO AND THREE BEDROOM HOUSES PLUS A NUMBER OF ONE BEDROOM BUNGALOWS.

INCOME AND EXPENDITURE IN £M

	2013/14	2014/15	2015/16	2016/17	2017/18
Turnover	38.5	40.3	41.9	43.7	46.4
Operating expenditure	(31.5)	(29.6)	(27.4)	(27.1)	(28.2)
Cost of sales	-	-	(0.4)	(0.9)	(2.1)
Operating surplus	7.0	10.7	14.1	15.7	16.2
Surplus on sales	0.6	1.0	0.4	1.5	3.2
Impairment - non-housing	(1.1)				
Interest receivable			0.1	0.1	0.1
Interest payable	(2.8)	(2.9)	(3.8)	(4.1)	(4.2)
Net interest on defined pension liability	0.1	(0.1)	(0.2)	(0.2)	(0.3)
Surplus for the year	3.8	8.8	10.5	13.0	15.1
Operating margin (%)	18	27	34	36	35
Surplus for the year (%)	10	22	25	30	33
Turnover increase (%)	3	5	4	4	6
Operating expenditure increase (%)	6	(6)	(6)	(1)	4

BALANCE SHEET IN £M

At 31 March	2013/14	2014/15	2015/16	2016/17	2017/18
Total fixed assets (net)	121.2	133.2	151.6	173.2	207.4
Net current assets *	52.7	51.3	53.9	56.6	70.5
Total assets less current liabilities	173.9	184.5	205.5	229.9	277.9
Creditors	73.7	85.7	103.2	121.0	159.3
Provisions	54.2	44.1	36.6	30.0	23.6
Pension	2.2	6.6	6.1	11.1	9.6
Revenue reserve	43.8	48.1	59.6	67.8	85.5
Balance	173.9	184.5	205.5	229.9	277.9
* includes cash (or equivalent)	6.1	14.0	22.7	30.8	52.8
Owned and managed (units)	7,952	7,912	7,970	8,025	8,121
Leasehold and other (units)	482	496	496	501	505
Total owned or managed housing (units)**	8,434	8,408	8,466	8,526	8,626
Net debt / unit (£000)	8.5	8.7	9.5	10.1	11.6
Reserves / unit (£000)	5.5	6.1	7.5	8.5	10.5
Average interest cost %	3.9	3.9	4.6	4.3	3.6
Fixed assets (net) increase %	5	10	14	14	20
Revenue reserve increase %	18	10	24	14	26

Please note that figures for 2014/15 onwards are presented on an FRS102 basis.
** excluding commercial units and garages

TREASURY

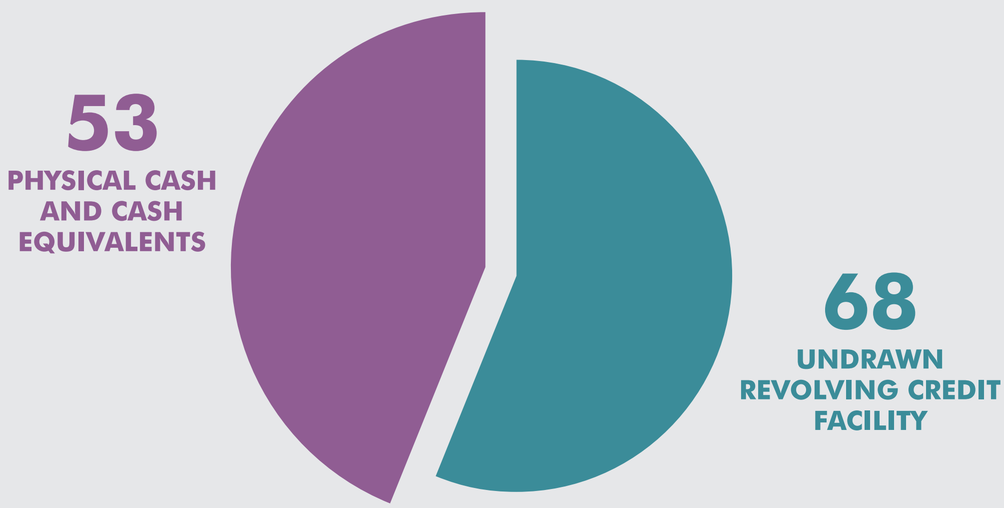
Our treasury management activities are critical to support the delivery of our growth ambitions and investment plans. We have a Treasury Strategy that ensures we efficiently and effectively mitigate, absorb and manage financial risk, enabling the delivery of the Group Financial Plan.

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 cash flow from operations, Government grant and external lending facilities. We generated a healthy net operating cash inflow of £21.7m (2017: £21.1m), due to an increase in revenue from first tranche shared ownership sales and continued management of costs against i ncreased revenues.

At 31 March 2018, we had drawn loans totalling £147m (2017: £112m) and available undrawn facilities of £68m (2017: £78m). Cash equivalents held at the year-end totalled £53m (2017: £31m), leaving net debt at £94m (2017: £81m) and a strong available liquidity position of £119m (2017: £99m). Our strategy is to predominantly utilise undrawn revolving credit facilities to maintain liquidity capacity, allowing liquidity risk to be managed efficiently, mitigating the cost of carry on excess funds.

Cash and Facilities Available (£m)



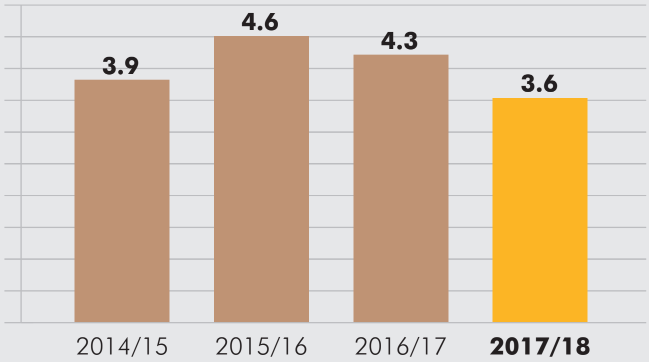
Additional liquidity secured in the year totalled £35m. With the continuation of the favourable low interest rate environment, we took advantage to secure additional funding of £25m. £15m of debt was secured and drawn through an Affordable Homes Finance Bond in October 2017 and a £10m European Investment Bank loan was secured and drawn in March 2018. A further £10m was drawn from an earlier European Investment Bank Loan, agreed in 2016/17, that had been forward fixed to December 2017.

Reflecting our strong focus on liquidity, our treasury policy requires a minimum cash balance of £7.5m. We exceed this policy threshold throughout the year, with cash deposited across five counterparties.

We operate a conservative counterparty policy, aiming to minimise risk of financial loss or liquidity exposure linked to any counterparty. Our strategy identifies counterparty credit ratings being of more importance than returns. We have no foreign currency risk, with borrowing and investment of surplus cash only in sterling.

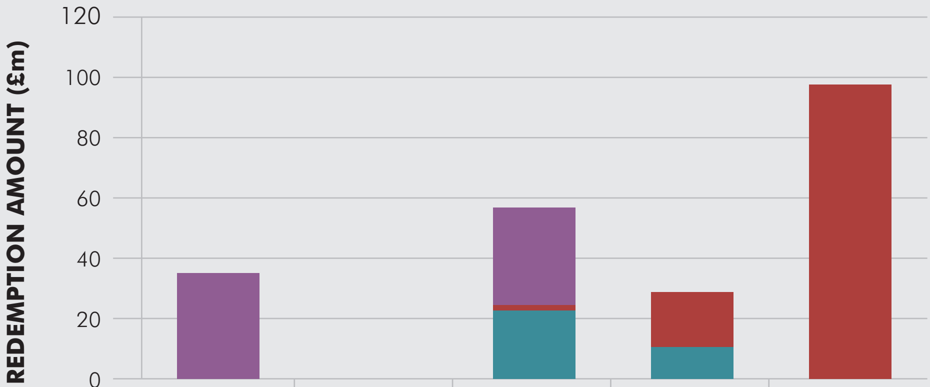
The weighted average cost of drawn debt was 3.6% (2017: 4.3%) during the year. The weighted average duration of drawn debt is 24.3 years (2017: 22.5 years). Our treasury strategy is to manage interest rate risk and we utilise fixed rate debt to minimise exposure to interest rate changes, whilst allowing a level of variable rate debt to take advantage of lower short-term rates.

Average Interest Cost %



Our Treasury Strategy requires that we do not have to refinance material amounts of debt in any one year. An undrawn £35m revolving credit facility will need to be refinanced within two years' (16% of loan facilities) to maintain current facility levels.

Facility Redemption Profile



	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	35	0	33	0	0
Capital Market Debt	0	0	1	18	97
Bank Debt	0	0	22	10	0

SECURITY

Our year end stock valuation is £346.5m (2017: £327.5m) of which we have a strong level of unencumbered security (£74.7m EUVSH) sufficient to meet our Group Financial Plan's future funding requirements and which supports our development and investment ambitions. We have £68m of undrawn facilities, with asset cover ratios comfortably met against all drawn facilities (£147m).

During the year S133 and S172 restrictions forming part of The Housing Act (1998) were repealed. This means that all LSVT (Large scale Voluntary Transfer) homes no longer have restrictions limiting their value to existing use. At 31 March 2018, 92% of Merlin's stock is LSVT.

Until these changes to legislation took place, LSVT stock could only ever achieve a security value known as EUV-SH (Existing use value - social housing), rather than MVST (Market value subject to tenancy). EUV-SH values allow our homes to be given a proportion of their full open market value but at a much lower rate than that of MVST.

Our facilities with Lloyds & Canada Life allow asset valuation conversion to MSVT and our strategy is to progress with this conversion in early 2018/19.

Performance and Value for Money

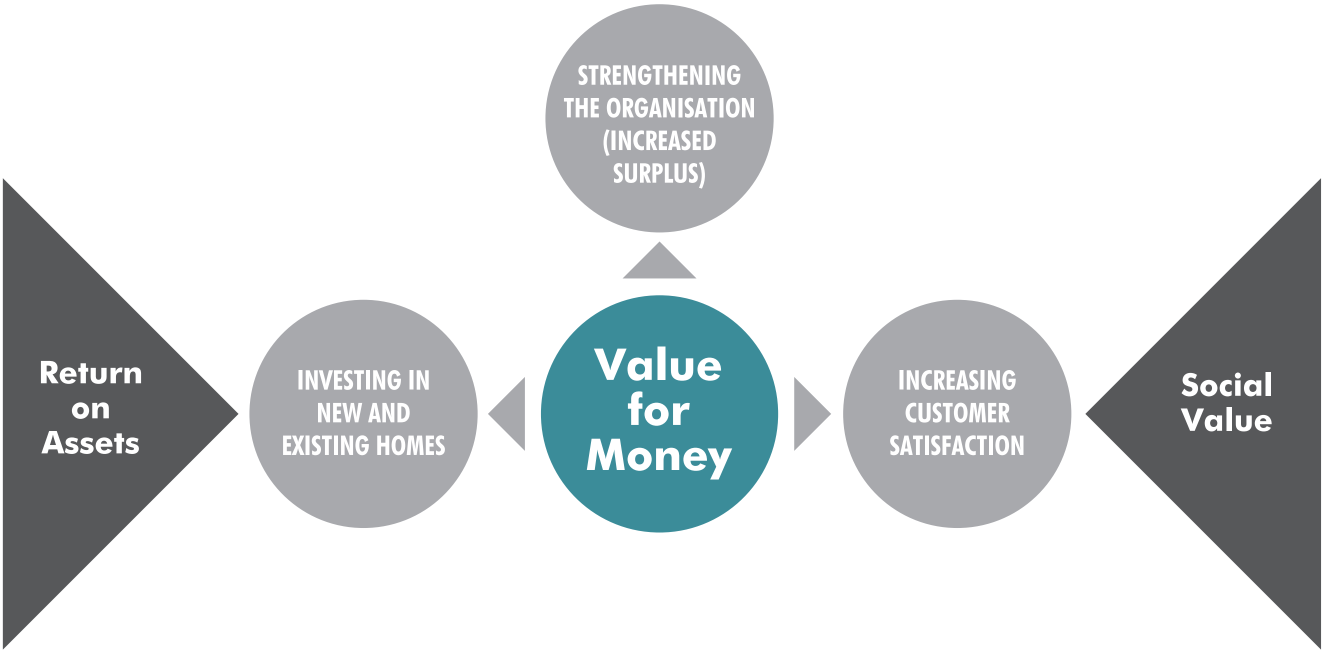
OUR APPROACH AND BUSINESS MODEL

As a Board, we are clear on our purpose and how we translate that through our strategy into deliverable goals. Ultimately, we exist as a business to enable people to build and rebuild their lives.

In 2015 we launched an ambitious four-year Corporate Plan. We set out that we wanted to transform the organisation and aimed to create a world class one. We established clear objectives and metrics on how we would judge whether we achieved our goals. Despite the material changes to our operating environment over the past three years, our Corporate Plan 2015/19 remains relevant. Improving value for money is, and always has been, 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 help 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. These were the cornerstones of our Corporate Plan and to ensure absolute transparency we have set out our progress (or not) in each of the last three sets of financial statements.



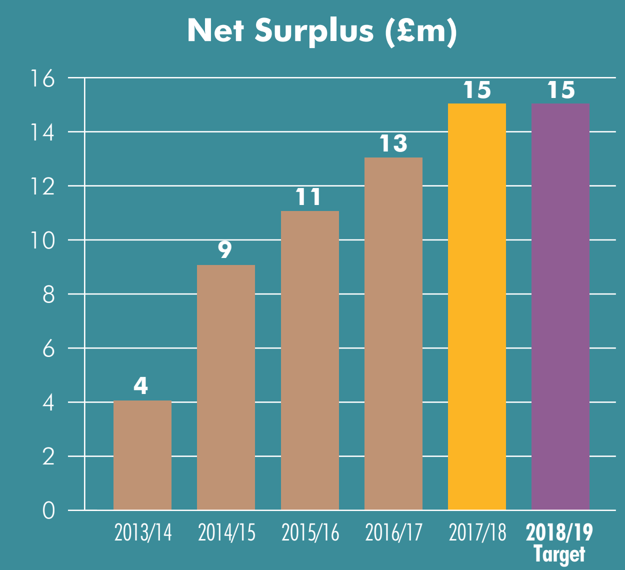
In 2017, the Regulator of Social Housing (RSH) published a revised Value for Money standard. This builds on the previous standard and requires evidence to enable stakeholders to understand Merlin's performance against our own targets and any metrics set out by the regulator, including comparisons with peers, to be published annually in our accounts. The new metrics introduced with the Sector Scorecard are included alongside other continuing key measures, supported by plans to address any areas of underperformance. Helpfully from our perspective, we have published our position on the regulatory metrics in each of the last three years.

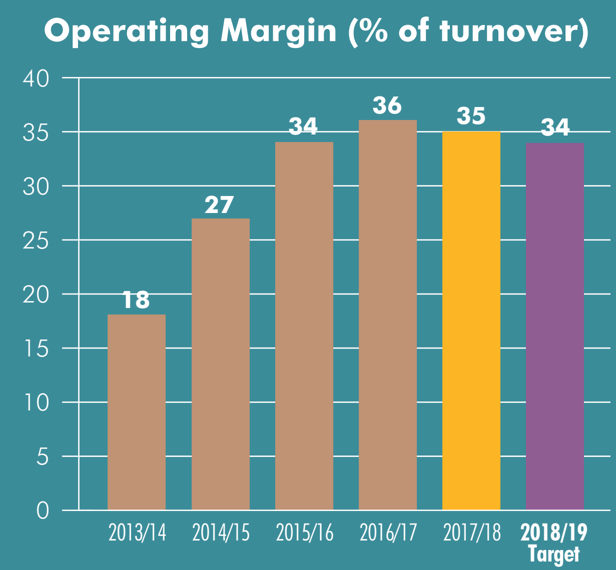
We welcome the revised standard and the focus on transparency in establishing and reporting on targets. We set Corporate Plan targets to align us with being a world class organisation by 2019. Delivering against these targets will improve value for money performance, enabling us to increase our financial capacity to deliver a new homes development programme of 300 units a year by 2019.

As a Board, we monitor performance against the corporate plan throughout the year and continually challenge performance, considering changes in our operating environment and any current and anticipated risks that might affect the business.

OUR KEY PERFORMANCE INDICATORS

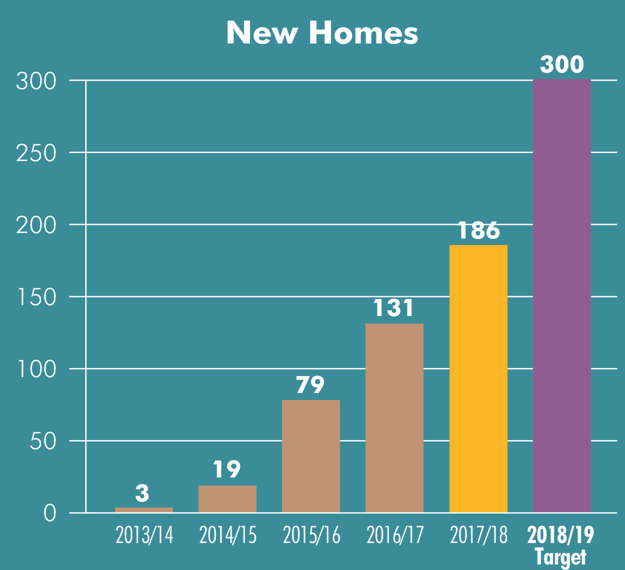
INCREASED SURPLUS

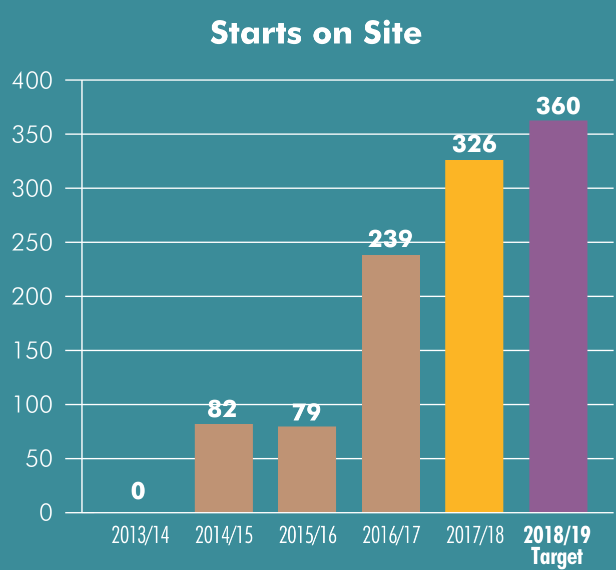




During 2017/18, our general needs rental income reduced by £0.4m in absolute terms because of the rent cut. In addition, notional pension costs included with operating costs increased by £0.6m due to changes in actuarial assumptions. However, through growing our business by increasing the number of new homes, we have increased overall turnover by £2.7m, increased net surplus to a record £15.1m, and delivered a strong 35% operating margin.

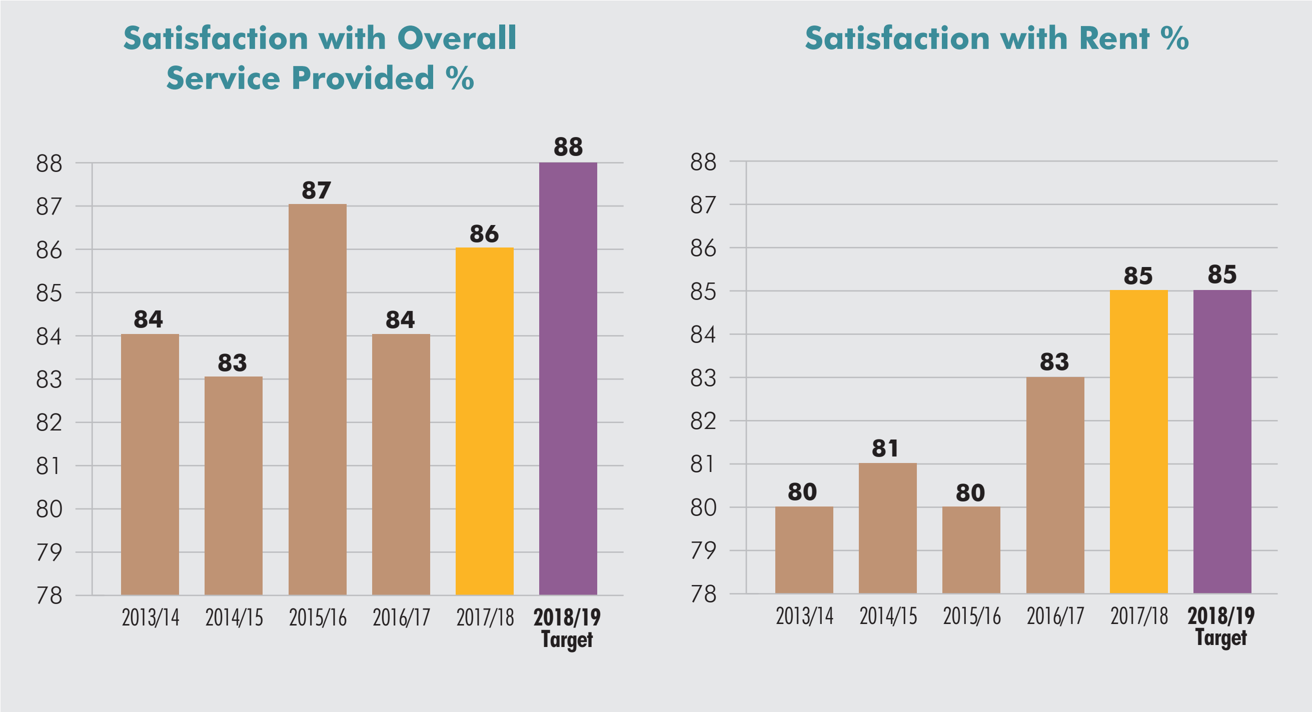
MORE NEW HOMES





We have continued to sustainably increase our development programme and we are on track to achieve the corporate plan target to develop 300 homes per year by 2018/19. 186 homes were completed in 2017/18 - falling short of our annual target of 235 homes, but we outperformed our starts on sites achieving 326 against a target of 275.

IMPROVED CUSTOMER SATISFACTION



During the year customer satisfaction, measured independently, increased by 2% to 86% meeting our annual target, whilst satisfaction that rent is value for money increased by a further 2% to 85%.

OUR PERFORMANCE

The operating environment remains dominated by uncertainty. The external pressures from the Government's austerity measures have affected a significant number of our customers. The four years of 1% rent reductions, starting in April 2016, remain in force and will have resulted in a £13m reduction in rental income over the period to March 2020. The implications of the vote to leave the European Union are unclear. However, we do know that maintaining a strong financial base will be critical to our future success.

The Regulator of Social Housings (RSH) indicators are shown throughout the document. They relate clearly to our strategy and are discussed further in the individual sections. For transparency, we have included all RSH metrics in one place at the end of the performance and value for money section of these financial statements.

STRENGTHENING THE ORGANISATION

The Board has recognised the progress made in strengthening the organisation and improving our financial performance during the first three years of the Corporate Plan. In 2017/18 we grew turnover by 6% with net surplus at a record £15.1m (33% of turnover) which remains top quartile against other housing providers. We continued to operate against our reduced cost base having delivered efficiency plans that have seen a £3.4m reduction in operating costs over the last four years. We have consolidated the savings and report another year of good operating margin of 35% (2017: 36%). While this is 1.5% better than we budgeted, it is a 1% reduction year on year and second quartile compared to other providers in 2016/17.

The Board have also pursued our merger strategy enabling the Bromford partnership to take shape. As set out earlier, this will create a new organisation with additional strength and capacity to do more for current and future customers.

	Actual 15/16	Actual 16/17	Target 17/18	Actual 17/18	Target 18/19
SURPLUS (£m)	10.5	13.0	12.1	15.1	14.8
NET SURPLUS %	25	30	27	33	30
OPERATING MARGIN % (*)	34	36	34	35	34
OVERHEADS AS % OF TURNOVER (*)	8.0	8.4	8.0	8.8	8.5
VOID LOSS %	0.5	0.7	0.7	0.6	0.8
AVERAGE DAYS TO RE-LET EACH VOID PROPERTY	22	25	19	28	21
CURRENT TENANT ARREARS (%)	0.9	1.0	1.8	1.1	2.0
AVERAGE INTEREST COST (%)	4.6	4.3	3.8	3.6	3.6
INTEREST COVER % (EBITDA) (*)	228	288	212	300	309
NET DEBT PER UNIT OWNED (£000)	9.5	10.1	12.4	11.6	14.7
GEARING % (*)	44	43	43	43	47

*RSH VFM METRIC. NOTE MERLIN'S LENDER COVENANT IS EBITDA – ½ MRI UNTIL 2019
[1] NOTE THAT WE REBASE OUR AMBITIOUS CUSTOMER SATISFACTION TARGET FOR 2018/19 FROM 90% TO 88%

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 34% operating margin by continuing to grow our business and deliver further efficiency savings. The increase to revenue was driven by increased shared ownership first tranche sales of £3.5m (2017: £1.4m) along with increased rent and service charge income of £0.6m. This income growth was offset by an increase in operating costs of £1.0m following a £4.3m reduction over the previous three years. Our overheads as a % of turnover increased to 8.8% which is second quartile. Overall, we achieved upper median quartile operating margin performance of 35%. Increase costs relate to:

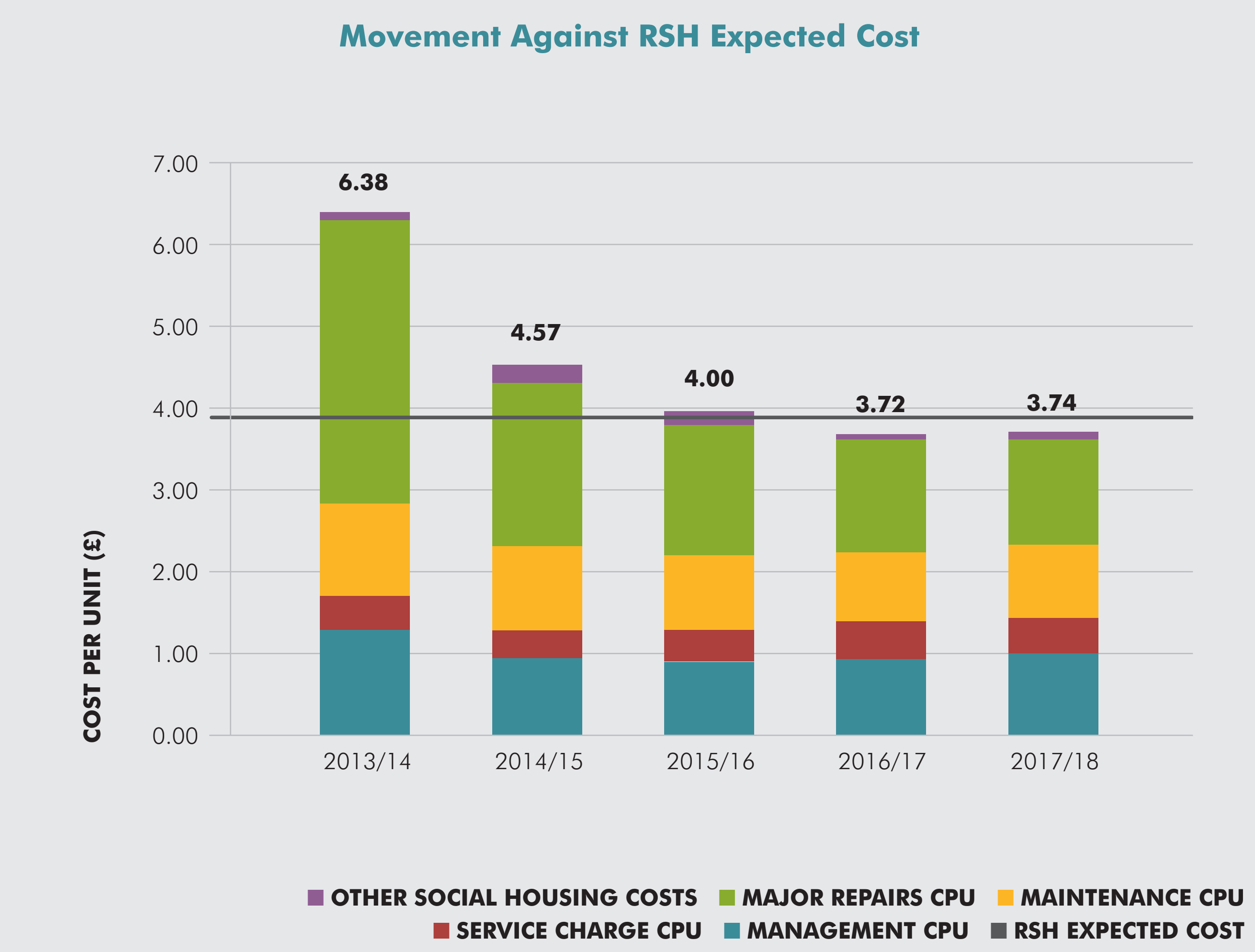
- Non-cash pension costs (£0.6m) following changes to actuarial assumptions on our defined benefit local government pension schemes
- An increase in performance related pay (£0.2m) as more of our colleagues become eligible for our bonus scheme
- Annual cost of living salary increase of 1.25% equating to (£0.2m)
- Depreciation increase (£0.3m) following continued investment in our current and new assets

These upward pressures have been partially offset by:

- Reduced fleet costs (£0.1m) as we replace our leased fleet with a mix of purchased and leased vehicles
- Reduced insurance and bad debt costs (£0.2m).

We achieved a 41% margin on first tranche shared ownership sales and continued our programme of targeted disposals providing a surplus of £2.2m for reinvestment and removing future maintenance liabilities.

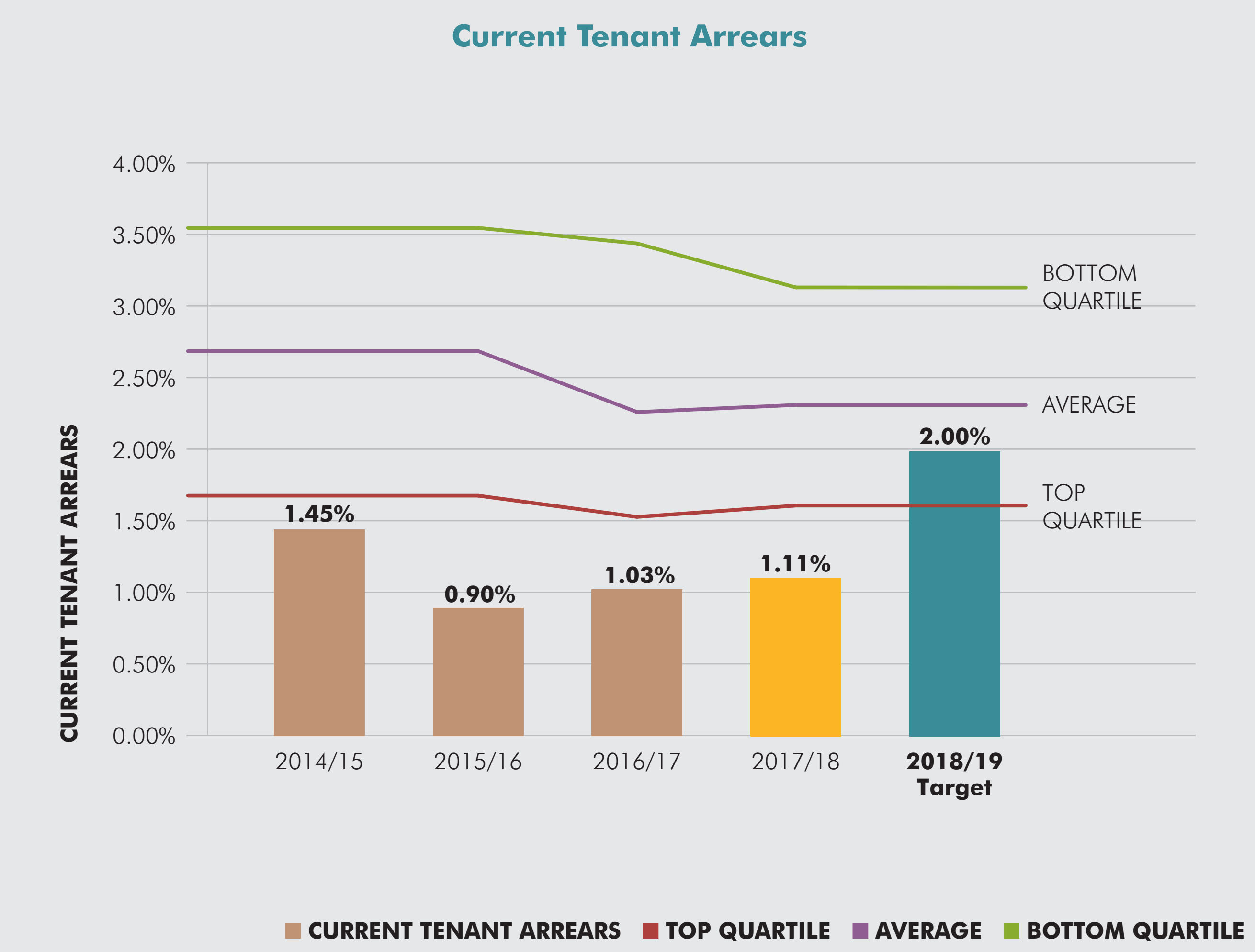
In June 2016, our regulator published research into understanding the differences in unit cost performance across the sector. This focussed on cost compared to a derived expected cost. We have continued to improve our efficiency and report cost per unit of £3.7k in these results below the predicted cost of £3.9k per unit for an organisation with our characteristics. Moreover, we continue to invest resources into delivering our key corporate goals, particularly in respect of major repairs and upgrading properties.



NOTE: RSH VFM METRIC

Our progress to maximise rent collection continues to be excellent. Current rent arrears levels ended the year at 1.1%, exceeding our target of 1.8% and endorsing our strategy to invest in income recovery to respond to welfare reform changes. This is a world class performance when set against a top quartile figure of 1.5%, welfare reforms, and the start of Universal Credit roll-out. This maintains our position as one of the top performers across the country in this area.

Not only are the results world class, but the Income Team work tirelessly to help customers minimise and manage their debts. The team helps customers into work, have developed specialist relationships with partners such as Department for Work and Pensions, and employ external debt and advice specialists. This work has minimised the levels of evictions and kept customers in their home. It has also meant that as an organisation, we are well placed to manage the escalation in Universal Credit claimants in 2018/19. At the end of March 2018, we had 87 customers in receipt of Universal Credit with average arrears of £321. This compares to overall current arrears of £96 per home.



Whilst our rent arrears performance remains considerably better than top quartile, our void re-let performance worsened, finishing the year at 28 days (2017: 25 days). This was due to challenges letting some of our homes for older people, the use of pre-tenancy affordability assessments to ensure the potential customer can afford the rent in light of other household costs and any other debts, and an increase in the number of properties being internally decorated in line with our Corporate Plan.

This was disappointing, but the figure has since reduced as our planning of void work has improved. Improvements made in late 2017 and early 2018 (collocating the team, changes to process and increasing resources) are showing positive trends, and in-month performance has improved by 25% towards the end of the financial year. Continuing this progress and delivering target level performance is a priority for 2018/19.

Our key goals for 2018/19 are to:

- Deliver a 34% operating margin despite the third year of the 1% rent cut and inflationary cost pressures, further consolidating the savings we have achieved to date and recognising that shared ownership margins will reduce closer to 30%.
- Complete the review of the void re-let standard and improve re-let performance to 21 days or better
- Commence our journey into partnership with Bromford and merger with Severn Vale. The business case for partnership sets out a series of key deliverables in relation to strengthening the organisation to enable more people to build and rebuild their lives. These include a shared treasury platform, an enhanced business transformation programme and efficiencies upon integration to one organisation.

HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME

During 2017/18 significant progress has been achieved in many important areas of our business. Our headline measure of satisfaction has increased by 2% to hit our 86% target.

	Actual 15/16	Actual 16/17	Target 17/18	Actual 17/18	Target 18/19
SATISFACTION WITH OVERALL SERVICE PROVIDED %	87	84	86	86	88
SATISFACTION WITH RENT %	80	83	83	85	85
SATISFACTION WITH NEIGHBOURHOOD %	89	87	89	87	89
SATISFACTION WITH COMPLAINT HANDLING	71	65	70	67	70
HOUSING MANAGEMENT COST/HOME £	328	326	330	335	330

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**

Customer satisfaction is one of our three organisational priorities. To improve customer satisfaction and provide housing and related support right first time, two things are vital: effective management of our homes, and real customer involvement in the shaping and scrutiny of our services.

In last year's report we recognised that there was work to do relating to customer satisfaction.
We are very pleased to report we have exceeded our overall customer satisfaction target for 2017/18 and delivered a 2.8% improvement from 83.6% to 86.4%, exceeding our target of 86%. This is a significant achievement and moves us closer to securing our aim to deliver world class customer service by 2019.

Underpinning our overall customer satisfaction increase, we have recorded improvements in satisfaction with repairs (an increase of 5%), quality of the home, lettings, anti-social behaviour (ASB) management, the value for money of rents, caretaking and grounds maintenance services, and the customer services team. Satisfaction with the way we handle ASB cases has increased for the third year in a row and now exceeds 90% compared with a target of 88%.

Satisfaction with the neighbourhood has reduced slightly during the year which we suspect is in part due to the changes in waste management policies of local councils and an increase in fly tipping on some of our estates. Additionally, there are differing policies between our organisation and local councils in the frequency and extent of grass cutting. We are working closely with our customers and partners to strengthen this area moving forward.

Satisfaction with complaints handling has decreased during the year, mainly due to the speed of handling repairs complaints. During the year we have responded to this trend and increased resource in this area.

During the year our Customer Assembly and Portfolio Groups (our co-regulation structure) have continued to be involved in shaping and scrutinising services. Their work includes tracking improvements in overall customer satisfaction and completing three pieces of scrutiny work. The Board remains extremely supportive of the Customer Assembly and Portfolio Groups.

During 2016/17 we stated our intention to procure a new housing management system and finalise a new target operating model. During 2017/18 the Board approved the target operating model and we were on track to procure our new system. However, given our announcements regarding our partnership with Bromford these plans were paused to allow partnership and transformation plans to develop and conclude.

Our key goals for 2018/19 are to:

- Improve customer satisfaction to 88%
- Improve complaints handling performance to 70%

DELIVER REPAIRS AND MAINTENANCE RIGHT FIRST TIME

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

	Actual 15/16	Actual 16/17	Target 17/18	Actual 17/18	Target 18/19
SATISFACTION WITH HOME %	86	85	86	85	87
SATISFACTION WITH REPAIRS %	83	77	83	82	84
DECENT HOMES FAILURES %	0	0	0	0	0
LGSRS[1] RENEWED ON OR BEFORE ANNIVERSARY DATA %	100	100	100	100	100
FIRE RISK ASSESSMENT COMPLETED AND IN DATE (%)	100	100	100	100	100
RESPONSIVE REPAIRS AND VOIDS COST PER HOME £	1,018	910	880	928	880

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**

[1] LANDLORD GAS SAFETY RECORD

REPAIRS SATISFACTION IS UP 5% THIS YEAR

During 2017/18 we delivered key milestones on repairs leading to an overall increase in satisfaction of 5% to achieve 82%. Satisfaction with the home remained consistent at 85%.

Overall responsive repairs and void costs per home increased due to additional staff pension costs and high value void and electrical repairs as we increased the frequency of electrical certification from ten to five years. Our materials contract which was procured in 2016/17 went on to achieve the targeted saving of £0.1m in year. More importantly it has enabled our colleagues to have the correct materials available more of the time improving the service to customers. Work continued to improve our reporting of the “right first time” measure as a key target of the Repairs Service Improvement Plan to support us to achieve the overall satisfaction target of 88%.

The internal contracts established in 2016/17 continued to provide the framework for positive working relationships with our in-house delivery partners Property Solutions.

At the end of the year we are pleased to report no decent homes failures, which contributed to maintaining our customers satisfaction with their home. We continue to consult with the Home Portfolio Group which holds us to account regarding performance and ensuring compliance with the Regulator of Social Housing’s Home Standard. We continue to closely monitor our performance regarding gas servicing and fire risk assessments and remain 100% compliant in respect of both.

The Repairs Policy was successfully updated with the involvement of the Tenancy and Home Portfolio Groups. Through this work a series of other necessary improvements were identified and formulated into a Repairs Service Improvement Plan which began in Q3 2017/18. As a result, proactive changes to the repairs service have been made during the year including:

- Customer service advisor diagnostic training to improve technical knowledge and enable enforcing of repair responsibilities
- Improved quality assurance procedures through repair call coaching.
- ICT improvements to the electronic booking system.
- An established recall repairs process to support the reporting of “right first time”.

We expect to see the impact of these and further improvements in our repairs performance in 2018/19.

Our key goals for 2018/19 are to:

- Deliver improvements identified in the Repairs Service Improvement Plan to allow us to meet our target of 84% customer satisfaction with repairs.
- Use repairs per property information to actively target high cost or low-cost properties with Property MOTs

INVEST RESPONSIBLY IN OUR CURRENT HOMES AND NEW ONES

	Actual 14/15	**Actual 15/16**	**Actual 16/17**	**Target 17/18**	**Actual 17/18**	**Target 18/19**
REINVESTMENT (%)	11.3	13.9	15.2	16.6	18.0	16.4
RETURN ON CAPITAL EMPLOYED (ROCE) (%)	6.4	7.1	7.5	5.9	7.0	6.3

NOTE: RSH VFM METRIC. ROCE INCLUDES ASSET SALES AND DIFFERS FROM THAT PREVIOUSLY REPORTED

In line with our strategy we continue to make significant investment into our current and new homes. During 2017/18 we invested £8.4m (2017: £8.6m) in capital improvement works to our current homes and £33.7m (2017: £21.0m) in new homes. This reinvestment equates to 18% of our housing property assets measured at cost at the year-end. In addition to capital investment, we also invested a further £9.4m (2017: £9.3m) of revenue money into maintaining our current stock.

The financial performance of the business measured by return on capital employed (ROCE) is 7%. Over the last four years, our capital employed has increased by 60% while our operating surplus (including fixed asset disposals) has increased by 168%. During the year, we increased our operating and sales surplus by 13%. We invested all this return, supplemented by additional borrowing, back into the business increasing our capital employed by 21% or £24.4m.

INVESTING IN OUR CURRENT ASSETS

We continue to deliver our 2016-2021 Asset Management Strategy. The overarching strategy provides a clear framework for decision making on retaining, investing and disposing of property, to ensure that our homes meet the need of our communities, deliver the standards customers expect now and in the future, and contributes to the overall financial performance of our organisation.

In April 2017 we reviewed the financial commitments in our business plan to ensure we were providing for the right level of investment to improve quality and maintain the safety of our homes. As a result, we determined we could reduce the revenue and capital repairs and maintenance commitment in the 30-year Group Financial Plan by £54m (net of inflation) representing a saving of 10% and reducing our cost per unit to £61,000. In January, we requested that the team examine the plan further and have now considered wider opportunities within the plan to reduce the unit cost per unit to £58,000. This releases money for investment into other priority areas.

Following the tragic events at Grenfell Tower, we undertook a review of all our blocks of flats over four storeys in height. We confirmed that none of our blocks had cladding of the same material that was used on Grenfell Tower.

Our internal reviews haven't been limited to external cladding. We have looked at all aspects of fire safety in our blocks and we have engaged expert contractors to support us. We have carried out several checks including the interiors of our blocks and have also been liaising closely with the fire authority.

Progress has been made on a range of activities including the surveys of our highest risk blocks, commissioning fire alarm system improvements and door closer replacements. As a result, we have agreed to invest just over £0.4m in fire alarm system improvements, door closers and telecare system upgrades.

PRC homes consist of 17% of Merlin's portfolio. Our strategy for these homes is one of demolition and replacement with modern efficient homes (see development of new homes), where it is economically viable to do so, or to refurbish to a modern standard. PRC homes have an inherently limited lifespan including poor thermal qualities. During 2017/18 we refurbished 98 homes. In total, this brings the completed number of refurbished PRC homes to 620 from the start of the programme in February 2013. Once the 2018/19 phase has finished, a total of 763 properties will have been completed with 519 properties remaining.

	Actual 14/15	**Actual 15/16**	**Actual 16/17**	**Target 17/18**	**Actual 17/18**	**Target 18/19**
HOMES REFURBISHED/REMODELLED	41	165	226	135	98	143

The PRC programme delivered a combination of full property refurbishments including external wall insulation and component replacement, as well as redecoration and cleaning of existing overclad properties. Leaseholders also opted to pay for a range of improvement works to their properties, including external wall insulation, external component replacements, redecoration and cleaning.

This project addresses the need to support our commitment to deliver a step change in the average thermal efficiency of our homes. The works will add value to the properties and customers will benefit from lower energy bills and a more aesthetically pleasing neighbourhood.

We continue to invest in our independent living communities. During 2017/18 we completed refurbishment of a third scheme and commenced work on the fourth and final scheme. A total of £0.8m was invested in remodelling, allowing us to remove 34 bedsits and replace them with 17 one-bedroom flats.

We continue to invest in our portfolio to drive down fuel poverty for our customers by increasing the SAP efficiency rating of our properties to 70. In 2017/18 we have invested in gas infrastructure to areas of our communities where this was not previously available. This will allow for future installations of gas heating systems – in 2017/18 we have already installed 39 such systems and 10 air source heat pumps too hard to heat rural properties.

DEVELOPMENT OF NEW HOMES

The number of new homes developed again increased – up 42% to 186. This is below our target of 235 which was not achieved due to movement of completions within the year, largely due to developer timings. A number of homes expected and initially forecast in 2017/18 are now being delivered in 2018/19, where we anticipate that we will exceed our target by approximately 10%.

We also saw an increase in investment in new homes to £33.7m (2017: 21.0m).

	Actual 14/15	**Actual 15/16**	**Actual 16/17**	**Target 17/18**	**Actual 17/18**	**Target 18/19**
HOMES DEVELOPED (*)	14	79	131	235	186	300
HOMES ACQUIRED	5	0	0	0	0	0
STARTS ON SITE	82	79	239	275	326	360
NEW SUPPLY DELIVERED (SOCIAL HOUSING UNITS) % (*)	0.2	1.0	1.6	2.9	2.3	3.6

*RSH VFM METRIC

We achieved 326 starts on site this year, a 36% increase on 2016/17 providing a strong pipeline of delivery for coming years. We are now working in partnership with 15 regional or national housebuilders across eight local authority areas. We continue to grow our operating area, having secured our first schemes in Gloucester and Tewkesbury demonstrating the strength of our reputation and the relationships we have built this year.

The sale of shared ownership homes continues to be strong with 36 homes sold this year generating an income of £3.5m. This exceeded our targets of 28 sales and £2.5m in income. Improvements in the customer journey and our marketing approach has seen the sales period for new homes reduce from 93 days to 65 days per sale through the year. We also sold 16 existing homes and two garages sites which were uneconomic to retain, generating a net income of over £2.2m that can be reinvested in the delivery of new homes.

We exceeded our targets for delivery of our Homes England (formerly the Homes and Communities Agency) grant funded programme. This year saw completion of 40 grant funded homes being supported over £1.2m grant funding, this included an additional 11 homes on our first scheme in North Somerset.

Oakbrook Homes the wholly owned subsidiary of Merlin continues to deliver design and build schemes on behalf of Merlin. It is currently contracted to deliver the remaining 49 homes at Iron Acton and Coalpit Heath along with the 21 homes across the Downend sites. It will also contract in early 2018/19 to deliver 15 homes on the next phase of PRC redevelopment. Throughout the year, Oakbrook recovered £0.1m of previously unrecoverable VAT.

The Board approved a new Development Strategy in November 2017 which continues to deliver growth in the development programme both in terms of scale and geography. The strategy supports the delivery of the Corporate Plan by continuing to invest in our existing homes and to develop new ones.

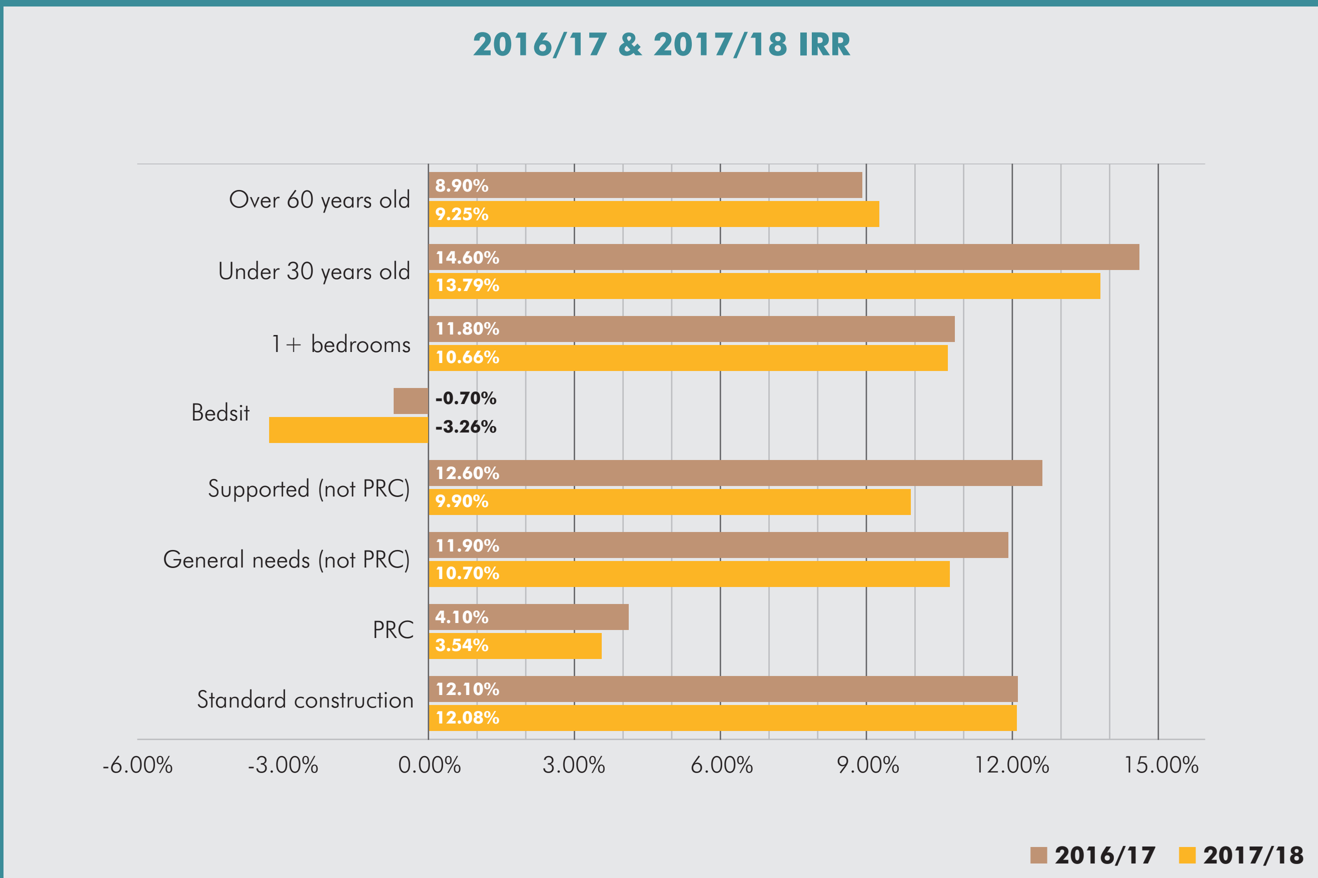
Our key goals for 2018/19 are to:

- Increase delivery to at least 300 new affordable homes
- Identify further land for the development of new homes, which will provide more control over the quality and delivery of the programme
- Develop an excellent customer journey when purchasing a new home, ensuring a smooth process through to completion and maximising sales income

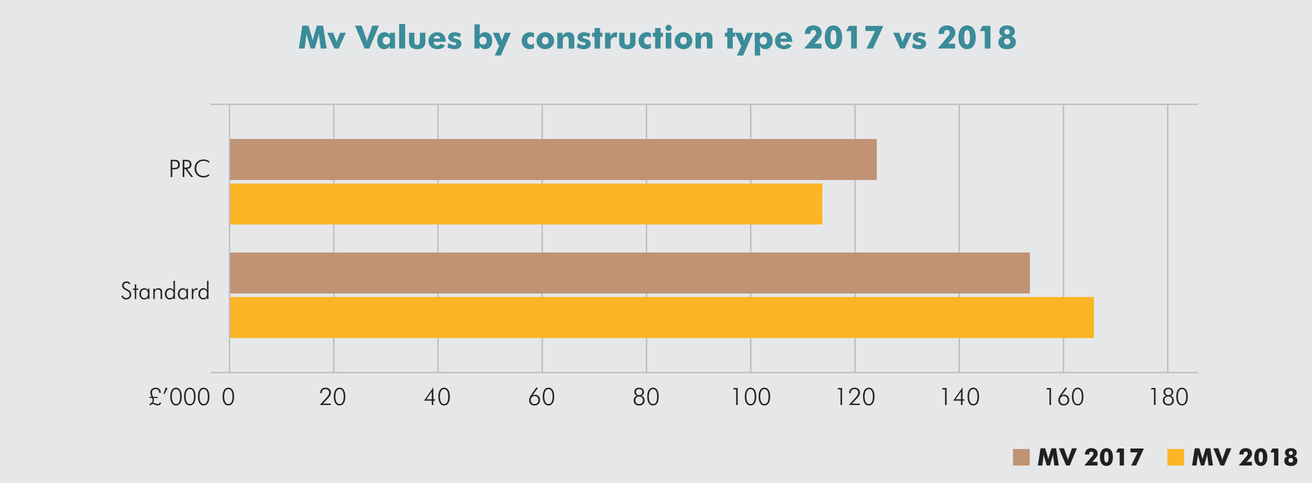
RETURN ON ASSETS

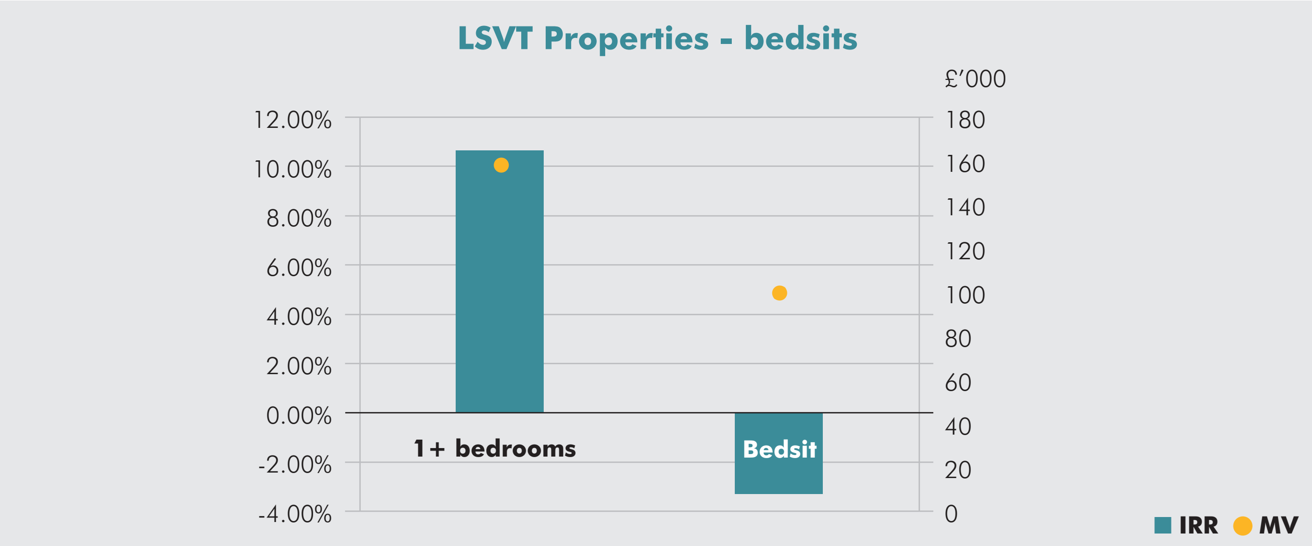
In understanding the return on our assets, we calculate a range of metrics including the worth of individual assets (net present value modelling), the return on the historic investment (internal rate of return), potential disposal value and options appraisal of the comparative benefits of retention or disposal for each asset. This is undertaken using data from our asset management and asset planning systems in conjunction with other data in our asset model.

Ongoing changes to our operating environment continue to create an adverse effect upon returns. We have completed the second year of four annual 1% reductions on rent and with continued inflationary pressure on costs, modelling shows a modest reduction in returns against those of last year. Our investment programme aims to deliver high quality new homes whilst improving the standard of existing homes for our customers. Merlin's stock profile consists of 32% older and 17% PRC properties resulting in relatively high costs compounding the impact.

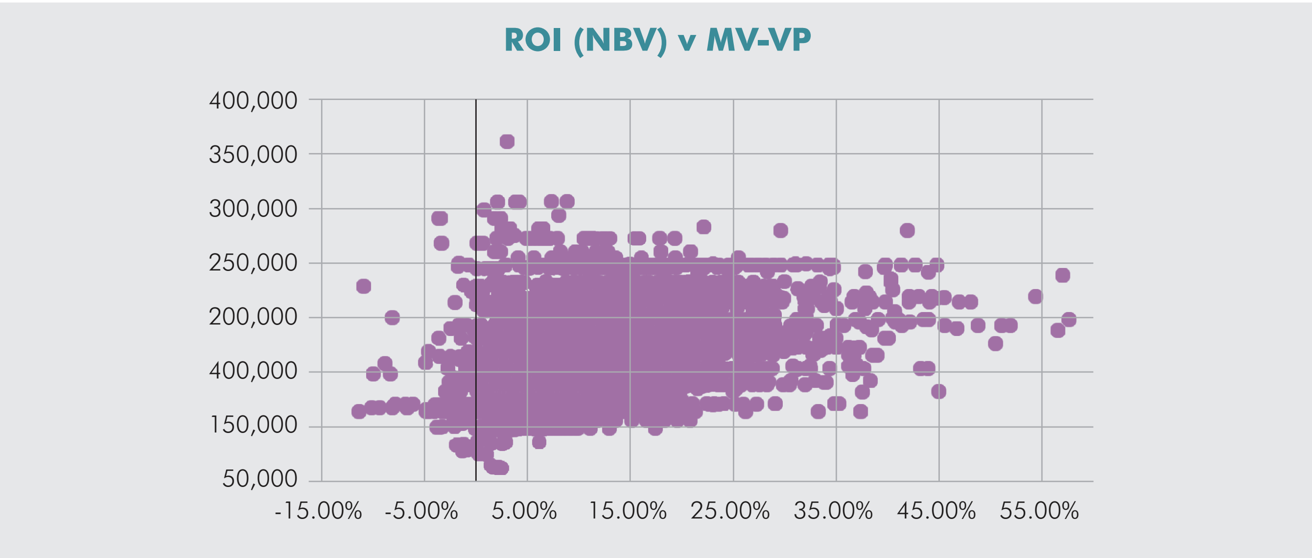


We use the outputs of our modelling work to identify the types of stock that are our poorest performers, which informs and shapes our investment in existing stock, to redevelop or remodel these properties. There continues to be two main themes to this work – our PRC properties alongside some of our independent living communities featuring a high volume of bedsit units. Assessment of our modelled data demonstrates that these assets, continue to form the bulk of our performance outliers, combining below average returns on investment and below average disposal values. Our PRC refurbishment programme continues and as more properties are renovated and re-let, this will increase return rates and disposal values.





When analysing data on an individual property basis, 9.2% (2017: 9.7%) of properties have a negative internal rate of return, which is reflected in the chart below. As expected, a large proportion (61%) of these relate to our independent living community bedsit and PRC properties. Our approach continues to be to review properties as they become vacant and take a view on the most appropriate course of action. In the main, this will be to re-let the accommodation. Following our agreement with South Gloucestershire Council in April 2016, to retain capital receipts from the sale of any vacant dwellings (so long as we reinvest the proceeds to build additional new homes), in 2017/18 we disposed of 16 properties generating £1.2m, which has been allocated for re-investment.



SOCIAL VALUE

We understand our communities' greatest challenges through collecting customer and community insight, and use this information to enable them to build and rebuild their lives by investing in areas we can have the greatest impact. This work is both directly funded by us and complemented by external funding from a range of partners.

We measure our social impact through our 3P's approach. We seek to understand our impact on:

POUNDS AND PENCE – WHAT DID WE INVEST AND WHAT DID WE SAVE?

PERFORMANCE – HAS OURS OR LOCAL ORGANISATIONAL PERFORMANCE IMPROVED?

PEOPLE – HOW MANY PEOPLE HAVE BEEN IMPACTED THROUGH OUR WORK AND IN WHAT WAY?

We have worked hard to improve this area of work in the past 12 months by:

- Investing £658k (£115k externally funded) into a range of community initiatives. We did not reach our target of £800k mainly due to the reduction in the amount of external funding available and competitive operating environment.
- Securing £1.2k of social value for every £1 invested in projects where social value is measured. Social value is recorded as the value secured across wider social, economic and environmental measures because of our work.
- Positively impacting the lives of 4,548 people through our community investment work, an increase of 1,586 from 2016/17. Our target was 3,000 people.
- Investing over 1700 hours of volunteering time - our target was 1,667.
- Supporting 70 people into employment through our Into Work Project. Whilst our target was 100 people, we are pleased with progress made, as this service was only introduced during the year.

A new Community Insight and Investment strategy was not progressed during the year given our partnership plans – this remains a priority for the new organisation in 2018/19.

We have analysed customer data and aligned with our Corporate Plan have identified five priority areas.

Employment, education, training and skills

In 2016/17 we reviewed our approach to Welfare Reform and the impact this would have on our customers and the business – as part of this work we made employment, education, training and skills one of our five priorities. During the year we have made good progress:

- Our 'Into work' project has received 95 referrals and supported 70 customers into employment
- 24 customers have been helped into training, internships, apprenticeship and volunteering programmes
- During the year nine skills workshops were delivered by our contractors as part of their commitment to social value which is included in all contracts
- We engaged 12 schools in the Blueprint to Success Project aimed at improving grade attainment in schools in our communities
- 97 hours of colleague volunteering invested in supporting this area of work

Health and wellbeing

We have invested more heavily into improving the health and wellbeing of our customers and colleagues by:

- Opening our Wellbeing College and launching a supporting website, which supported 1500 people across the year, 80% said their wellbeing had improved as a result of the college
- Increasing satisfaction with services for customers with ill mental health by 4%
- 237 customers used our Independent Living Short Term Response Service which supports older people and those with vulnerabilities following an illness, ensuring they can live independently again
- Developing a Wellness Strategy to support colleague wellness and those with ill mental health
- 570 hours of colleague volunteering invested in supporting this area of work

Community safety

Roughly 50% of homes are concentrated within six priority neighbourhoods. During the year we have worked closely with partners to improve levels of deprivation and invest in community safety work by:

- Working with specialist partners Next Link (Domestic Abuse Partner), SARI (Racial harassment / Hate Crime partner) and the Wellbeing College Mentor service to support 106 customers and families.
- Our specialist ASB team work in conjunction with the police and support agencies to respond proactively to community safety issues. During the year we dealt with 469 ASB breaches of tenancy.
- Investing £45k in community safety initiatives.

Environment and regeneration

87% of our customers consider their neighbourhood a good place to live. Our 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 achieve this in 2017/18 by:

- Alongside our partners we have delivered the Staple Hill Quality of Life project which is focused on improving the look and feel of the local area.
- Delivering three environmental action days targeted at areas of lower satisfaction
- Reviewing our cleaning and grounds maintenance service and following feedback from customers brought the window cleaning service in house.
- 779 hours of staff volunteering invested into improving the local environment.

CUSTOMERS AT OUR HAPPY OKAY SAD MENTAL HEALTH CONFERENCE DISCUSS THE DIFFERENCES WE CAN MAKE TOGETHER.

Financial inclusion

The link between our insight and investment work and our response to Welfare Reform is strong. Minimising the impact of welfare reform remains one of our strategic risks and through our Welfare Reform Strategy and Action Plan we have implemented solutions which strongly align with insight and are tailored to the needs of customers. During the year we have aligned rent arrears and customers impacted by welfare reform with our employment and debt advice services, plus 182 hours of volunteering has been invested into improving financial inclusion for our customers.

Our key goals for 2018/19 are to:

- Invest £650k in community initiatives through internal and external funding
- Positively impact the lives of over 4000 customers through our community investment work
- Support over 90 people into employment through our Into Work programme
- Invest in our communities by delivering 1700 hours of colleague volunteering

RSH VALUE FOR MONEY METRICS

Continuously strengthen the organisation	**13/14**	**14/15**	**15/16**	**16/17**	**17/18**
OPERATING MARGIN (OVERALL) %	18.3	26.6	33.6	35.9	35.0
OPERATING MARGIN (SOCIAL HOUSING LETTINGS ONLY) %	19.5	28.9	35.3	36.4	35.3
HEADLINE SOCIAL HOUSING COST PER UNIT	6.38	4.57	4.00	3.72	3.74
EBITDA MRI	26	112	228	288	300
GEARING (NET) %	51	47	44	43	43
Invest responsibly in our current homes and new ones					
REINVESTMENT %	8.8	11.3	13.9	15.2	18.0
NEW SUPPLY DELIVERED (SOCIAL HOUSING UNITS) %	0.0	0.2	1.0	1.6	2.3
ROCE	4.4	6.4	7.1	7.5	7.0

Key risks

CONTINUOUSLY STRENGTHEN THE ORGANISATION

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.

Liquidity

Poor financial management resulting in insufficient liquidity, a breach of covenants and our ability to fund service delivery and development programme requirements could have a damaging effect on our capacity to deliver our corporate plan. We maintain a careful liquidity position which provides for committed cash flow items over a significant time horizon and a level of headroom above this. Our long-term financial plan details our viability and includes stress testing on a range of scenarios. Current and future loan covenants are met at Board approved and policy set levels.

Macro-economic and Political

Uncertainty in government policy and changes in building regulations could damage our ability to effectively plan within year, with unexpected investment resulting in a failure to achieve our objectives and deliver our corporate plan. Monthly assessment of the external economic and political environment and key statistics are considered by business management and our Board.

Pensions

Pension schemes do not provide equitable pension provision and are unaffordable due to long term demographic, economic and policy changes. We continue to obtain valuations and review membership and cost to allow the Board to consider strategies to minimise future risk and losses.

Information Technology

A lack of robust cyber security, network controls and security protocols could result in susceptibility to denial of service attacks, hacking and unauthorised access leading to damage to Merlin's reputation, loss of data or impacts on core operational service availability. We continue to invest in our infrastructure and security and regularly benchmark with the industry to ensure best practices are adoptedwhere appropriate, with external penetration testing results supporting our ever-increasing protection, and providing validation of our position. We run two different Anti-virus products to ensure new threats are picked up quickly, and run regular internal scans to identify systems that require Application or Security patches to keep them up to date. We are improving employee awareness and training on cyber threats and maintaining regular penetration testing and external review to further support the control framework in place.

PROVIDING HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME

Welfare Reform

Uncertainty surrounding welfare reform could lead to increased financial pressures resulting in reduced income and a change to the nature of our relationships with our tenants. We continue to implement our Welfare Reform Strategy with action plans being tracked regularly. Rent arrear performance, projections, and trends are reported to our Leadership Team and the Board to allow for early identification and unlock opportunities to develop tailored intervention strategies.

Customer Satisfaction

A reduction in customer satisfaction or failure to effectively improve this could have a detrimental effect on our capacity to deliver our corporate plan. Our complaints process identifies trends and opportunities for us to improve the services we offer. Where complaints indicate a failure to improve or a deterioration in satisfaction, plans are implemented and tracked. Our Customer Assembly provide scrutiny and challenge around services which fail to improve or where customer satisfaction deteriorates.

Data governance/architecture

Poor data governance/architecture could lead to inaccuracies in customer, financial, asset or other key data, and result in significant service/compliance failures and sub optimal decision making based on inaccurate or false information. Our data governance group monitor data risks, metrics and business data improvement plans. Control frameworks are in place for data management, maintenance and reporting with regular reporting to our Audit & Risk Committee. During the financial year we progressed our GDPR project; implementing new policies and improved processes to meet the new standards in 2018.

INVEST RESPONSIBILITY IN OUR CURRENT HOMES AND NEW ONES

Health and Safety

Poor health and safety management standards could result in the death of a member of staff or tenant and/or a governance downgrading by the regulator. We maintain comprehensive policies, procedures and risk performance and compliance monitoring. We have maintained our certification and standards of OHSAS18001 accreditation. We operate comprehensive inspection and service regimes for crucial health and safety aspects of our tenants' homes such as gas, fuel, electric, fire, asbestos and legionella alongside a rolling schedule of internal and external audit and independent specialist reviews under regular oversight by the Audit & Risk Committee and Board. We have set up a Fire Strategy Group to provide a specific focus, led by senior management and specialists considering all aspects of Fire Safety and reform.

Development

A rise in construction costs, failure to attract and retain skilled staff or a lack of opportunities could result in a failure to effectively deliver development schemes or planned programmes. This year has seen a full review of our development risks. Attracting and retaining people and the competitive nature of the market remain the biggest risks to us delivery our development plans. We undertake regular reviews of our market position with regards to securing opportunities, ensuring we remain competitive and nimble so potential partners see the added value in working with us. We undertake robust procurement processes when considering partners, and closely monitor economic activity to aid early identification of potential issues, allowing early interventions.

NEW HOMES AT RODBOROUGH COMMON - OUR FIRST HOMES IN STROUD AND A SIGNIFICANT STEP IN OUR DEVELOPMENT STRATEGY.

2

CORPORATE GOVERNANCE

Good Governance

Good governance is the foundation of a successful organisation. The Board is fully committed to reaching the highest possible standards of corporate governance in its oversight of strategy, objective, and risk management delivery. Our approach to governance continues to go above and beyond that of simple compliance. Good governance involves the execution of a clear corporate plan, and we recognise that our strategic objectives can often be successfully achieved through 'working smarter, not harder'. We continue to adopt a values-based approach to achieving our goals and aligning our business model to meet the interests of all our stakeholders.

The range of governance frameworks we operate and continue to develop going forward are in place to prevent mismanagement and fraud while encouraging standardised behaviours, effective transparency, growth, and progressive innovation.

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.

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 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 management. 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: ICT; Finance, Internal Audit & Risk management and Customer services.

Neil Rimmer

Appointed: July 2017

Neil is an experienced entrepreneur and Board Member with over 25 years Board experience within international & UK companies. Most recently he was a founder and Commercial Director of a retirement village development/ operations enterprise and Managing Director of a care home group. Neil has a strong background in technology having owned a Microsoft Gold Partnership software development business, in addition to wider Board experience within the leisure, debt recovery and property industries. Neil recognises the true value of community and is Chair of both his local village hall and pre-school committees.

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 our customers remain at the core of our business and at the forefront of our strategy and service to continue strengthening our customer-focussed culture.

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

James Healy

Chair of Remuneration Committee

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 pursue further investment activities. Since then he has founded several companies and served as Operations Director of Bristol-based Pieminister. James has been a member of our board for almost 3 years.

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 a 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 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

Andrew Frayling
(resigned July 2017)

OAKBROOK HOMES LTD

John O'Neill - Chair
(appointed September 2015)

Loretta O'Driscoll - Non-Executive Director
(appointed October 2016)

Robert Nettleton - Executive Director
(appointed October 2015)

Martyn Blackman - Executive Director
(appointed July 2017)

Sue O'Neil - Executive Director
(appointed September 2015 – resigned July 2017)

EXECUTIVE TEAM

Robert Nettleton - Chief Executive
(appointed March 2014)

Ben Taylor - Director of Finance and Resources
(appointed September 2017)

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

Martyn Blackman - Director of Investment
(appointed April 2017)

COMPANY SECRETARY

Andrew Ledger
(appointed November 2011)

REGISTERED OFFICE

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

ADVISORS AND BANKERS

External Auditors: Mazars LLP

45 Church Street, Birmingham B3 2RT

Principle Banker: Lloyds Bank Plc

25 Gresham Street, London, EC2V 7HN

OUR STRUCTURE

Merlin Housing Society Limited 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.

BOARD MEMBERSHIP DETAILS AT YEAR END, REMUNERATION AND MEETING ATTENDANCE

Name	Remuneration	Board	Audit and Risk Committee	Remuneration Committee	Board meeting attendance
VIVIENNE HORTON	£12,500	CHAIR		•	10 OUT OF 10
RICHARD PENSKA	£7,000	•	CHAIR	•	6 OUT OF 10
JAMES HEALY	£4,500	•		CHAIR	8 OUT OF 10
ROBERT NETTLETON	£0	•			10 OUT OF 10
RICHARD BIRD	£4,500	•	•		10 OUT OF 10
LORETTA O'DRISCOLL	£4,500	•	•		7 OUT OF 10
JOHN O'NEILL	£4,500	•	•		8 OUT OF 10
NEIL RIMMER	£4,500	•			7 OUT OF 7

*INCLUDED IN THE SECTOR SCORECARD

Notes: *The total number of board meetings held in the year 2017/18 was 10. Our CEO receives no remuneration in respect of being a member of the board. Andrew Frayling resigned from the board on 27th July 2017 having received £2,250 remuneration in the year. Neil Rimmer was appointed to the board 1st July 2017.*

The political, regulatory and economic environment in which we operate presents increasingly complex challenges for us as a business, and we therefore need a strategic, committed and experienced board. To ensure this is the case, the board carries out a collective appraisal of its effectiveness during the year. The result of this self-assessment which is externally monitored, demonstrated that the board has successfully continued to operate effectively.

Neil Rimmer joined the board in July 2017 following a rigorous selection process to identify a new non-executive director to strengthen the entrepreneurial and commercial skills and the existing technological strengths of the Board.

The board appointed James Healy as Chair of the Remuneration Committee in July replacing Vivienne Horton who became Chair of the board on 1 April 2017. The Board also reappointed Richard Penska as chair of the Audit & Risk Committee.

BOARD DELEGATION

The Board retains core responsibility for overseeing strategic risk management across our organisation, and the successful delivery of our corporate plan. The Board delegates several governance responsibilities to specific panels and committees within the business, through its standing orders, each having their own approved terms of reference. Day-to-day operational risk management is delegated to our Executive Team.

The Audit & Risk and Remuneration Committees have continued to effectively support the Board and its governance arrangements this year:

The Audit & Risk Committee is responsible for ***overseeing*** internal and external audit, ***determining*** the effectiveness of risk management and internal controls, ***monitoring*** and ***challenging*** management on the identification and mitigation of risk, and reviewing financial statements and financial performance.

- The Audit and Risk Committee also has delegated responsibility from the Board for ensuring that appropriate financial reporting, internal and external audit, risk management and internal control, and compliance oversight arrangements are in place.
- The Board continues to hold responsibility for risk management and internal control including the determination of our risk appetite and tolerance to achieve our strategic objectives, and to ensure that an appropriate corporate culture has been embedded across the business.

The Remuneration Committee is responsible for ***advising*** the Board on Executive remuneration and Board or committee appointments.

- Reviewing and recommending Board and Committee remuneration.
- Appointment and succession planning, ensuring there is a plan for the orderly succession of new appointments to the Board and Committees to maintain an appropriate balance of skills and experience within the organisation's governance structure.
- Overseeing Merlin's pension strategy and arrangements.
- Approving Merlin's salary structure and reward scheme.
- Induction and training framework for Board and Committee members.

The Total Reward Strategy was recommended to the Board for implementation in February 2018 and was subsequently applied to the 2018 pay award. The Committee also approved Merlin's Gender Pay Gap report a year earlier than required in 2017.

Audit and Risk Committee Report

OVERVIEW FROM THE CHAIRMAN

The Audit and Risk Committee has continued to focus on assisting the Board and the organisation in strengthening its internal control regime and management of risk. The Committee has maintained its focus on the important areas of data quality and security, and it is pleasing to acknowledge the excellent progress made in preparing for the new GDPR requirements in May 2018.

The Committee continues to promote and champion a dynamic health and safety culture, and retaining our OHSAS 18001 health and safety standard certification supports this.

The economic and operating environment requires active management of risks and opportunities, and this landscape has provided the context for the development of new partnerships. The Committee has considered the emerging risks and the veracity of due diligence whilst also maintaining oversight of day to day operations and risks as we move through this significant transformation.

ROLE AND RESPONSIBILITY OF THE COMMITTEE

The Audit and Risk Committee retain authority for the assurance of financial reporting, internal and external audit, risk management and internal control arrangements as delegated by the Board. The committee met six times during the period and is composed of five independent non-executive directors. A full breakdown of board membership can be found on pages 50 to 51 of this document. Committee meetings are attended by the Executive Team, our Chief Risk Officer, and Internal and External Audit. Presentations are regularly made from representatives across the business to advise and inform the Board on a range of topics. During the period, one change of Audit and Risk Committee membership took place with James Healy leaving and Richard Bird joining the Committee.

MATTERS CONSIDERED BY THE 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 but not limited to:

- Overseeing risk and audit reviews, outcomes and action tracking
- Approving risks, metrics and key controls for key strategic risks
- Reviewing Financial Statements for Board approval
- Providing an annual quality assessment of the internal and external audit functions
- Approving annual audit plans and strategy
- Reviewing an annual review of the effectiveness of the system of internal control
- Assessing and recommending on annual legal and compliance attestations
- Approving key risk and control strategies and policies

The committee requested specific reports from senior management and external sources, including;

- Regular updates from the Fire Strategy Group on matters relating to fire safety, sector developments and considering specific investment on a risk based approach
- Reports on IT resilience and penetration testing
- Risk reports and updates from the Data Governance Group with oversight of action plans
- Detailed plans, project updates and approval of key policy and procedures relating to GDPR
- Fraud control framework assessments
- In depth reviews of key control areas and corporate processes

Richard Penska
Chair of Audit and Risk Committee

OUR APPROACH TO RISK

Effective risk management is central to our business, supporting the delivery of Merlins strategy ensuring it continues to remain safe, sound and secure.

Identifying, Evaluating and Mitigating Risk

We identify, evaluate and mitigate internal and external risks through the use of our risk management framework and culture, strategic control systems, data & trend analysis, governance compliance, and invaluable customer & stakeholder feedback. Our risk management framework and policies are regularly reviewed and developed in line with changes to law and best practice, internal standards, and regulatory requirements. Internal and external landscapes are reviewed by the board to support the identification of emerging risks in line with our current and continually developing mitigation strategies. Our key strategic risks which threaten the successful delivery of our corporate objectives and strategy as detailed in our corporate plan can be found on pages 46 to 47 of this document.

Reporting and Monitoring Risk

Our controls and mitigation strategies are monitored, reported and escalated through our risk and performance management system as part of our risk management and internal control framework.
This supports the board to regularly and accurately assess whether our controls and mitigation activities are being implemented and utilised successfully.
Risk and control assessments are conducted on a monthly, quarterly and annual basis, and an internal reporting system is in place to ensure controls are managed effectively.

Our Three Lines of Defence model

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

- Management acts as our first line of defence, and holds primary responsibility for the management of risk and related control activities.
- As our second line of defence, our risk oversight function is responsible for the policies and methodologies associated with risk management, the setting and implementation of our risk framework, advising on risk appetite, and providing independent assurance and specialist advisory support to the Board, business functions and colleagues.
- Our internal audit function acts as our third line of defence, providing an objective and independent perspective on internal control and assurance.

Our Risk Appetite Framework

Our Risk Appetite Framework supports us in identifying the types and levels of risk we are willing to accept in pursuit of our strategic goals, in both qualitative and quantitative terms. It provides clarity for all staff and key stakeholders on the way we do business.
The framework also establishes a clear strategy for the escalation of risk, providing criteria that each statement and goal is measured and reported to our Audit & Risk Committee and Board.

Role and Responsibility of the Board

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 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 pressure 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 2015 and 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

SYSTEMS OF INTERNAL CONTROL

We conduct an annual review of the effectiveness of our internal risk controls involving our Chief Executive, Executive Team, Chief Risk Officer, the Audit & Risk Committee and the Board.

Our internal controls framework remains in place for the financial year ended 31 March 2018. No weaknesses were found in internal controls which resulted in uncertainties, contingencies or material losses which require disclosure in our financial statements.

CUSTOMER GOVERNANCE

Our Customer Assembly (CA) and three Portfolio Groups continue to form the core of a co-regulation framework of involved customers and key operational staff. The CA oversees the work of customer groups including Portfolio Groups, reviewing customer feedback via our Complaints Review Panel and aligning plans between all involved groups annually. The CA also has power to hold our CEO and Chair of the Board to account for corporate decisions, and its Independent Chair has a direct link to the board attending at least four Board meetings a year. Our Scrutiny Group accompanies the CA and reviews key services directly affecting our customers. During 2017/18 the group conducted service reviews of our complaints procedure, the lifecycle of day to day repairs and ran an in-house review of several contracts.

DIVERSITY EQUALITY AND INCLUSION (DEI)

We have continued our desire to strengthen our DEI policy from recruitment and selection through training and development, appraisal and promotion to retirement. We promote an environment free from victimisation, discrimination and harassment. We endeavour to ensure that decisions relating to employment practices are objective, free from bias, and based solely on work criteria and individual merit. The level of importance and significant investment that we continue put into our DEI services highlight how seriously we take our responsibilities for the needs of our employees, customers and the surrounding community. The Diversity Equality Inclusion & Partnerships Team lead our work in this area.

We fairly consider applications of employment made by anyone regardless of age, disability, gender, marital status, race, religion, sex, or sexual orientation. We also endeavour to continue employing staff should the status of these characteristics change during their employment with us. At this time, the percentage of all staff from a black or minority ethnic background is 3.41%. Female staff currently make up 49.63% of our workforce, and the percentage of staff with disabilities employed by us stands at 2.67%.

GOING CONCERN

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

The Board has 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 confirm that Merlin are in full compliance with the code.

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

The Board has approved a new Modern Slavery Act transparency statement for 2017/18 which can be found on our website **www.merlinhs.co.uk**.

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

SHAREHOLDERS

There is a policy for admitting and ending shareholder 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 24 July 2018.

EXTERNAL AUDITORS

All of the current Board members have taken the required steps 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. Members of the Board are not aware of any relevant audit information of which the auditors are not aware. 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: 26 June 2018

Independent auditor's report to the members of Merlin Housing Society

OPINION

We have audited the financial statements of Merlin Housing Society (the 'parent') and its subsidiary (the 'group') for the year ended 31 March 2018 which comprise the Group and the parent Statements of Comprehensive Income, the Group and the parent Statements of Changes in Reserves, the Group and the parent Statements of Financial Position, the Group Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent's affairs as at 31 March 2018 and of the group's and the parent's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

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

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

We have nothing to report in this regard.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- the parent 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.

RESPONSIBILITIES OF THE BOARD

As explained more fully in the Statement of the Board's responsibilities set out on page 58, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF THE AUDIT REPORT

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

Mazars LLP

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

CUSTOMERS RECEIVED THE KEYS TO THEIR NEW HOME - ONE OF 186 WE COMPLETED THIS YEAR.

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FINANCIAL STATEMENTS

STATEMENTS OF COMPREHENSIVE INCOME

Year ended **31 March 2018**

	Note	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Turnover	3	46,448	43,717	46,492	43,728
Cost of sales	3	(2,053)	(884)	(2,053)	(884)
Operating expenditure	3	(28,151)	(27,139)	(28,141)	(27,135)
Operating surplus	3, 5	16,244	15,694	16,298	15,709
Surplus on sale of tangible assets	7	3,213	1,489	3,213	1,489
Interest receivable	8	100	98	100	98
Interest payable and financing costs	9	(4,504)	(4,300)	(4,504)	(4,300)
Gift Aid	30	-	-	-	7
Net surplus		15,053	12,981	15,107	13,003
Actuarial gain/(loss) in respect of pensions	12	2,432	(4,814)	2,432	(4,814)
Total comprehensive income for the year		17,485	8,167	17,539	8,189

STATEMENTS OF CHANGES IN RESERVES

Year ended **31 March 2018**

GROUP

	Restricted reserve £'000	Unrestricted reserve £'000	Total £'000
At 1 April 2017	320	67,445	67,765
Net surplus for the year	-	15,053	15,053
Transfer into restricted reserve	1,188	(1,188)	-
Actuarial gain/(loss) in respect of pensions	-	2,432	2,432
At 31 March 2018	1,508	83,742	85,250

MERLIN

	Restricted reserve £'000	Unrestricted reserve £'000	Total £'000
At 1 April 2017	320	67,467	67,787
Net surplus for the year	-	15,107	15,107
Transfer into restricted reserve	1,188	(1,188)	-
Actuarial gain/(loss) in respect of pensions	-	2,432	2,432
At 31 March 2018	1,508	83,818	85,326

STATEMENTS OF FINANCIAL POSITION

As at **31 March 2018**

	Note	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Fixed Assets					
Tangible assets – housing	13	201,500	168,700	201,734	168,722
Tangible assets – other	14	4,768	3,727	4,768	3,727
Intangible assets	15	918	785	918	785
		207,186	173,212	207,420	173,234
Current assets					
Inventories	16	3,427	1,060	3,427	1,060
Debtors	17	25,674	32,406	25,682	32,416
Investments	18	1,723	1,940	1,723	1,940
Cash and cash equivalents	18	51,935	30,766	51,104	30,766
		82,759	66,172	81,936	66,182
Creditors: Amounts falling due within one year	19	(12,284)	(9,538)	(11,619)	(9,548)
Net current assets		70,475	56,634	70,317	56,634
Total assets less current liabilities		277,661	229,846	277,737	229,868
Creditors: Amounts falling due after more than one year	20	159,293	120,992	159,293	120,992
Provision for liabilities					
Pension provision	12	9,562	11,101	9,562	11,101
Provisions	26	23,556	29,988	23,556	29,988
		33,118	41,089	33,118	41,089
Capital and reserves					
Share capital	24	-	-	-	-
Revenue reserve		85,250	67,765	85,326	67,787
Merlin's funds		85,250	67,765	85,326	67,787
		277,661	229,846	277,737	229,868

The financial statements were approved by the Board on 26 June 2018 and signed on its behalf by:

Vivienne Horton
Chair – Board

Richard Penska
Chair - Audit and Risk

Andrew Ledger
Company Secretary

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended **31 March 2018**	**Note**	**2018 £'000**	**2017 £'000**
Net cash generated from operating activities	27	20,679	21,060
Cash flow from investing activities			
Purchase of property plant and equipment		(38,070)	(26,898)
Purchase of intangible assets		(398)	(608)
Proceeds from the sale of tangible assets		4,233	2,653
Grants received		1,860	1,247
Investment realised / (purchased)		217	(1,506)
Interest received		100	98
		(32,058)	(25,014)
Cash flow from financing activities			
Interest paid		(5,304)	(4,133)
New loans		37,870	27,106
Finance lease payments		(18)	-
Repayments of borrowings		-	(11,000)
		32,548	11,973
Net increase in cash and cash equivalents		**21,169**	**8,019**
Cash and cash equivalents at beginning of year		30,766	22,747
Cash and cash equivalents at end of the year		51,935	30,766

The results above derive wholly from continuing operations. The notes on pages 67 to 97 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended **31 March 2018**

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 2018, there were 32 shareholding members of Merlin (31 March 2017: 34 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

The financial statements of the Group and Merlin 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.

We have chosen to adopt the disclosure exemption in respect of the individual accounts of Merlin in relation to presenting a statement of cash flows and related notes.

Going concern

The Group's business activities, its current financial position and the factors likely to affect its future development are set out within the strategic report. The Group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with day to day operations. The Group 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 The Group 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 the Group 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 2018 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 management 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 2018 was £31.3m (2017: £26.4m) for housing properties and £3.6m (2017: £3.3m) for other tangible assets.

Defined benefit obligation (DBO)

The value 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 2018 was £9.6m (2017: £11.1m).

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 2018 was £3.0m (2017: £4.0m) with a provision of £1.4m (2017: £1.4m) made to offset potentially uncollectable amounts.

The policy associated to uncollectable amounts has been reviewed within the 17/18 financial year, a proposal was presented to the Board in February 2018 and approved.

Actual collection may vary from the amounts included.

Basis of consolidation

The Group has prepared consolidated financial statements as required by the Housing SORP 2014 "Statement of Recommended Practice for Registered Social Housing Providers" under the purchase method in which the financial statements of Merlin and its subsidiary are presented as those of a single economic entity. Intercompany transactions and balances between group companies are therefore eliminated in full on consolidation. The consolidated accounts comprise the financial statements of Merlin, the parent company, and its subsidiary, Oakbrook Homes Limited, control of which is achieved where Merlin has the power to govern the financial and operating policies of the entity and so as to obtain benefits from its activities.

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. Housing Related Support 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 Housing Related Support 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 Part 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

The Group charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The costs within the income and expenditure account include VAT to the extent that it is suffered by the Group 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

GROUP Year ended **31 March 2018**	**Turnover** **£'000**	**Cost of sales** **£'000**	**Operating costs** **£'000**	**Operating surplus** **£'000**
Social housing lettings (note 4)	41,568	-	(26,898)	14,670
Other social housing activities				
First tranche shared ownership sales	3,475	(2,053)	-	1,422
Support contracts	478	-	(648)	(170)
	3,953	(2,053)	(648)	1,252
Non-social housing activities				
Garages	649	-	(340)	309
Commercial properties	278	-	(215)	63
Oakbrook Homes	-	-	(50)	(50)
	927	-	(605)	322
	46,448	(2,053)	(28,151)	16,244

GROUP Year ending **31 March 2017**	**Turnover** **£'000**	**Cost of sales** **£'000**	**Operating costs** **£'000**	**Operating surplus** **£'000**
Social housing lettings (note 4)	40,911	-	(26,024)	14,887
Other social housing activities				
First tranche shared ownership sales	1,405	(884)	-	521
Support contracts	473	-	(537)	(64)
	1,878	(884)	(537)	457
Non-social housing activities				
Garages	620	-	(316)	304
Commercial properties	308	-	(247)	61
Oakbrook Homes	-	-	(15)	(15)
	928	-	(578)	350
	43,717	(884)	(27,139)	15,694

MERLIN Year ended **31 March 2018**	**Turnover** **£'000**	**Cost of sales** **£'000**	**Operating costs** **£'000**	**Operating surplus** **£'000**
Social housing lettings (note 4)	41,568	-	(26,898)	14,670
Other social housing activities				
First tranche shared ownership sales	3,475	(2,053)	-	1,422
Support contracts	478	-	(648)	(170)
	3,953	(2,053)	(648)	1,252
Non-social housing activities				
Garages	649	-	(340)	309
Commercial properties	278	-	(215)	63
Oakbrook Homes	44	-	(40)	4
	971	-	(595)	376
	46,492	(2,053)	(28,141)	16,298

MERLIN Year ending **31 March 2017**	**Turnover** **£'000**	**Cost of sales** **£'000**	**Operating costs** **£'000**	**Operating surplus** **£'000**
Social housing lettings (note 4)	40,911	-	(26,024)	14,887
Other social housing activities				
First tranche shared ownership sales	1,405	(884)	-	521
Support contracts	473	-	(537)	(64)
	1,878	(884)	(537)	457
Non-social housing activities				
Garages	620	-	(316)	304
Commercial properties	308	-	(247)	61
Oakbrook Homes	11	-	(11)	-
	939	-	(574)	365
	43,728	(884)	(27,135)	15,709

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

PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS – **GROUP**

	Year ended **31 March 2018**					Year ended **31 March 2017**
	General needs housing £'000	**Supported housing and housing for older people £'000**	**Temporary social housing £'000**	**Low cost home ownership £'000**	**Total £'000**	**Total £'000**
Rent receivable net of identifiable service charges	31,692	5,998	222	159	38,071	37,597
Service charge income	982	2,051	86	12	3,131	2,923
Amortised government grants	85	1	-	2	88	77
Other income	259	18	1	-	278	314
Turnover from social housing lettings	33,018	8,068	309	173	41,568	40,911
Management	(6,626)	(1,518)	(62)	(110)	(8,316)	(7,572)
Services	(1,350)	(2,155)	(48)	-	(3,553)	(3,749)
Routine maintenance	(4,416)	(1,114)	(177)	-	(5,707)	(5,545)
Planned maintenance	(1,266)	(315)	(3)	-	(1,584)	(1,301)
Major repairs and improvements (non-capitalised)	(1,775)	(389)	(5)	-	(2,169)	(2,431)
Bad debts	(109)	(27)	(4)	1	(139)	(269)
Depreciation of housing properties	(4,536)	(840)	(25)	(29)	(5,430)	(5,157)
Operating costs on social housing lettings	(20,078)	(6,358)	(324)	(138)	(26,898)	(26,024)
Operating surplus on social housing lettings	12,940	1,710	(15)	35	14,670	14,887
Void losses	(161)	(78)	(28)	-	(267)	(231)

PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS – **MERLIN**

	Year ended **31 March 2018**					Year ended **31 March 2017**
	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	31,692	5,998	222	159	38,071	37,597
Service charge income	982	2,051	86	12	3,131	2,923
Amortised government grants	85	1	-	2	88	77
Other income	259	18	1	-	278	314
Turnover from social housing lettings	33,018	8,068	309	173	41,568	40,911
Management	(6,626)	(1,518)	(62)	(110)	(8,316)	(7,572)
Services	(1,350)	(2,155)	(48)	-	(3,553)	(3,749)
Routine maintenance	(4,416)	(1,114)	(177)	-	(5,707)	(5,545)
Planned maintenance	(1,266)	(315)	(3)	-	(1,584)	(1,301)
Major repairs and improvements (non-capitalised)	(1,775)	(389)	(5)	-	(2,169)	(2,431)
Bad debts	(109)	(27)	(4)	1	(139)	(269)
Depreciation of housing properties	(4,536)	(840)	(25)	(29)	(5,430)	(5,157)
Operating costs on social housing lettings	(20,078)	(6,358)	(324)	(138)	(26,898)	(26,024)
Operating surplus on social housing lettings	12,940	1,710	(15)	35	14,670	14,887
Void losses	(161)	(78)	(28)	-	(267)	(231)

5. OPERATING SURPLUS

THE OPERATING SURPLUS IS ARRIVED AT AFTER CHARGING:

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Depreciation of tangible assets – housing	5,071	4,918	5,071	4,918
Depreciation of tangible assets – other	491	403	491	403
Amortisation of intangible assets	170	232	170	232
Accelerated depreciation on component write offs	174	176	174	176
Operating lease rentals				
- land and buildings	42	77	42	77
- vehicles	436	568	436	568
- other	12	13	12	13
Auditors' remuneration (excluding VAT)				
- for audit services	29	29	25	25
- for non-audit services	2	6	2	6
Total audit services	30	35	27	31

6. ASSET IN MANAGEMENT AND MANAGED BY OTHERS

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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Owned and managed				
General housing – social rent	6,365	6,358	6,365	6,358
General housing – affordable rent	204	149	204	149
General housing – intermediate rent	34	35	34	35
Supported housing and housing for older people	1,393	1,400	1,393	1,400
Low cost home ownership	110	68	110	68
Leasehold properties	505	501	505	501
Owned and managed by others				
General housing – intermediate rent	15	15	15	15
Managed on behalf of others				
General housing – affordable rent	-	-	-	-
Total accommodation owned or managed	**8,626**	**8,526**	**8,626**	**8,526**
Other assets owned and managed				
Commercial property and other assets	76	66	76	66
Garages	2,180	2,423	2,180	2,423
Total assets owned and managed	**10,882**	**11,015**	**10,882**	**11,015**

7. SURPLUS ON DISPOSAL OF FIXED ASSETS

GROUP	2018 £'000 RTB/RTA	2018 £'000 Other	2018 £'000 Total	2017 £'000 Total
Sales proceeds	3,475	2,479	5,954	4,494
Other income	48	-	48	49
Cost of sales	(300)	(253)	(553)	(985)
Council repayment	(2,236)	-	(2,236)	(1,771)
Surplus before RCG and DPF	987	2,226	3,213	1,787
Capital grant recycled	-	-	-	(71)
Disposal proceeds fund	-	-	-	(227)
Overall surplus	987	2,226	3,213	1,489

MERLIN	2018 £'000 RTB/RTA	2018 £'000 Other	2018 £'000 Total	2017 £'000 Total
Sales proceeds	3,475	2,479	5,954	4,494
Other income	48	-	48	49
Cost of sales	(300)	(253)	(553)	(985)
Council repayment	(2,236)	-	(2,236)	(1,771)
Surplus before RCG and DPF	987	2,226	3,213	1,787
Capital grant recycled	-	-	-	(71)
Disposal proceeds fund	-	-	-	(227)
Overall surplus	987	2,226	3,213	1,489

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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Interest receivable and similar income	100	98	100	98

9. INTEREST PAYABLE AND FINANCING COSTS

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Interest on bank loans and overdrafts	1,844	2,323	1,844	2,323
Interest on capital market loans	2,675	2,156	2,675	2,156
Net interest on defined benefit liability (note 12)	299	223	299	223
Other finance costs	278	220	278	220
	5,096	4,922	5,096	4,922
Interest capitalised on developments under construction	(592)	(622)	(592)	(622)
	4,504	4,300	4,504	4,300

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 2018, interest has been capitalised at an average rate of 3.61% (2017: 4.34%)

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:

	Group 2018 No.	Group 2017 No.	Merlin 2018 No.	Merlin 2017 No.
Administration	69	71	69	71
Housing and support	142	137	142	137
Repairs and property maintenance	171	174	171	174
	382	382	382	382

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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Wages and salaries	10,472	9,944	10,472	9,944
Social security costs	1,089	997	1,089	997
Redundancy costs	27	119	27	119
Compensation for loss of office	-	-	-	-
Pension costs	1,980	1,517	1,980	1,517
	13,568	12,577	13,568	12,577

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

	Group 2018 No.	Group 2017 No.	Merlin 2018 No.	Merlin 2017 No.
£150,000 to £159,999	1	1	1	1
£140,000 to £149,999	-	-	-	-
£130,000 to £139,999	-	-	-	-
£120,000 to £129,999	1	1	1	1
£110,000 to £119,999	1	-	1	-
£100,000 to £109,999	1	1	1	1
£90,000 to £99,999	1	1	1	1
£80,000 to £89,999	1	1	1	1
£70,000 to £79,999	6	8	6	8
£60,000 to £69,999	4	1	4	1
	16	14	16	14

11. EXECUTIVE AND NON-EXECUTIVE DIRECTORS

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Remuneration paid to the executive directors including the Chief Executive was:				
Emoluments	488	435	488	435
Employers' pension contributions	39	41	39	41
Loss of office	-	-	-	-
	527	476	527	476
Remuneration paid to the non-executive directors was:				
Emoluments	45	49	45	49
	45	49	45	49

The remuneration of the highest paid director refers to Robert Nettleton, Chief Executive. Salary for the year ending 31 March 2018 was £137k (2017: £134k) and performance related pay was £18k (2017: £13k). 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 (2017: £11k) 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 9 years with a similar plan to repay the surplus fund. During 2017/18, a recovery of £39k was applied 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 2018 were £1,570k (2017: £1,223k) at an average contribution rate of 33.3% of pensionable salaries (2017: 21.8%).

Adjustments were also made to reflect the position at the 31 March 2018 based on the FRS102 Pension information from the scheme actuary. This resulted in a cost of £594k being reflected within contributions (2017: credit of £4k).

A total of £92k was payable to the scheme at 31 March 2018 (2017: £113k) and this is included in our creditors balance.

(a) Financial assumptions

The main financial assumptions used by the actuary were:

	2018 %	2017 %	2016 %	2015 %	2014 %
Discount rate	2.7	2.6	3.6	3.4	4.6
Rate of increase in salary	3.6	3.8	3.5	3.6	3.9
Rate of increase in pension	2.2	2.3	2.0	2.1	2.4
Rate of inflation	2.1	2.3	2.0	2.1	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:

	2018 Years	2017 Years	2016 Years	2015 Years	2014 Years
Current pensioner:					
Males	23.6	23.5	23.5	23.4	23.3
Females	26.1	26.0	26.0	25.9	25.8
Future pensioner retiring in 20 years:					
Males	26.2	26.0	25.9	25.8	25.7
Females	28.8	28.7	28.9	28.8	28.7

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.

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Present value of funded defined benefit obligations	(54,181)	(54,478)	(42,604)	(42,489)	(32,150)
Fair value of plan assets	44,619	43,377	36,536	35,922	29,913
Deficit	(9,562)	(11,101)	(6,068)	(6,567)	(2,237)

(d) Movements in present value of defined benefit obligation

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Benefit obligation at start of year	54,478	42,604	42,489	32,150	30,863
Current service cost	1,570	1,223	1,624	1,337	1,594
Past service cost	-	-	-	-	-
Interest cost on pension scheme liabilities	1,409	1,527	1,443	1,508	1,397
Loss on curtailments	5	32	-	-	-
Remeasurements (liabilities)	(2,658)	9,397	(2,880)	7,571	(1,950)
Member contributions	310	370	418	540	506
Benefits/transfers paid	(933)	(675)	(490)	(617)	(260)
Value at end of year	54,181	54,478	42,604	42,489	32,150

(e) Movements in fair value of plan assets

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Fair value at start of year	43,377	36,536	35,922	29,913	26,082
Interest on plan assets	1,133	1,332	1,243	1,407	1,476
Remeasurements (assets)	(226)	4,583	(1,886)	3,299	914
Employer's contributions	981	1,259	1,356	1,411	1,195
Member contributions	310	370	418	540	506
Benefits/transfers paid	(933)	(675)	(490)	(617)	(260)
Administration expenses	(23)	(28)	(27)	(31)	-
Fair value at end of year	44,619	43,377	36,536	35,922	29,913

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

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Current service cost	1,570	1,223	1,624	1,368	1,594
Effect of curtailments	5	32	-	-	-
Past service cost	-	-	-	-	-
Expected return on plan assets	-	-	-	-	(1,476)
Interest cost on plan liabilities	-	-	-	-	1,397
Net interest cost	276	195	200	70	-
Administrative expenses	23	28	27	31	-
Total operating charge	1,874	1,478	1,851	1,469	1,515

These amounts are recognised as a net cost within operating costs of £1,575k (2017: £1,255k) and a net interest cost of £299k (2017: £223k) 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 profit of £2,432k (2017: loss of £4,814k).

(g) Major categories of plan assets

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Equities	12,224	15,095	15,126	16,200	13,011
Government bonds	3,213	3,470	2,265	3,880	2,573
Other bonds	15,349	16,700	11,874	10,705	8,735
Cash/liquidity	1,071	347	365	683	509
Property	2,633	2,516	2,631	2,299	1,765
Other	10,129	5,249	4,275	2,155	3,320
Fair value at end of year	44,619	43,377	36,536	35,922	29,913
Actual return on plan assets	907	6,251	(644)	4,675	1,461

(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 £428k (2017: £313k). Contributions amounting to £55k (2017: £41k) were payable to the scheme at the end of the financial year and were included in creditors.

13. TANGIBLE ASSETS – HOUSING PROPERTIES

GROUP	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 2017	12,793	166,863	1,885	13,525	195,066
Improvements	5	5,313	-	-	5,318
Construction costs	-	-	-	33,400	33,400
Completed assets transferred from under construction	2,550	14,141	2,413	(19,104)	-
Transfers	797	(931)	(65)	65	(134)
Disposals	(46)	(806)	-	-	(852)
At 31 March 2018	16,099	184,580	4,233	27,886	232,798
Depreciation and impairment					
At 1 April 2017	-	26,346	20	-	26,366
Charged in year	-	5,040	31	-	5,071
Transfer	-	39	-	-	39
Released on disposal	-	(178)	-	-	(178)
At 31 March 2018	-	31,247	51	-	31,298
Net book value					
At 31 March 2018	16,099	153,333	4,182	27,886	201,500
At 31 March 2017	12,793	140,517	1,865	13,525	168,700

MERLIN	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 2017	12,793	166,863	1,885	13,547	195,088
Improvements	5	5,313	-	-	5,318
Construction costs	-	-	-	33,612	33,612
Completed assets transferred from under construction	2,550	14,141	2,413	(19,104)	-
Transfers	797	(931)	(65)	65	(134)
Disposals	(46)	(806)	-	-	(852)
At 31 March 2018	16,099	184,580	4,233	28,120	233,032
Depreciation and impairment					
At 1 April 2017	-	26,346	20	-	26,366
Charged in year	-	5,040	31	-	5,071
Transfer	-	39	-	-	39
Released on disposal	-	(178)	-	-	(178)
At 31 March 2018	-	31,247	51	-	31,298
Net book value					
At 31 March 2018	16,099	153,333	4,182	28,120	201,734
At 31 March 2017	12,793	140,517	1,865	13,547	168,722

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 2018. The valuation for loan security purposes was £347.8m (2017: £327.5m). 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 £1,303m (2017: £1,105m).

14. TANGIBLE ASSETS – OTHER

GROUP	Freehold land £'000	Freehold properties and fittings £'000	Leasehold properties £'000	Commercial properties £'000	Furniture and equipment £'000	Computer equipment £'000	Vehicles £'000	Total £'000
Cost								
At 1 April 2017	1,096	4,037	10	274	917	1,698	81	8,113
Additions	-	94	-	141	143	457	482	1,317
Transfers	-	(40)	-	307	(7)	(18)	5	247
Disposals	-	(107)	-	(7)	(14)	(14)	(19)	(161)
At 31 March 2018	1,096	3,984	10	715	1,039	2,123	549	9,516
Depreciation								
At 1 April 2017	-	1,135	2	30	737	1,341	39	3,284
Charged in year	-	155	2	42	75	186	31	491
Transfer	-	(25)	-	16	9	(21)	-	(21)
Released on disposal	-	(61)	-	-	(14)	(14)	(19)	(108)
At 31 March 2018	-	1,204	4	88	807	1,492	51	3,646
Impairment								
At 1 April 2017	-	1,102	-	-	-	-	-	1,102
Impairment	-	-	-	-	-	-	-	-
At 31 March 2018	-	1,102	-	-	-	-	-	1,102
Net book value								
At 31 March 2018	1,096	1,678	6	627	232	631	498	4,768
At 31 March 2017	1,096	1,800	8	244	180	357	42	3,727

MERLIN	Freehold land £'000	Freehold properties and fittings £'000	Leasehold properties £'000	Commercial properties £'000	Furniture and equipment £'000	Computer equipment £'000	Vehicles £'000	Total £'000
Cost								
At 1 April 2017	1,096	4,037	10	274	917	1,698	81	8,113
Additions	-	94	-	141	143	457	482	1,317
Transfers	-	(40)	-	307	(7)	(18)	5	247
Disposals	-	(107)	-	(7)	(14)	(14)	(19)	(161)
At 31 March 2018	1,096	3,984	10	715	1,039	2,123	549	9,516
Depreciation								
At 1 April 2017	-	1,135	2	30	737	1,341	39	3,284
Charged in year	-	155	2	42	75	186	31	491
Transfer	-	(25)	-	16	9	(21)	-	(21)
Released on disposal	-	(61)	-	-	(14)	(14)	(19)	(108)
At 31 March 2018	-	1,204	4	88	807	1,492	51	3,646
Impairment								
At 1 April 2017	-	1,102	-	-	-	-	-	1,102
Impairment	-	-	-	-	-	-	-	-
At 31 March 2018	-	1,102	-	-	-	-	-	1,102
Net book value								
At 31 March 2018	1,096	1,678	6	627	232	631	498	4,768
At 31 March 2017	1,096	1,800	8	244	180	357	42	3,727

The net book value of other tangible fixed assets includes £nil (2017: £22k) in respect of assets held under finance leases and £2,147k (2017: £2,244k) in respect of assets provided as security for the deficit on the Avon Pension Scheme. 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

	Group Software £'000	Group Other £'000	Group Total £'000	Merlin Software £'000	Merlin Other £'000	Merlin Total £'000
Cost						
At 1 April 2017	2,224	263	2,487	2,224	263	2,487
Additions	43	355	398	43	355	398
Transfers	(112)	-	(112)	(112)	-	(112)
Disposals	-	-	-	-	-	-
At 31 March 2018	2,155	618	2,773	2,155	618	2,773
Amortisation						
At 1 April 2017	1,702	-	1,702	1,702	-	1,702
Charged in year	170	-	170	170	-	170
Transfers	(17)	-	(17)	(17)	-	(17)
Eliminated on disposal	-	-	-	-	-	-
At 31 March 2018	1,855	-	1,855	1,855	-	1,855
Net book value						
At 31 March 2018	300	618	918	300	618	918
At 31 March 2017	522	263	785	522	263	785

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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Properties held for sale	3,200	872	3,200	872
Van stock	170	155	170	155
Other stock	57	33	57	33
	3,427	1,060	3,427	1,060

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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Due within one year				
Arrears of rent and service charges	2,309	1,959	2,309	1,959
Less: Provision for bad debt	(1,277)	(1,345)	(1,277)	(1,345)
	1,032	614	1,032	614
Other tax and social security debtor	210	210	179	200
Amounts owed from other group companies	-	-	39	20
Government grant debtor	144	1,271	144	1,271
Other debtors	399	530	399	530
Less: Provision for bad debt	(80)	(45)	(80)	(45)
	673	1,966	681	1,976
Prepayments and accrued income	522	344	522	344
	2,227	2,924	2,235	2,934
Due after one year				
Government grant debtor	203	-	203	-
Major repairs provision debtor	23,244	29,482	23,244	29,482
Total debtors	25,674	32,406	25,682	32,416

18. INVESTMENT, CASH AND CASH EQUIVALENT

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Investments	1,723	1,940	1,723	1,940
Cash and cash equivalents	51,935	30,766	51,104	30,766

Investments is a money market deposit via a trustee account with The Housing Finance Company which is not available overnight. Cash and cash equivalents includes 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.

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Rent and service charges received in advance	1,423	1,312	1,423	1,312
Local Authority – right to buy share of proceeds	2,192	1,725	2,192	1,725
Trade creditors	884	549	884	549
Other creditors	544	453	544	453
Other taxation and social security	278	262	278	259
Accruals	1,561	1,126	1,561	1,126
Amounts owed to other group companies	-	-	219	278
Capital creditors	277	299	246	34
Capital accruals	4,747	2,759	3,894	2,759
Grant received in advance	50	707	50	707
Deferred grant income (note 21)	96	101	96	101
Disposals proceeds fund (note 22)	228	227	228	227
Finance lease (note 23)	4	18	4	18
	12,284	9,538	11,619	9,548

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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Financial instruments (note 23)	150,958	114,188	150,958	114,188
Deferred grant income (note 21)	7,971	6,414	7,971	6,414
Recycled Capital Grant Fund (note 22)	72	121	72	121
Deposits	18	18	18	18
Leaseholder sinking funds	274	247	274	247
Finance lease (note 23)	-	4	-	4
	159,293	120,992	159,293	120,992

21. DEFERRED GRANT INCOME

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Balance at 1 April	6,515	5,196	6,515	5,196
Grant received in the year	1,642	1,470	1,642	1,470
Amortisation to income in the year	(89)	(77)	(89)	(77)
Released on disposal	(1)	(74)	(1)	(74)
Balance as at 31 March	8,067	6,515	8,067	6,515
To be released within one year	96	101	96	101
To be released in more than one year	7,971	6,414	7,971	6,414
	8,067	6,515	8,067	6,515

The total amount of government grant received at 31 March 2018 was £8,357k (2017: £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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Balance at 1 April	121	88	121	88
Additions	-	71	-	71
Withdrawals	(49)	(39)	(49)	(39)
Interest	-	1	-	1
Balance as at 31 March	72	121	72	121

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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Balance at 1 April	227	-	227	-
Additions	-	227	-	227
Withdrawals	-	-	-	-
Interest	1	-	1	-
Balance as at 31 March	228	227	228	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

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Rent arrears and other debtors (note 17)	3,265	3,970	3,274	3,980

Financial liabilities – measured at amortised cost

Loans payable	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'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	150,958	114,188	150,958	114,188
Loan at nominal value	147,000	112,000	147,000	112,000
Arrangement/financing fees	2,991	1,312	2,991	1,312
Effective interest adjustments	967	876	967	876
	150,958	114,188	150,958	114,188

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities 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 are secured by a fixed charge over Merlin's residential properties. Loans include £32m (2017: £32m) of bank loan and £115m (2017: £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% (2017: 1.4% to 5.9%).

At 31 March 2018, Merlin had undrawn facilities of £68m (2017: £78m).

Obligations under finance leases

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Due within one year	4	18	4	18
Due after more than one year	-	4	-	4
	4	22	4	22

Financial liabilities – measured at undiscounted amounts payable

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Trade and other creditors (note 19)	4,175	3,288	4,363	3,298

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 the Group. 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 5 years and relate to photocopiers.

24. SHARE CAPITAL

	2018 £	2017 £
At start of year	34	36
Cancelled during the year	(3)	(4)
Issued during the year	1	2
At end of year	32	34

Share capital at 31 March 2018 comprises 32 (2017: 34) shares of £1 each, of which 32 (2017: 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 commitments

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Expenditure contracted for but not provided in the accounts	73,693	43,741	73,765	44,598
Expenditure authorised by the Board, but not contracted	23,694	18,625	23,774	18,695
	97,387	62,366	97,539	63,293

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

Operating leases

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:

	Group 2018 £'000	Group 2017 £'000	Merlin 2018 £'000	Merlin 2017 £'000
Within one year	109	628	109	628
Between one and five years	35	182	35	182
Over five years	-	-	-	-
	144	810	144	810

26. PROVISIONS FOR LIABILITIES

GROUP	Major repairs £'000	Insurance £'000	Redundancy and performance related pay £'000	Disputes £'000	Total £'000
At start of year	29,482	250	198	58	29,988
Utilised in year	(6,238)	(90)	(181)	(49)	(6,558)
Released in year	-	(160)	(17)	(6)	(183)
Additions in year	-	-	309	-	309
At end of year	23,244	-	309	3	23,556

MERLIN	Major repairs £'000	Insurance £'000	Redundancy and performance related pay £'000	Disputes £'000	Total £'000
At start of year	29,482	250	198	58	29,988
Utilised in year	(6,238)	(90)	(181)	(49)	(6,558)
Released in year	-	(160)	(17)	(6)	(183)
Additions in year	-	-	309	-	309
At end of year	23,244	-	309	3	23,556

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.

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

27. CONSOLIDATED CASH FLOW FROM OPERATING ACTIVITIES

	2018 £'000	2017 £'000
Surplus for the year	15,053	12,981
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	5,736	5,322
Amortisation of intangible assets	170	428
Increase in inventories	(2,367)	(812)
Decrease / (Increase) in trade and other debtors	(430)	(169)
Increase in trade and other creditors	1,016	778
(Decrease) / Increase in provisions	(194)	122
Pension costs less contributions payable	594	(4)
Adjustments for investing or financing activities:		
Surplus from the sale of tangible fixed assets	(3,213)	(1,489)
Government grants utilised in the year	(90)	(77)
Interest payable	4,504	4,078
Interest receivable	(100)	(98)
Net cash generated from operating activities	20,679	21,060

28. RELATED PARTIES

Non-executive directors who are tenants of Merlin are included on the list on page x. 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 x. 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.

29. OAKBROOK HOMES

Merlin Housing Society which is a registered charity in England and Wales 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 are gift aided to the parent company.

30. RELATED PARTY TRANSACTIONS

The transactions Merlin entered into, along with the year end balances it had with Oakbrook are shown below:

	Turnover £'000	Housing property purchases £'000	Interest receivable £'000	Interest payable £'000	Gift aid receivable £'000	Amounts owed £'000	Amounts due £'000
2018	44	(8,152)	-	-	-	(219)	39
2017	11	(360)	-	-	7	(278)	20

Turnover relates to service level agreement charge for work done by Merlin Housing employees on behalf of Oakbrook Homes Limited.


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