

MERLIN HOUSING SOCIETY LIMITED

Financial Statements

for the

year ended 31 March 2019

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

**Regulator of Social Housing
Registration Number L4485**

Bromford.

Merlin Housing Society Limited

Financial Statements

For the Year Ended 31 March 2019

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Merlin Housing Society Limited

General Information For the Year Ended 31 March 2019

	Position	Appointment/Retirement Date	Meetings Attended 2018/19
Jonathan Simpson-Dent	Chair	Appointed 2 July 2018	9/9
Vivienne Horton	Chair Merlin Housing Society Limited Independent Non-Executive Director	Appointed 29 November 2012	8/8
Oke Eleazu	Independent Non-Executive Director	Appointed 2 July 2018	8/9
Stephen Dando	Independent Non-Executive Director	Appointed 2 July 2018	8/9
Balvinder Heran	Independent Non-Executive Director	Appointed 2 July 2018	8/9
Richard Bird	Independent Non-Executive Director	Appointed 1 October 2016	8/8
Richard Penska	Independent Non-Executive Director	Appointed 29 November 2012	7/8
Neil Rimmer	Independent Non-Executive Director	Appointed 1 July 2017	8/8
Helen Adlard	Independent Non-Executive Director	Appointed 2 January 2019	3/3
Philippa Jones	Chief Executive Bromford	Appointed 2 July 2018 Retired 31 December 2018	6/6
Lee Gibson	Executive Director	Appointed 2 July 2018	9/9
Robert Nettleton	Chief Executive Merlin Chief Executive Designate Bromford Chief Executive Bromford	Appointed April 2015 Appointed 2 July 2018 Appointed 31 December 2018	8/8
Loretta O'Driscoll	Independent Non-Executive Director	Appointed 1 March 2013 Retired 1 July 2018	2/3
James Healy	Independent Non-Executive Director	Appointed 1 September 2015 Retired 1 July 2018	3/3
John O'Neill	Independent Non-Executive Director	Appointed 1 September 2011 Retired 1 July 2018	2/3

Company Secretary	Appointment/Retirement Date
Andrew Ledger	Retired 2 July 2018
Sarah Beal	Appointed 2 July 2018

Merlin Housing Society Limited

General Information

For the year ended 31 March 2019

Advisors:

External Auditors:

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Business Assurance Provider:

PWC
2 Glass Wharf
Bristol
BS20FR

Mazars LLP
45 Church Street
Birmingham B3 2RT

Bankers:

Lloyds Bank plc
25 Gresham Street
London
EC2V7HN

Taxation Advisor:

Beever & Struthers LLP
St George's House
215-219 Chester Road
Manchester M15 4JE

Registered office:

Riverside Court, Bowling Hill,
Chipping Sodbury
Bristol
BS376JX

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2019

The Board of Merlin Housing Society Limited ('MHS') is pleased to present its annual report and financial statements for the year ended 31 March 2019.

Who are we and what do we do?

MHS became a subsidiary of Bromford Housing Group Limited ('BHG') on 2 July 2018. Merlin is a Registered Provider of Social Housing and a Registered Society under the Co-operative and Community Benefit Societies Act 2014. Together, BHG and its subsidiaries are known as '**Bromford**'.

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

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

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

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

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

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

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

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



Fig. 1. Bromford DNA

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2019

Board composition, meetings, decisions and delegations

The MHS Board operates as a unitary board.

Up to the 1 July 2018, our Board had eight members - seven Non-Executive Directors (NEDs) and one Executive Director (our Chief Executive)

From the 2 July 2018, our Board comprised 11 members – three Executive Directors (our Chief Executive, Chief Executive Designate and Executive Director of Finance) and eight NEDs. On 2 January following the transfer of engagements of Severn Vale into Bromford, an additional NED was appointed, bringing the total board members to 12.

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

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

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

Board meetings and attendance.

The Bromford Group Board meet nine times a year. Each meeting has a planned agenda which allows enough time to discuss key areas of importance. Input from professional experts and/or external advisors is also sought by the Board when necessary. NEDs also participate in 'experience it' days to keep in touch with the business and our customers.

Board members

Following the merger between Merlin and Bromford Housing Group on 2 July 2018, Merlin was governed by the Bromford Group Board. The Board Members who served from 1 April 2018 up to the date of approval of these financial statements are listed in the General Information section.

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

Board and Committee Decision-making

Strategy, financial viability and risk management are important factors in the management and performance of the organisation. Our Governance and Delegations Framework helps us to achieve this by making sure that decisions are made by the right people or groups by specifying which matters are reserved for the Board, its committees and senior management. For reports from our committees refer to the Report of the Board of Committees in the Group financial statements, which can be obtained from; 1 Exchange Court, Brabourne Avenue, Wolverhampton Business Park, Wolverhampton, WV10 6AU.

Statement of compliance with the regulatory standards

Our regulator, the Regulator of Social Housing (RSH), publishes a Regulatory Framework and Regulatory Standards. The Regulatory Standards comprise of the Economic Standards (namely the Governance and Financial Viability, Value for Money and Rent Standards) and the Consumer Standards (namely the Tenant Involvement and Empowerment, Home, Tenancy and Neighbourhood and Community Standards).

One of the core Economic Standards is Governance and Financial Viability. This requires Registered Providers (RPs) to have effective governance arrangements in place that deliver their aims, objectives and intended outcomes for

**The Directors' Report
For the year end 31 March 2019**

tenants and potential tenants in an effective, transparent and accountable manner. It also requires RPs to manage their resources effectively, to make sure their viability is maintained whilst ensuring that social housing assets are not put at undue risk.

As part of being regulated by the RSH, Bromford has been given a rating for governance, as assessed against the Governance and Financial Viability Standard. Bromford maintains a G1 governance and V1 financial viability rating, the highest ratings on the scale throughout the financial year ended 31 March 2019.

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

Each year the RSH requires RPs to assess their compliance with the Governance and Financial Viability Standard and provide assurance to customers and stakeholders that the RSH specific expectations are being complied with.

Following our annual review of compliance, the Board are pleased to confirm that during the year ended 31 March 2019, we consider that the Association has complied with all applicable outcomes and specific expectations of the Governance and Financial Viability Standard and its accompanying Code of Practice and with the outcomes and requirements of all the other economic and consumer standards.

Statement of compliance with our code of governance

We have adopted the UK Corporate Governance Code (the 'UK Code'). The UK Code reflects our commercial outlook, focus on achieving the highest possible standards of accountability and transparency, and our desire to position ourselves alongside other high-achieving organisations, regardless of sector.

As we do not have shareholders in a conventional sense; some aspects of the UK Code (such as Section E) do not apply to us. However, we strongly support the objectives that this section aims to achieve and this is reflected in the open and transparent way we deal with our partners and stakeholders. Merlin Housing Society Limited does have legacy shareholders and continues to hold an annual general meeting.

The UK Corporate Governance Code 2018 will apply for our financial year 2019/20. The Board has been planning for its introduction and although the Code will see significant changes in the reporting requirements we have identified, through gap analysis, that many of the requirements are already reflected in our working practices. Where there were gaps we have developed new arrangements and have adopted a new Governance Framework from 1 April 2019, to support our compliance reporting in our next accounts.

Each year the Board reviews compliance with the UK Code and during the financial year ended 31 March 2019 we consider that the Association has complied with all relevant principles and provisions of the UK Code.

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2019

Statement of compliance with the general data protection regulation (GDPR)

GDPR became enforceable on 25 May 2018 and, using a planned approach, we have taken appropriate steps to ensure that Bromford is GDPR ready. On 2 July 2018, we appointed a designated Data Protection Officer.

Governance effectiveness review

Each year the Board carries out a formal evaluation of Board, committee and individual director performance. At least every three years, as recommended by the UK Code, this evaluation is facilitated by an external advisor to provide an independent perspective.

During the period November to February 2018 Altair, an external advisor, carried out an independent review of Governance Effectiveness and prepared a report which was used to support development of the new Board. The Chair carried out in internal review in January 2019, and it has been agreed that as a result of the significant amount of change that there be a further external review during 2019/20.

Mergers

The Board has considered the NHF voluntary Code of Practice on mergers and partnerships (the Code) and believes that some aspects of the detail set out in the Code are too prescriptive to be applied in practice to the very wide variety of ways in which mergers and partnerships between housing associations can be initiated. We adhere to the good governance principles and provisions set out in the UK Code.

Each year the Board reviews compliance with the UK Code and during the financial year ended 31 March 2019 we consider that Bromford has complied with all relevant principles and provisions of the UK Code, except for the provisions referred to on page 6.

Being open and transparent

Bromford has always been a strong advocate for openness and transparency because we recognise the key role it plays in stakeholders getting the information they need to make informed decisions about how we operate and use our resources.

With that in mind, we have set up a brand new investor relations page on our website with the latest news and stats around our financial performance and have redoubled our commitment to transparency by being quicker on our financial reporting and now produce six-monthly updates on this. As in previous years, the 'get to know us' section of the website also contains copies of our key policies and procedures, alongside copies of our statement of strategy, governance framework and Probity Policy.

We also recognise how important being open and transparent is for delivering fair and effective customer service as well as maintaining the strong culture between colleagues that has long-existed in all three legacy organisations. Over summer 2018 we held over 30 workshops across our new operating area with nearly 600 colleagues attending and giving us their views on why Bromford is special for them, what makes us stand out from the crowd, and how we should operate in the future. From this our new values, referred to as DNA, were born and these are outlined in figure 1 and now guide how every colleague behaves and acts both with others and each other.

A key aspect of being open and transparent is interacting with our customers, partners and stakeholders in ways which are practical and productive. We want customers to be able to contact us easily and conveniently whenever and wherever they need to and we work hard to remove any barriers to doing this. Alongside traditional contact methods such as phone and email, we also have a growing presence online with active social media accounts across Facebook, Instagram, LinkedIn and Twitter. Customers tell us they like the flexibility this offers and the ability to proactively manage their relationship with us in different ways, depending on their situation. This approach is meaning customers are increasingly feeling able to give us their feedback and views on how things should operate – with 9,566 customers giving us their feedback in 2018/19 – a rise of 20% from the previous year.

Our restructured customer involvement programme, with a new Customer and Communities Involvement Network (CCIN) and Locality Influence Networks (LINs) working far closer with the Bromford Board, is devolving more decision-

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making to the people who live in our homes and increasing transparency for all.

Risk management and internal control

Systems of internal control

The Audit and Risk Committee monitors and reviews the effectiveness of the internal control system and reports the findings to the Board. As part of its annual review process the Audit and Risk Committee considers:

- The annual review of the effectiveness of the internal control based on quarterly business assessments
- The Risk Register, key controls and indicators
- External auditor reports
- Reports from our internal audit and business assurance providers
- Internal monitoring reports and key risk and performance indicators
- Reviews of statutory and regulatory compliance – including safety compliance
- Financial accounts and financial controls

Some key elements of our internal control framework include:

- Our Governance Framework and Group Delegation Framework, including committee terms of reference, approved by the Board
- Financial Standing Orders
- Strong treasury management supported by external advisors and experts where necessary
- A clear risk management process and policy and clear statements of risk appetite and tolerances set by the Board
- Robust strategic and business planning processes;
- A bespoke business assurance programme;
- Up-to-date and innovative recruitment, training and development programmes for colleagues
- Regular and formal reporting to Board on performance and progress on strategic priorities, targets and outcomes
- Confidential Reporting and Probity policies
- Anti-money laundering and fraud policies and registers.

All policies are simple and easy to understand and are accessible to all colleagues. Internal Audit and External Audit is an important way the Audit and Risk Committee obtains assurance that internal controls are in place and working. At the start of each financial year, a work plan is agreed with internal and external auditors and our internal assurance functions for risk and health and safety, with ongoing schedule of activity in place to review and test the controls in our biggest risk areas, or in areas of strategic importance. Additional technical advisory and independent 3rd parties' reviews are also used to support overall assurances.

During the year, no significant failings or weaknesses were identified by either our internal or external auditor.

The Board confirms it has an approved fraud policy that covers the prevention, detection and reporting of fraud. Details of identified frauds are maintained in the fraud register, which is reviewed annually by the Audit and Risk Committee on behalf of the Board.

The Group has a Money Laundering Reporting Officer as part of its compliance with anti-money laundering legislation.

The Board has reviewed the effectiveness of the system of internal control for the year to 31 March 2019, and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material misstatement or loss, which require disclosure in the financial statements.

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Business and Risk Report

Effective risk management is at the heart of our business and has an important part to play in delivering our purpose. We have well-established risk management processes, and control frameworks, which guide and support how our colleagues work, behave and the decisions they make.

How we manage our risks?

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

Our financial risk capacity (the amount of risk we can assume considering capital, liquidity, borrowing and regulatory requirements) is embedded within the financial framework and golden rules. We also have regard for non-financial elements; people, customers, capability and operational systems, and the cumulative impacts of these factors.

For further detail on our enterprise risk management framework see the page 14.

Our principal risks

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

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Legal & Regulatory Risk	
The risk that Bromford fails to design and implement operational arrangements, systems and controls such that it can maintain current and future legal, regulatory and safety requirements.	
Board Risk Appetite	
Bromford recognise that legal, regulatory and safety requirements exist to ensure the safety of our people and our business and we take these responsibilities seriously. Bromford will ensure both compliance and people safety, identifying all applicable regulation, legislation and codes through internal and external sources and will maintain assurance of compliance across all the three lines of defence to maintain the highest Governance rating for RP's. Our risk appetite is minimal, as we will do everything that is reasonably practicable to ensure compliance and is averse with respect to landlord asset compliance and health and safety risks.	
Key Risks	Mitigations
Death, injury or harm caused to colleagues, customers, contractors or members of the public.	Maintaining external accreditation, and practices validated by independent bodies. Rigorous testing of processes and reconciliation of data through 1 st , 2 nd and 3 rd line activity and technical experts for legal asset compliance. Mandatory training programme is in place to ensure all colleagues' competencies are up to date and fit for purpose.
Responding to the customer voice (customers in control)	Customer and Communities Influence models at Group level and localities connect us with customer and a strong tie back to Board. Continuous engagement through the neighbourhood coaching model, customer feedback and complaints and analysis.

Strategic Risk	
The risk that Bromford is unable to deliver against its business plan, either through poor strategic business decisions and/or failing to properly implement those plans.	
Board Risk Appetite	
Our strategy sets the direction of our business and informs all business activity. Bromford will maintain robust change protocols and rigorously prepare and track implementation against our strategy. As an innovative business our appetite is open as we have set ambitious plans and have multiple channels for delivery to achieve the targets set.	
Key Risks	Mitigations
Macro-economic and political uncertainty	Identifying and monitoring potential risks to the business through dedicated horizon scanning, government policy review and monthly Board briefing. Stress testing scenarios and resilience plans account for a variety of economic and non-economic scenarios and reflect Brexit impact and mitigations.

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Development/Commercial Risk	
The risk that Bromford has insufficient income, capacity and/or opportunity to deliver its development ambitions.	
Board Risk Appetite	
Bromford have the financial strength and capability to enable even more customers to thrive. Bromford will take a balanced view on short and longer-term risk and identify opportunities and strategic partners to deliver new homes at scale. We will remain nimble and pursue different types of opportunities as long as they enable us to build more affordable homes. Our appetite is open as we seek to remain competitive in the market place whilst proactively seeking new opportunities for sustainable growth both in the short and longer term. We aspire to deliver a balanced programme which will enable us to deliver significant growth and ensure we build homes and communities our customers aspire to live in.	
Key Risks	Mitigations
Delivery of new homes aspirations	Rigorous monitoring of the external market and review of business risks that may impact on our programme. A dedicated forum considers opportunities against strategy and monitors and track progress against plan with monthly reporting to Board. There are financial limits in place on items that require review and approval by the board, and these and exceptions to existing parameters, and their value for money impacts are considered by the Board.
Housing market sales	Approvals on all schemes include testing and exit strategies ahead of commitment. Performance data is tracked through a dedicated Forum to ensure we are delivering the sales programme and income assumed in appraisals. Specific golden rules and limits on sales % of overall homes programme to support new strategy and considering operating environment.

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Operational Risk	
The risk that Bromford is unable to maintain business continuity through inadequate or failed internal process, technology, people or impacts from external events. This may include power outages, theft or people shortage.	
Board Risk Appetite	
Our core business is the main reason for which we exist and we, along with our customers, depend on our ability to maintain core functions. Bromford will maintain a skilled workforce, with processes and technology which are tried and tested to withstand a range of severe but plausible incident scenarios. Our appetite is balanced as whilst we will explore new options for providing our services, we remain focused on operating our business to ensure a minimal level of disruption to our customers, brand and reputation.	
Key risks	Mitigations
Major transformation outcomes and benefits	Rigorous programme governance and oversight on major transformation including integration, with internal Board and executive oversight of performance, risks and benefits cases realisation, supported by periodic independent external assurance.
Retain, recruit and motivate engaged colleagues to deliver our strategy and purpose.	A clear strategy with values-based recruitment and embedding of our DNA ensures we retain and attract colleagues aligned to our purpose. Enterprise surveys and monthly monitoring of key performance and risk indicators inform specific actions.
Data Governance	Data use, quality, interpretation and reporting is a critical area. A dedicated data governance group meet to assess business practice, monitor risks and improvement plans and provide reporting to Audit & Risk Committee and Board. Data dashboards and audits validate accuracy, completeness and intended outcomes for key data sets. As part of business transformation data governance is a sub-topic of all 3 rd line assurance exercises across our 2019/20 Internal Audit Plan.
Business operational resilience	Cyber security: Maintaining enterprise grade perimeter and internal security services to protect against attacks. Regular penetration and scenario testing and embedding an integrated information security framework, policy and toolkit. Business continuity and major incident planning: Framework and assessments in place, with testing and reporting. This year we have taken the opportunity to review existing practices and move to new integrated approach for our organisation post mergers.

**The Directors' Report
For the year end 31 March 2019**

Financial Risk	
The risk of Bromford having inadequate income, cash flow or liquidity to meet current or future requirements and expectations. It includes loss of earnings capacity or liquidity arising from mismatches between Bromford's assets, funding and other commitments and which may be exposed to changes to market rates or conditions.	
Board Risk Appetite	
Financial strength is critical to delivering our vision and our core business effectively. Therefore, we need to maintain financial discipline, strong balance sheets, cash generation capability and allocation of capital. Bromford will operate in line with agreed Golden Rules, which ensure we hold sufficient liquidity resources, with secure counterparties, supported by sustainable earnings, low risk, diverse sources of funding and minimal exposure to market and off-balance sheet risk, to ensure there is no significant risk that our liabilities cannot be met as they fall due. Our appetite is balanced, as we will not accept risks which threaten our financial viability, but we will be open to diverse investment options.	
Key Risks	Mitigations
Financial planning and / or insufficient liquidity	Parameters and decision framework, with rigorous monitoring of key financial ratios and liquidity against future spend. Stress testing and mitigation plans reviewed and monitored.
Borrowing new money and access capital markets	Prudent treasury strategy and policies enable access to diverse, low risk funding options; Maintaining strong dual credit rating. Board and Treasury Committee monitoring of available security, excess charge, our market position and bond trading levels support funding strategy and day to day management.
Welfare Reform	Robust Welfare Reform Action plan is in place. Data insight is performed on Universal Credit cases to track and inform future plans to support customers. Stress tests consider reform impacts.

The Directors' Report
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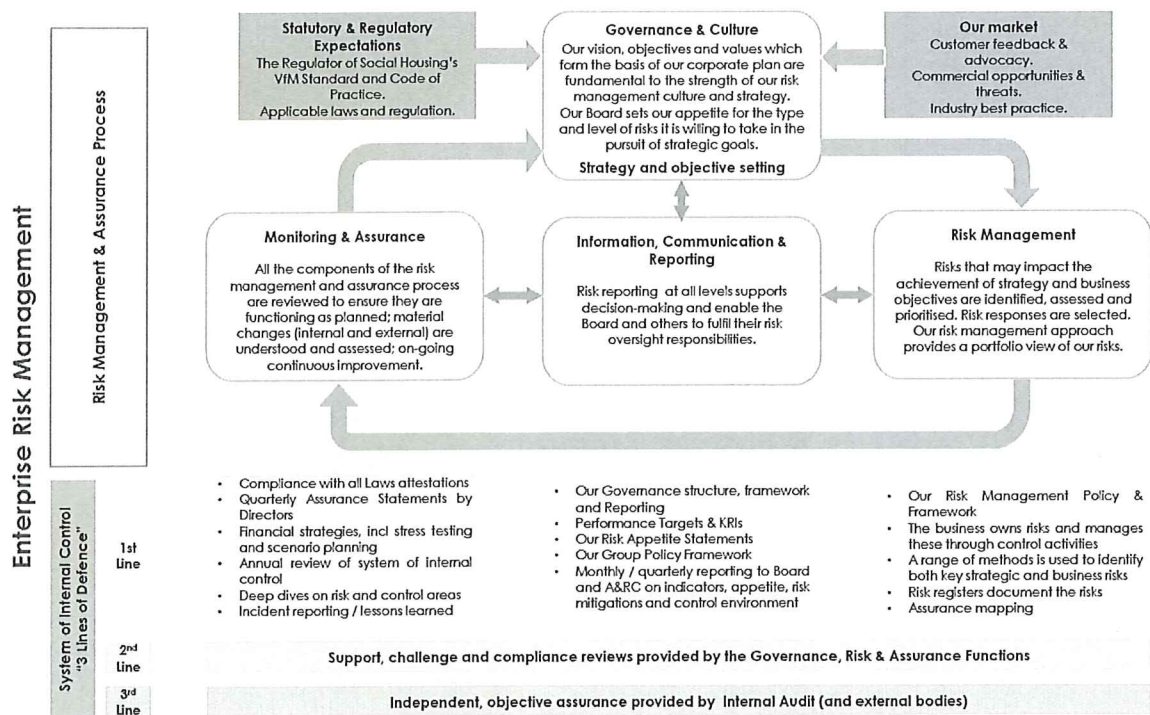
Enterprise Risk Management Framework (ERMF)

We manage our risks through an Enterprise Risk Management Framework, which sets out the minimum standards, and associated processes, for successful risk management to support strategic decision making.

The ERMF supports risk management through robust and consistent processes, supported by appropriate tools and guidance, enabling business decisions for delivery of Bromford's strategy.

Bromford operates a three lines of defence model, ensuring clear separation between risk and control ownership (first line), oversight, support and challenge (second line), and audit assurance (third line). The diagram below sets out our framework;

Risk Management Framework.



Significant issues considered by the Audit and Risk Committee for the year ended 31 March 2019

Significant issues were discussed with management and the external auditor in January 2019 when the Audit and Risk Committee reviewed the *Audit Plan and Strategy for the year*, and at the conclusion of the audit, when the financial statements were reviewed in August 2019.

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

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<p>The impact of uncertainties due to the UK exiting the European Union</p>	<p>The committee has considered the potential impacts of Brexit on the Association. This includes effects treasury and finances, the new homes development programme, service delivery, procurement and asset management, and also customers. Key considerations include the monitoring of supply chain management, review of inventory and stockholding measures and development exposures and uncertainty. This includes recognising the impact on repairs materials from a legal and customer obligation perspective. This is also considered by the Group Board on a regular basis.</p> <p>The assumptions underpinning the business plan forecasts are also well understood, with appropriate stress testing undertaken in respect of likely Brexit conditions. This is informed by the Bank of England assumptions and stress tests, and evolving political commentary. In addition, Brexit uncertainty has been considered in the context of judgements and estimates relating to the financial statements.</p>
<p>Merger with Severn Vale Housing Society</p>	<p>Merlin Housing Society Limited acquired Severn Vale Housing Society in January 2019. A number of key judgements and estimates were used to arrive at the accounting treatment for the combination, and fair value estimates required as part of the acquisition accounting.</p> <p>The committee considered the assumptions and judgements had been applied in the accounting for this business combination. The external audit also provided updates of their assessment of these assumptions and judgements. The Audit and Risk Committee discussed with management the outcomes of the business combination and were satisfied the financial statements appropriately addressed the transactions underpinning both business combinations.</p>
<p>LGPS and SHPS Valuation</p>	<p>The Association partakes in an LGPS pension schemes, SHPS and a further defined benefit pension scheme. As at March 2019 the valuation of the schemes rely on a number of actuarial assumptions which can differ depending on the actuarial firm involved in the valuation, and the membership profile of the schemes.</p> <p>Management gave assurances to the Committee that the actuaries used appropriate assumptions which were based on the most recent valuation and are derived on a consistent basis, year on year. This included the impact of the landmark judgements on the equalisation of the Guaranteed Minimum Pensions (GMP) between men and women during the course of the audit. The external auditor presented the audit testing of the pension liabilities. The committee was satisfied that the appropriate assumptions and disclosures have been applied to the pension liabilities presented in the financial statements.</p>
<p>Development assumptions and judgements</p>	<p>The Association's significant development programme continued into this financial year, which was expanded by the approval of the latest new homes business plan. The accounting for these development schemes contains several assumptions and judgements relating to the recovery of work in progress, capitalised costs and the contractual relationships with third party contractors and partners. Consideration was also given to the risk of impairment on significant developments due to time delays, increases in contractor costs and /or budget overruns. The committee considered the risk that appropriate valuation and accounting treatment is not applied to these significant development transactions.</p> <p>Assurances were provided by management to the committee that appropriate assumptions and judgements had been used in the accounting for development schemes, in addition to the external auditor's audit testing and key focus as part of their audit methodology. The committee considered these assumptions and judgements to be applied and appropriately reflected in the financial statements.</p>

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Recoverability of inventory	<p>The Association holds stock comprising of properties for sale in relation to shared ownership units. This involves the Association to apply estimates in assessing the net realisable value of unsold units and the recoverability of this stock.</p> <p>Management gave assurances to the committee that appropriate assumptions and judgements had been used in arriving at the net realisable value of the units, in addition to the supporting work of the Investment Forum who appraises and monitors the developments of these units. The committee was satisfied from the assurances received, and from the assessments undertaken in the monitoring of these units.</p>
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Financial review (5 year summary)

Income and Expenditure £'000s	2015	2016	2017	2018	2019
Turnover	40,301	41,960	43,728	46,492	53,540
Operating costs and cost of sales	(29,561)	(27,847)	(28,019)	(30,194)	(35,195)
Surplus on disposal of assets	1,002	405	1,489	3,213	1,407
Operating surplus	11,742	14,518	17,198	19,511	19,752
Gift on acquisition					60,669
Net interest charge and other finance costs and fair value adjustments	(2,961)	(3,983)	(4,202)	(4,404)	(4,460)
Surplus for the year after taxation	8,781	10,535	12,996	15,107	75,961

Statement of Financial Position £'000s	2015	2016	2017	2018	2019
Housing properties at cost less depreciation	128,885	147,345	168,722	202,731	417,873
Other tangible fixed assets, intangible fixed assets, investments and long-term debtors	4,284	4,223	4,512	29,842	34,352
Net current assets	51,297	53,926	56,634	46,870	4,336
Total assets less current liabilities	184,466	205,494	229,868	279,443	456,561
Loans due after one year	(82,731)	(97,738)	(114,188)	(150,958)	(163,142)
Unamortised grant	(2,694)	(5,118)	(6,414)	(7,971)	(10,760)
Other long term liabilities and provisions	(50,972)	(43,040)	(41,479)	(33,482)	(122,188)
Total net assets	48,069	59,598	67,787	87,040	160,471
Total reserves	48,069	59,598	67,787	87,040	160,471

Income and expenditure

The surplus of £76.0m is dominated by the acquisition of Severn Vale that generated a one-off surplus of £60.7m. With this removed the underlying surplus of £15.3m demonstrates another strong financial performance for Merlin (17/18: £15.1m).

The majority of our income is derived from rents and service charges and we are not dependent upon income from asset disposals.

Rental income

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

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Shared Ownership

Shared ownership sales income for the year was £5.0m (17/18: £3.5m). We sold 51 homes at an average 100% sales value of £219k (17/18: 36 homes, 100% value: £246k). The average first tranche share sold was 43.4% (17/18: 41.0%).

Costs

Cost control is a core deliverable across the business. Our social housing letting operating margin of 35.2% (17/18: 35.3%) and overall operating margin after asset sales of 36.9% (2017/18: 35.0%) remain strong. The focus on operating margin is a central part of our Value for Money framework, evidencing not just the cost of what we do but its effectiveness and the outcomes we achieve for our customers.

Over the last year we have seen an increase of 13.5% in our total operating costs per the Statement of Comprehensive Income from £28.1m in 2017/18 to £31.9m in 2018/19. This was primarily due to the three months of cost relating to legacy Severn Vale operations. This increased costs by £2.7m.

Disposals

Disposals are not a material feature in our financial results, but we expect them to grow over time as we proactively manage our homes to deliver a strong return on assets.

Disposal profits in the year were £1.4m (17/18: £3.2m).

Balance sheet

Fixed assets

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

Sales exposure

Exposure to unsold Shared Ownership stock is not a material issue for us, neither is potential impairment of property values.

Investment in our homes

In 17/18 we invested £7.6m in major repair and refurbishment programmes (17/18: £8.4m) and £58.8m in new homes (17/18: £33.7).

Effects of material estimates and judgments within these financial statements

- On an annual basis we review for potential **Impairment of non-financial assets**; following the review no impairment was deemed to be required.
- We have accounted for depreciation of assets on a straight-line basis; the depreciation basis is reviewed regularly for the each class of asset, and no changes were required.
- All of Merlin's **debt financial instruments** are classified as basic;

Further details of key estimations can be found within our accounting policies on page 33 to 35.

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2019

Treasury

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

Borrowing	£161m
Undrawn facilities	£279m
Cash and cash equivalents	£14.1m
Fixed rate borrowing	100%
Cost of borrowing	3.51%
Interest cover covenant	Over 6 times
Debt per unit	£11.8k

Cash and liquidity

Rigorous control of cash is a key focus for us. Operating cash flow was again strong at £23.4m (17/18: £20.7m) and represents 113% of operating surplus, an excellent cash conversion performance. Cash balances are invested at group level with Merlin holding £14.1m at year-end.

Facilities and funding

External loans of £161m (17/18: £147m) increased by a net £14m during the year. Following the acquisition of Severn Vale, Merlin took on a £35m private placement with BAE and as part of the Bromford partnership, Merlin repaid £21m of Lloyds loans.

Facilities were renegotiated as part of the partnership and acquisition activity increasing Merlin facilities to £440m. At year-end, £279m of revolving facilities with Lloyds were undrawn.

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

Interest rate management and mark to market position

We use fixed rate borrowings to manage our exposure to increases in interest rates and 100% of our drawn borrowings are at fixed rates (17/18: 100%) to lock in low interest rates.

The average cost of borrowing is 3.5% (17/18: 3.6%). The slight fall came from repayment of fixed rate Lloyds loans on partnership.

Covenants

We have been moving to a situation where the majority of covenants are based on Group numbers and are broadly consistent in their composition. We have considerable capacity on both our interest cover and asset gearing covenants and they do not limit our activities.

2. Operating performance

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

3. Value for money (VfM)

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

Merlin Housing Society Limited

The Directors' Report For the year end 31 March 2019

Sector metrics

Ref	Metric Name	2015	2016	2017	2018	2019
1	Reinvestment %	11.3%	14.0%	18.0%	18.0%	14.9%
2A	New supply delivered (Social housing units) %	0.2%	1.00%	2.3%	2.3%	2.3%
2B	New supply delivered (Non-social housing units) %	0.0%	0.0%	0.0%	0.0%	0.0%
3	Gearing %	47%	44%	43%	43%	53%
4	EBITDA MRI	98%	195%	300%	300%	321%
5	Headline Social housing cost per unit (£000s)	4.57	4.00	3.74	3.74	2.80
6A	Operating Margin (social housing lettings) %	28.9%	35.3%	35.3%	35.3%	35.2%
6B	Operating Margin (overall) %	26.7%	33.6%	35.0%	35.0%	36.9%
7	ROCE	6.4%	7.1%	7.0%	7.0%	4.3%

The metrics show a steady increase in both social housing operating margin and overall operating margin. We continue to increase the amount of new supply delivered and our cost per unit has reduced following the acquisition of Severn Vale increasing the number of units by 45%

Our percentage of reinvestment has decreased due to the large increase in housing assets following the acquisition of Severn Vale. So, while the amount we have reinvested has significantly increased from £42.1m to £67.6m it is compared to a much larger asset base.

Similarly, ROCE has decreased due to the increase in capital employed linked to the increase in assets. At the same time, gearing has increased to 53% as we took on additional assets and liabilities at acquisition.

Public benefit entity

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

Statement of Compliance with the 2015 Statement of Recommended Practice (SORP)

The Board confirms that the Strategic report contained within this Board report has been prepared in accordance with the principles set out in Para 4.7 of the 2014 SORP for Registered Social Housing Providers.

Statement of Board's responsibilities in respect of the Annual Report and the financial statements

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

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

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and

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The Directors' Report For the year end 31 March 2019

- Assess the Group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless it either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

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

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

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

Information for auditors

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

Going concern

In preparing the financial statements, the board members have reviewed Association's financial plan for 2019/22 and has a reasonable expectation that the Association has adequate resources to continue in operational existence to at least January 2021. Accordingly, the financial statements set out on pages 29 to 70 have been prepared on a going concern basis.

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The Directors' Report For the year end 31 March 2019

Viability statement

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

This incorporates the impact of the partnership with Merlin Housing Society Limited and Severn Vale Housing Society during the year.

This assessment was made using the following core business processes:

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

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

Liquidity – based on the output of the plan and regular reforecasting of cashflows, the Board reviews the liquidity position of the Group ensuring funding is secured in accordance with Bromford's treasury policy. In May 2018, the Group issued their debut public bond of £300m, and additional private placement of £100m in February 2019.

This additional funding during the year allows the Group to meet its corporate objectives.

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

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

Appointment of Auditor

KPMG LLP were appointed as Bromford's external auditors for a period of up to five years to 2021.

This report was approved for issue by the Board on 22 August 2019 and signed on its behalf by:



Jonathan Simpson-Dent
Chair

INDEPENDENT AUDITOR'S REPORT TO MERLIN HOUSING SOCIETY LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Merlin Housing Society Limited ("the Association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the association as at 31 March 2019 and of the income and expenditure of the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

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

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 15 (Audit Committee Report).

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in *Recoverability of inventory*, and related disclosures and the appropriateness of the going concern basis of preparation of the accounts. All of these depend on assessments of the future economic environment and the Association's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Association's position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

Our Brexit knowledge – We considered the directors' assessment of Brexit-related sources of risk for the Association's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

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Sensitivity analysis – When addressing *Recoverability of inventory* and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.

Assessing transparency – As well as assessing individual disclosures as part of our procedures on *Recoverability of inventory* we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Merger with Severn Vale Housing Society

Value of fair value on business acquisition: £60.7 million.

Refer to page 15 (Audit and Risk Committee Report), page 33 (accounting policy) and page 69 (financial disclosures)

The risk

Subjective estimate

In January 2019 Merlin Housing Society Limited acquired Severn Vale Housing Society.

The Group were required to make an assessment of the appropriate basis of accounting for the business combination. Due to the significant and unusual nature of this transaction there is a risk that the incorrect accounting judgement is applied.

Where acquisition accounting is applied assets and liabilities of the acquired entity are recognised at fair value at the point of acquisition. Where required, calculating the fair values are based on a subjective valuation using assumptions as the basis for the valuation. Small changes in these assumptions have a significant impact on the fair value adjustment recognised.

Our response

Our procedures included:

Accounting assessment

Reviewed management's proposed accounting treatment for the merger and the rationale for the selected treatment and ensured it is in line with the FRS102 accounting standard and Social Housing SORP 2014 ('SORP');

Benchmarking assumptions and review of valuation methodology

Challenging, with the support of our own valuation specialists, the key assumptions and valuation methodology applied; being the discount rate and inflation rates against externally derived alternatives;

Assessing transparency

Considering the adequacy of the Group's disclosures in respect of the business combinations and the sensitivity of the fair value adjustment to the assumptions.

Local Government Pension Scheme and Social Housing Pension Scheme valuation

Value of defined benefit pension obligations: £69.0 million; 2018: £54.0 million

Refer to page 15 (Audit and Risk Committee Report), page 34 (accounting policy) and pages 62 to 69 (financial disclosures)

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The risk

Subjective estimate

At 31 March 2019 the Association participated in two defined benefit pension schemes:

- Local Government Pension Scheme ('LGPS'); and
- Social Housing Pension Scheme ('SHPS').

Due to the size of the pension fund liabilities there is a risk that a small error in the judgements would have a material impact on the financial statements.

An actuary will calculate the future liabilities of the funds based on a number of judgements.

It is important that any assumptions used reflect the profile of the Association's members. It is also important that assumptions are derived on a consistent basis year to year, or updated to reflect the Association's current position.

Our response

Our procedures included:

Assessing valuer's credentials

Obtaining the qualification credentials of the Scheme actuary to assess that they are one of the small number of experienced, skilled advisors, appointed to undertake the Local Government Pension Scheme valuations, as we place reliance on the Actuary for the defined benefit pension obligation.

Benchmarking assumptions and review of actuarial methodology

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

Recoverability of inventory

Value of stock and work in progress: £5.6 million; 2018: £3.4 million

Refer to page 16 (Audit and Risk Committee Report), page 39 (accounting policy) and page 53 (financial disclosures)

The risk

Subjective estimate

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

Our response

Our procedures included:

Our sector expertise

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

Benchmarking assumptions

Merlin Housing Society Limited

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

Test of detail

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

Assessing transparency

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

Development assumptions and judgements

Value of assets under construction: £41.2 million; 2018: £28.1 million

Refer to page 15 (Audit and Risk Committee Report), pages 37 to 38 (accounting policy) and page 50 (financial disclosures)

The risk

Subjective estimate

The Association has a significant development programme, this includes mixed tenure schemes. The Association has now started to schedule land led developments into its programme.

The accounting of these schemes contains assumptions and judgements relating to the capitalised costs (including internal staff and interest costs and other costs) and as a result there is a potential risk of error.

In addition, the allocation of costs between current asset stock and Housing Assets is based on management's judgement and could therefore be subject to manipulation. It is important that the method used is consistent year on year with an appropriate rationale for the allocation basis. Should costs be incorrectly allocated, this could impact the value of certain tenure types creating impairment issues.

Finally impairment is a potential risk on significant developments where the time delays, increases in construction costs, falling land values, and/or budget overruns occur.

Our response

Our procedures included:

Tests of detail

Assessing a sample of interest capitalised to ensure that it relates to development schemes under construction and assessed the basis of the interest rate used as the weighted average interest rate.

Tests of detail

Assessing the policy for capitalisation of internal development costs against the requirements of FRS 102. For a sample of internal costs capitalised in the period we assessed the appropriateness and correct application of this policy, based on our understanding of the business and status of development projects.

Our sector experience

Reviewed management's impairment assessment and challenged the consideration of impairment triggers on significant developments based on our knowledge of the Association's schemes, comparing these with other source data and results of other inquiries where appropriate.

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

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

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

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £35,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on going concern

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

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

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

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

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

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

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

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Disclosures of principal risks and longer-term viability

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

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

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

Corporate governance disclosures

We are required to report to you if:

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

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 19, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they

Merlin Housing Society Limited

determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the Association's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Victoria Sewell
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

20 September 2019

Merlin Housing Society Limited

Statement of Comprehensive Income
For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Turnover	2,3	53,540	46,492
Cost of sales	2	(3,285)	(2,053)
Operating costs	2	(31,910)	(28,141)
Gain on disposal of property assets	33	1,407	3,213
Operating surplus	5	19,752	19,511
Interest receivable	6	125	100
Interest and financing costs	7	(4,585)	(4,504)
Fair value on business acquisition	36	60,669	-
Surplus before tax		75,961	15,107
Taxation	10	-	-
Surplus for the year after tax		75,961	15,107
Actuarial (loss)/gain relating to pension scheme	35	(2,690)	2,432
Total comprehensive income for the year		73,271	17,539

The notes on pages 34 to 70 form an integral part of these financial statements

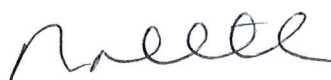
The association's results relate wholly to continuing activities.

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

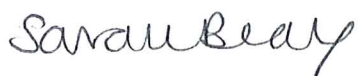
The financial statements on pages 29 to 70 were approved and authorised for issue by the Board on 22 August 2019 and were signed on its behalf by:



Jonathan Simpson - Dent
Chair



Robert Nettleton
Chief Executive



Sarah Beal
Company Secretary

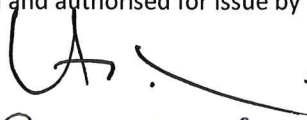

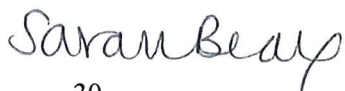
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**Statement of Financial Position
As at 31 March 2019**

	Notes	2019 £000	2018 £000
Fixed Assets			
Tangible fixed assets - housing properties	11	417,873	202,731
Investment properties	13	13,339	2,293
Tangible fixed assets - other	14	5,336	3,354
Intangible Fixed Assets	15	377	756
		<u>436,925</u>	<u>209,134</u>
Assets: amount receivable after more than one year			
Debtors	17	15,300	23,447
Current Assets			
Stocks	16	5,555	3,427
Trade and other debtors	17	4,537	2,235
Investments	18	9,723	1,723
Cash and cash equivalents	19	14,131	51,104
		<u>33,946</u>	<u>58,489</u>
Creditors: Amounts falling due within one year	20	<u>(29,610)</u>	<u>(11,619)</u>
Net current assets		<u>4,336</u>	<u>46,870</u>
Total assets less current liabilities		<u>456,561</u>	<u>279,451</u>
Creditors - Amounts falling due after more than one year			
Loans	21	(163,142)	(150,958)
Deferred Capital Grant	22	(10,760)	(7,971)
Other Creditors	21	(90,789)	(364)
		<u>(264,691)</u>	<u>(159,293)</u>
Provisions for liabilities			
Pension liability	26,35	(15,548)	(9,562)
Other provisions	24	(15,851)	(23,556)
Total net assets		<u>160,471</u>	<u>87,040</u>
Reserves			
Called up share capital	25	-	-
Income and Expenditure Reserve		158,495	85,532
Restricted Reserve		1,976	1,508
Total reserves		<u>160,471</u>	<u>87,040</u>

The notes on pages 34 to 70 form an integral part of these financial statements

The financial statements on pages 29 to 70 were approved and authorised for issue by the Board on 22 August 2019 and were signed on its behalf by:


 Jonathan Simpson - Dent, Chair

 Robert Nettleton, Chief Executive

 Sarah Beal, Company Secretary

Merlin Housing Society Limited

Statement of Changes in Reserves
As at 31 March 2019

	Restricted reserve	Income and Expenditure Reserve	Total
	£000	£000	£000
Balance at 1 April 2017	320	69,181	69,501
Surplus from Statement of Comprehensive Income	-	17,539	17,539
Transfer to restricted reserve	1,188	(1,188)	-
Balance at 31 March 2018	<u>1,508</u>	<u>85,532</u>	<u>87,040</u>
Surplus from Statement of Comprehensive Income	-	73,271	73,271
Transfer to restricted reserve	468	(468)	-
Gift aid	-	160	160
Balance at 31 March 2019	<u><u>1,976</u></u>	<u><u>158,495</u></u>	<u><u>160,471</u></u>

The notes on pages 34 to 70 form an integral part of these financial statements

Merlin Housing Society Limited

Statement of Cash Flows
For the year ended 31 March 2019

	2019		2018	
	£000	£000	£000	£000
Net cash generated from operating activities (note 28)		23,830		24,913
Cashflow from investing activities				
Cash from acquisition of Severn Vale	6,280		-	
Purchase of tangible fixed assets - new housing properties	(52,688)		(33,419)	
Purchase of tangible fixed assets - other	(55)		-	
Purchase of tangible fixed assets - existing housing properties	(1,625)		(5,482)	
Purchase of intangible fixed assets	(482)		(398)	
Gift Aid	160		-	
Grants received	2,472		1,860	
Interest received	122		100	
Net cashflow from investing activities		(45,816)		(37,339)
Cashflow from financing activities				
Interest paid	(3,971)		(5,304)	
New secured loans	141,048		37,870	
Repayment of borrowings	(152,060)		-	
Transfer from current asset investment	-		216	
Finance lease payments	(4)		(18)	
Net cashflow from financing activities		(14,987)		32,764
Net change in cash and cash equivalents		(36,973)		20,338
Cash and cash equivalents at the beginning of the year		51,104		30,766
Cash and cash equivalents at the end of the year		<u>14,131</u>		<u>51,104</u>

The notes on pages 34 to 70 form an integral part of these financial statements

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

Legal status

Merlin Housing Society Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing (RSH) as a Private Registered Provider of Social Housing. In July 2018, Merlin Housing Society Limited joined the Bromford Group and in January 2019 Severn Vale Housing Society was acquired by Merlin.

1. Principal accounting policies

The accounting policies across Bromford Group have been aligned for financial reporting and any reference to the Group also apply to Merlin. The Group have been prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2018.

Merlin previously held Investment properties at cost as they were deemed not material enough to require a valuation. They have now been valued as investment properties in line with Group policies, as shown in note 37.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2018.

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

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

Going concern

The 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 can service these debt facilities while continuing to comply with lenders' covenants. The Group regularly carries out a reassessment of the business plan as well as an assessment of the likelihood of any imminent or future breach of borrowing 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 these financial statements.

Judgements and key sources of estimation uncertainty

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

- **Development expenditure** - The Group capitalises development expenditure in accordance with the accounting policy described on page 38. Initial capitalisation of costs is based on management's judgement that the development scheme is likely to proceed. Costs capitalised in this way are regularly reviewed and any costs identified as abortive are charged in the Statement of Comprehensive Income.
- **Categorisation of housing properties** - The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented properties and commercial properties are investment properties.

Notes to the Financial Statements
For the year ended 31 March 2019

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

Other key sources of estimation and assumptions:

- **Tangible fixed assets** - Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- **Revaluation of investment properties** - The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine the fair value at the reporting date. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long-term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 13.
- **Categorisation of debt** – Merlin's loans have been treated as 'basic' in accordance with paragraphs 11.8 and 11.9 of FRS 102.
- **Pension and other post-employment benefits** - The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the actuary considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 37.

For the year up to 31 March 2019 the Group participated in the multi-employer defined benefit Social Housing Pension Scheme (SHPS) operated by The Pensions Trust (TPT). A change in the information provided by TPT means that for the first time it is now possible to identify the share of the underlying assets and liabilities belonging to individual participating employer on a consistent and reasonable basis and therefore the Group now accounts for the scheme as a defined benefit scheme. Further detail is given in the pension accounting note on page 62 to 69.

Notes to the Financial Statements
For the year ended 31 March 2019

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

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

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

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

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. Following the assessment of the indicators of impairment no adjustment to impairment was required during the year.

- **Fair Value on acquisition** - Management is required to determine the fair value of asset and liabilities of any entities acquired and reflect these fair values as part of the process of preparing consolidated financial statements. Where the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, management estimates the fair value by using a valuation technique and engages qualified external valuer where such techniques are beyond management expertise. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange and will include management judgement applied to assumptions provided to the valuer. See Note 36 for further information.
- **Leases** - A review of all leases has been carried out to classify leases as either operating or finance. These decisions depend upon an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- **Rent arrears and bad debt provisions** - The amount of arrears that will not be collected is estimated on experience of collection of different types of debt. The impact of changes in welfare reform including universal credit and benefit caps have been estimated based on data provided from pilot studies and the Group's experience based on a small population.

Turnover and revenue recognition

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

Rental income receivable

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

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

agents are included in operating costs.

Shared ownership first tranche sales

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

Service charge income

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

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

Supporting people

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

Properties developed for outright sales

Sales of properties developed for outright sale are included in Turnover and Cost of Sales on legal completion.

Grants

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

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

Other Income

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

Loan interest costs

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

Loan finance issuance costs

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

Taxation

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

Both the current and deferred income tax charge is calculated based on tax rates and laws that have been enacted or substantively enacted by the reporting date where the Group and its subsidiaries operate and generate taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

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

Value Added Tax

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

Tangible fixed assets and depreciation

Housing properties

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

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

Freehold land is not depreciated.

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

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

UELs for identified components are as follows:

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

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

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

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

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

Low cost home ownership properties

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

Capitalisation of interest and administration costs

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

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

Intangible fixed assets

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

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

Property managed by agents

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

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

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

Leasing and hire purchase

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

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

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

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

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

Investment property

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

Valuation of investments

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

Current asset investments

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

Stock and properties held for sale

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

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

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income statement in other operating expenses.

Social Housing and other Government grants

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

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

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

Recycling of Capital Grant

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

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

Holiday pay accrual

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

Retirement benefits

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

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

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

A SHPS pension scheme liability as at 2 January 2019 was transferred from Severn Vale Housing Society to Merlin Housing Society Limited as part of the acquisition of Severn Vale, see note 37. The movements represent those since acquisition and have been estimated from the full year's movements provided by the actuaries for the SHPS scheme. Contributions for period 2 January 2019 to 31 March 2019. The scheme was closed to future accrual from January 2019 and members transferred to a defined contribution scheme.

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

Revaluation reserve

The revaluation reserve represents the difference on transition between the fair value of social housing properties and other assets and the historical cost carrying value, where deemed cost transitional relief was taken.

Financial instruments

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

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

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

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

Financial instruments held by the Group are classified as follows:

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

**Notes to the Financial Statements
For the year ended 31 March 2019**

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

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

Impairment of Financial Assets

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

The following financial instruments are assessed individually for impairment:

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

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

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

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

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

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

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

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2019**

	2018	Turnover	Cost of sales	Operating costs	Surplus on disposal	Operating surplus/ (deficit)
Note	£000	£000	£000	£000	£000	£000
Social housing lettings						
Housing accommodation	3	33,327		(20,402)		12,925
Supported housing accommodation	3	8,068		(6,358)		1,710
Shared ownership accommodation	3	173		(138)		35
		<u>41,568</u>	<u>-</u>	<u>(26,898)</u>	<u>-</u>	<u>14,670</u>
Other social housing activities						
First tranche shared ownership sales		3,475	(2,053)	-	-	1,422
Supported people contract income		478	-	(648)	-	(170)
Gain on disposal of property, plant and equipment		-	-	-	3,213	3,213
		<u>46,492</u>	<u>(2,053)</u>	<u>(28,141)</u>	<u>3,213</u>	<u>19,511</u>
Non-social housing activities						
Commercial rents		927	-	(555)	-	372
Oakbrook Homes Limited		44	-	(40)	-	4

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

	2019		2018	
	Housing accommodation £000	Supported housing for older people and My Place £000	Shared Ownership £000	Total £000
3. Income and expenditure from social housing lettings				
Income				
Rent receivable net of identifiable service charge	36,142	6,535	376	38,071
Service charge income	1,071	2,038	195	3,131
Charges for support services	204	44	-	-
Amortised government grants	99	4	5	88
Other income	-	-	-	278
Turnover from social housing lettings	37,516	8,621	576	46,713
Expenditure				
Management	4,001	1,218	338	8,316
Service charge costs	1,370	1,440	23	3,553
Care and support costs	-	-	-	-
Routine maintenance	8,878	764	177	9,819
Planned maintenance	2,363	348	7	2,718
Major repairs expenditure	2,524	149	38	2,711
Bad debts	(102)	46	2	(54)
Depreciation of housing properties	5,436	1,177	55	6,668
Operating expenditure on social housing lettings	24,470	5,142	640	30,252
Operating surplus on social housing lettings	13,046	3,479	(64)	14,670
Voids	(263)	(88)	(3)	(354)
				267

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

4. Accommodation - owned, managed and in development	2019	2018
	Number	Number
Under management at the end of the year		
General needs housing - social rent	9,293	6,414
General needs housing - affordable rent	340	204
Supported housing	1,802	1,393
Low-cost home ownership	342	110
Leasehold	648	505
Units to be remodelled	-	-
	12,425	8,626
Under development at the end of the year		
General needs housing - social rent	233	-
General needs housing - affordable rent	94	-
Supported housing	-	-
Low-cost home ownership	102	-
	12,854	8,626
Total social housing units	12,854	8,626
Non-social housing		
Staff accommodation	11	-
Market rent	86	-
Commercial	79	76
Student accommodation	282	-
Retained freehold	6	-
	464	76
Total non social housing units	464	76
Total units	13,318	8,702
Owned and managed	12,874	8,687
Owned and managed by others	15	15
Under development	429	-
	13,318	8,702
Total Units	13,318	8,702
Garages/parking spaces	2,699	2,747
	2,699	2,747
Total garages	2,699	2,747

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

5. Surplus on ordinary activities

The surplus on ordinary activities is stated after (crediting)/charging	2019 £000	2018 £000
Operating lease rentals		
- office land and buildings	136	42
- vehicles	197	436
- other	-	12
Depreciation of housing properties	6,668	5,430
Depreciation of tangible owned fixed assets	457	491
Amortisation of intangible fixed assets	111	170
Current auditor's remuneration		
- Audit of financial statements	46	-
- Other services	42	-
Previous auditor's remuneration		
- Audit of financial statements	-	25
- Other services	-	2
	<hr/>	<hr/>

6. Interest receivable and income from investments

	2019 £000	2018 £000
Interest receivable from cash, deposits and intragroup loans	<hr/> 125	<hr/> 100

7. Interest payable and similar charges

	2019 £000	2018 £000
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Interest on loans, overdrafts and other financing

Repayable wholly within five years	31	-
Repayable wholly or partly in more than five years	4,602	4,519
	<hr/> 4,633	<hr/> 4,519
On loans from Bromford Housing Group Limited	681	-
Other finance charges	224	278
Amortised net finance costs	25	-
	<hr/> 5,563	<hr/> 4,797
Interest payable capitalised on housing properties under construction 4.03% (2018: 3.61%)	(1,243)	(592)
	<hr/> 4,320	<hr/> 4,205
Interest on pension scheme liabilities	1,475	-
Expected return on employer assets	(1,210)	299
	<hr/> 4,585	<hr/> 4,504

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

8. Colleague costs	2019 £000	2018 £000
Wages and salaries	12,733	10,472
Social security costs	1,195	1,089
Other pension costs	2,227	1,980
	<u>16,155</u>	<u>13,541</u>
Redundancy costs	286	27
	<u>16,441</u>	<u>13,568</u>

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

	2019 No.	2018 No.
Asset management	197	171
Central services	70	69
Development, construction and sales	17	-
Housing management and support	160	142
	<u>444</u>	<u>382</u>

A full-time equivalent employee is classed as working a 35 hour week.

The number of full-time employees (including Executive Directors) whose remuneration exceed £60,000 in the period was as follows

	2019 No.	2018 No.
£60,001-£70,000	2	4
£70,001-£80,000	1	6
£80,001-£90,000	5	1
£90,001-£100,000	-	1
£100,001-£110,000	-	1
£110,001-£120,000	1	1
£120,001-£130,000	-	1
£150,001-£160,000	-	1
	<u>-</u>	<u>1</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

9. Directors' emoluments

Emoluments, (excluding pension contributions) payable to the Chief Executive, who is also the highest paid director	2019 £000	2018 £000
Robert Nettleton	<u>57</u>	<u>137</u>

The total emoluments of the Directors of Bromford Housing Group are as follows

Remuneration paid to the Executive Directors including the Chief Executive was:

Emoluments	158	488
Employers' pension contribution	9	39
	<u>167</u>	<u>527</u>

Remuneration paid to the non- executive directors was:

Emoluments	<u>11</u>	<u>45</u>
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As part of the merger with Bromford, all of Merlin's Executive Directors ceased to be paid by Merlin and were transferred onto the Bromford Housing Group payroll on 1 July 2018. Accordingly, their remuneration is disclosed in the accounts of that company from this date.

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

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

10. Taxation on surplus on ordinary activities	2019 £000	2018 £000
Current tax		
UK corporation tax credit on ordinary activities	-	-
Under/(Over) provision in previous years	-	-
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	<u>-</u>	<u>-</u>
Total tax reconciliation		
surplus on ordinary activities	<u>75,961</u>	<u>15,107</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	14,433	2,870
Effects of		
Items not allowable for tax purposes	-	-
Fixed asset differences	-	-
Difference due to change in corporation tax rates	-	-
Surplus relating to charitable period	(14,433)	(2,870)
	<u>-</u>	<u>-</u>

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

	Housing properties held for letting £000	Housing properties under construction £000	Completed shared ownership housing properties £000	Shared ownership properties under construction £000	Total £000
11. Tangible fixed assets - housing properties					
Cost					
As at 1 April 2018	200,931	22,199	5,037	5,921	234,088
Housing properties acquired from Severn Vale	159,555	1,017	8,582	-	169,154
Additions	-	37,670	-	8,048	45,718
Replacement of components	7,629	-	-	-	7,629
Transferred on completion	28,905	(28,905)	4,782	(4,782)	-
Disposals	(702)	-	-	-	(702)
Components disposed	(664)	-	-	-	(664)
Other recategorisation	(38)	-	-	-	(38)
As at 31 March 2019	395,616	31,981	18,401	9,187	455,185
Depreciation					
As at 1 April 2018	31,306	-	51	-	31,357
Charge for the year	6,618	-	72	-	6,690
Disposals	(735)	-	-	-	(735)
As at 31 March 2019	37,189	-	123	-	37,312
Net book value					
As at 31 March 2019	358,427	31,981	18,278	9,187	417,873
As at 31 March 2018	169,625	22,199	4,986	5,921	202,731
				2019	2018
				£000	£000
Housing property net book value in respect of long leaseholds				-	-
Housing property net book value in respect of freeholds				417,873	202,731
				417,873	202,731
Total depreciation charge				6,690	5,074
Component depreciation within the depreciation charge				5,229	4,648
Development administration costs capitalised during the year				878	752
Aggregate amount of interest and finance cost included within the cost of housing properties				2,458	1,215

Properties held for security

Merlin Housing Society Limited - Registered Social Housing Provider - has property pledged as security value (EUV - SH and MV - STT) of £392m (2018: £348m). The number of units on which security was pledged amounted to 10,041 (2018: 6,476).

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

12. Expenditure on work to existing properties	2019	2018
	£000	£000
Replacement of components	7,629	5,318
Amounts charged to income and expenditure account	2,711	2,169
	<u>10,340</u>	<u>7,487</u>

13. Investment properties held for letting	2019	2018
	£000	£000
As at 1 April	2,293	2,293
Investment properties acquired from Severn Vale	11,046	-
As at 31 March	<u>13,339</u>	<u>2,293</u>

Investment properties (commercial and market rent) were valued at 31 March 2019 by professional qualified external valuers.

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

Discount rate	8%
Annual inflation rate	1.5% - 6.5%
Level of long term rent increase	1%

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

14. Tangible fixed assets - other

	Freehold offices £000	Fixtures, fittings & Equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
As at 1 April 2018	4,544	1,039	2,123	549	8,255
Additions	2,064	39	79	262	2,444
Disposals	(16)	-	(22)	(9)	(47)
As at 31 March 2019	6,592	1,078	2,180	802	10,652
Depreciation and impairment					
As at 1 April 2018	2,405	828	1,609	59	4,901
Charge for the year	55	60	199	143	457
Released on disposal	(16)	-	(17)	(9)	(42)
As at 31 March 2019	2,444	888	1,791	193	5,316
Net book value					
As at 31 March 2019	4,148	190	389	609	5,336
As at 31 March 2018	2,139	211	514	490	3,354

15. Intangible fixed assets

	Software £000	Other £000	Total £000
Cost			
As at 1 April 2018	2,155	610	2,765
Additions	3	272	275
Write off	-	(535)	(535)
As at 31 March 2019	2,158	347	2,505
Depreciation			
As at 1 April 2018	2,017	-	2,017
Charge for the year	111	-	111
As at 31 March 2019	2,128	-	2,128
Net book value			
As at 31 March 2019	30	347	377
As at 31 March 2018	138	610	748

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

16. Stocks and work in progress	2019	2018
	£000	£000
Consumable stock	258	227
Cost of first tranche element of shared ownership properties	5,297	3,200
	<u>5,555</u>	<u>3,427</u>
Shared ownership properties		
Completed	2,276	1,293
Under construction	3,021	1,907
	<u>5,297</u>	<u>3,200</u>
17. Trade and other debtors	2019	2018
	£000	£000
Amounts falling due within one year		
Rent arrears	2,252	2,309
Less: provision for bad debts	(802)	(1,277)
	<u>1,450</u>	<u>1,032</u>
Trade debtors	245	319
Amounts due from group companies	1,081	39
Government grant debtor	254	144
Other debtors	434	179
Prepayments and accrued income	1,073	522
	<u>4,537</u>	<u>2,235</u>
Amounts falling due after more than one year		
Government grant debtor	148	203
Major repairs provision	15,152	23,244
	<u>15,300</u>	<u>23,447</u>

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2019**

18. Current asset investments	2019	2018
	£000	£000
Opening fair value at 1 April	1,723	1,940
Additions to investments	8,000	781
Withdrawals from investments	(7)	(1,003)
Interest	7	5
Fair value at 31 March	<u>9,723</u>	<u>1,723</u>

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

The analysis of these monies is	2019	2018
	£000	£000
EIB Bond	563	559
AHF bond	1,160	1,164
Money held in support of bond finance	1,723	1,723
Investment properties held for resale	8,000	-
Total current asset investments	<u>9,723</u>	<u>1,723</u>

19. Cash and cash equivalents	2019	2018
	£000	£000
Cash at bank	13,937	51,290
Cash equivalents	194	(186)
	<u>14,131</u>	<u>51,104</u>

Included in the above are balances totalling £240k (2018: £240k) which are held in trust for shared ownership leaseholders.

20. Creditors: amounts falling due within one year	2019	2018
	£000	£000
Prepaid rental income	1,569	1,423
Loans	11,335	-
Local Authority RTB share of proceeds	1,935	2,192
Finance lease creditor	-	4
Trade creditors	954	1,130
Amounts due to group companies	502	219
Social security and other taxes	350	278
Funds held on trust	14	-
Grant income received in advance	-	50
Deferred capital grant	129	96
Recycled capital grant fund	168	72
Disposal proceeds fund	445	228
Other creditors	564	182
Vat shelter liability	1,228	290
Accruals and deferred income	10,417	5,455
	<u>29,610</u>	<u>11,619</u>

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

21. Creditors: amounts falling due after more than one year	2019	2018
	£000	£000
Loans	163,142	150,958
Loans due to group companies	90,000	-
Leaseholder sinking funds	763	274
Deferred capital grant	10,760	7,971
Recycled capital grant fund	26	72
Other creditors	-	18
	<u>264,691</u>	<u>159,293</u>
Loans repayable by installments		
Repayable within one year	11,335	-
Repayable between one and two	265	-
Repayable between two and five years	866	-
Repayable after five years	164,528	152,688
Less: Loan finance costs	(2,517)	(2,090)
	<u>174,477</u>	<u>150,598</u>
	2019	2018
	£000	£000
Loans as stated above	174,477	150,598
Less: EIB sinking fund	(64)	(254)
EIB bond liquidity reserve	(562)	(561)
AHF sinking fund	(47)	(244)
AHF bond liquidity reserve	(1,175)	(1,163)
Loans net of related cash deposits	<u>172,629</u>	<u>148,376</u>
 The interest risk profile of loan liabilities are as follows	 2019	 2018
	£000	£000
Floating rate	-	-
Fixed rate - average 3.51% (2018: 3.37%)	176,994	152,688
	<u>176,994</u>	<u>152,688</u>
 Undrawn committed borrowing facilities (all secured) at 31 March were	 2019	 2018
	£000	£000
Expiring within one year	-	-
Expiring between one and two	-	-
Expiring between two and five years	279,000	-
Expiring after five years	-	68,000
	<u>279,000</u>	<u>68,000</u>

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

22. Deferred capital grant	2019	2018
	£000	£000
At 1 April	8,067	6,515
Grants received in year	2,940	1,642
Amortised in year	(108)	(89)
Amortised grant on disposal	(10)	(1)
As at 31 March	<u>10,889</u>	<u>8,067</u>
Amount due to be released within one year	129	96
Amount due to be released in more than one year	<u>10,760</u>	<u>7,971</u>
	<u>10,889</u>	<u>8,067</u>

23. Other capital grant funds	Disposal proceeds fund £000	Recycled capital grant fund £000	2019 £000	2018 £000
At 1 April	228	72	300	348
Inputs to reserve				
Acquired from Severn Vale	216	-	216	-
Grants recycled	-	121	121	-
Interest accrued	1	1	2	1
Utilised				
New build	-	-	-	(49)
	<u>445</u>	<u>194</u>	<u>639</u>	<u>300</u>
Amounts due within one year	445	168	613	228
Amounts due after more than one year	-	26	26	72
	<u>445</u>	<u>194</u>	<u>639</u>	<u>300</u>
Amount three years or older where repayment may be required	<u>85</u>	<u>97</u>	<u>182</u>	-

24. Provision for liabilities and charges	Major repairs £000	Other £000	Total £000
As at 1 April	23,244	312	23,556
Utilised in year	(8,092)	(650)	(8,742)
Released in year	-	(27)	(27)
Additions in year	-	1,064	1,064
As at 31 March	<u>15,152</u>	<u>699</u>	<u>15,851</u>

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

25. Share Capital	2019	2018
	£	£
Issued and fully paid		
As at 1 April	32	34
Issued during the year	6	1
Cancelled during the year	(4)	(3)
As at 31 March	<u>34</u>	<u>32</u>
26. Reconciliation of net cashflow to movement in net debt	2019	2018
	£000	£000
(Decrease)/increase in cash and cash equivalents per cashflow	(41,687)	18,396
Increase in investments	-	1,723
Cash outflow from decrease in debt and finance leasing	11,163	(36,769)
Change in net debt resulting from cashflows	<u>(30,524)</u>	<u>(16,650)</u>
Movement on provisions	2,552	1,539
Acquired from Severn Vale	(119,968)	6,431
Movement in net debt for the year	<u>(147,940)</u>	<u>(8,680)</u>
Net funds as at 1 April	(131,251)	(122,571)
Net funds as at 31 March	<u>(279,191)</u>	<u>(131,251)</u>

27. Analysis of changes in net debt	As at 1 April 2018 £000	Cashflows £000	Acquisition from Severn Vale £000	As at 31 March 2019 £000
Cash at bank and cash equivalents	51,104	(41,687)	4,714	14,131
Short term investments	1,723	-	-	1,723
	<u>52,827</u>	<u>(41,687)</u>	<u>4,714</u>	<u>15,854</u>
Other loans				
Housing loans due within one year	-	(11,335)	-	(11,335)
Housing loans due after more than one year	(150,958)	22,498	(124,682)	(253,142)
Change in debt resulting from cashflows	<u>(98,131)</u>	<u>(30,524)</u>	<u>(119,968)</u>	<u>(248,623)</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

28. Cash flow from operating activities	2019	2018
	£000	£000
Surplus for the year	75,961	15,107
Adjustments for non-cash items		
Depreciation of tangible fixed assets	7,145	5,683
Amortisation of intangible assets	230	170
Amortisation of government grant	(110)	(90)
Decrease/(increase) in stock	4,755	(2,367)
Decrease/(increase) in trade and other debtors	9,070	(430)
(Decrease)/increase in trade and other creditors	(7,654)	1,016
Increase in intergroup balances	108	-
(Decrease) in provisions	(8,011)	(194)
Pension costs less contributions payable	(2,706)	594
Carrying amount of tangible fixed assets disposals	763	1,020
Fair value on acquisition	(60,669)	-
Adjustments for investing or financing activities		
Proceeds from sale of tangible fixed assets - other	-	-
Movement in value of investment property	502	-
Interest payable	4,571	4,504
Interest receivable	(125)	(100)
Net cash generated from operating activities	23,830	24,913
29. Capital commitments	2019	2018
	£000	£000
Capital expenditure contracted for but not provided for in the financial statements	53,232	73,765
Capital expenditure authorised by not yet contracted for	2,415	23,774
These commitments are to be financed by the receipt of social housing grant and a mixture of loan finance, reserves and proceeds from the sales of housing properties as follows		
Social housing grant	584	1,557
Proceeds from the sale of properties	16,496	19,719
Loans and reserves	38,567	76,263
	55,647	97,539

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

30. Other financial commitments

The minimum lease payments due under operating leases are as follows

	Land and buildings		Vehicles and office equipment		Total leases	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Operating leases which expire						
Within one year	30	31	58	78	88	109
Within two to five years	-	-	22	35	22	35
After more than five years	-	-	-	-	-	-
	<u>30</u>	<u>31</u>	<u>80</u>	<u>113</u>	<u>110</u>	<u>144</u>

31. Grant and financial assistance

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

	2019 £000	2018 £000
Held as deferred capital grant	10,889	8,067
Recognised as income in Statement of Comprehensive Income	<u>15,842</u>	<u>313</u>
	<u>26,731</u>	<u>8,380</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

32. Financial instruments

The company's financial instruments may be analysed as follows

	2019 £000	2018 £000
Financial assets		
Financial assets measured at amortised cost		
Rent debtors	1,450	3,274
Other receivables	17,314	21,886
Investments in short term deposits	9,723	1,723
Cash and cash equivalents	14,131	51,104
Total financial assets	<u>42,618</u>	<u>77,987</u>
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade creditors	954	4,363
Other creditors	92,179	1,261
Funds held on trust	14	-
Financial liabilities that are debt instruments measured at amortised cost		
Loans payable - due within one year	11,335	-
Loans payable - due after more than one year	163,142	150,958
Total financial liabilities	<u>267,624</u>	<u>156,582</u>

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

	Proceeds of sales £000	Cost of sales £000	Surplus £000	Capital grant recycled £000
Further tranches of shared ownership	-	-	-	-
Right to buy	2,748	(2,579)	169	-
Right to acquire	-	-	-	-
Other property disposals	1,352	(157)	1,195	10
Other fixed asset disposals	43	-	43	-
Total 2019	<u>4,143</u>	<u>(2,736)</u>	<u>1,407</u>	<u>10</u>
Total 2018	<u>6,002</u>	<u>(2,789)</u>	<u>3,213</u>	<u>1</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

34. Related party transactions

There were gift aid receipts in the year as follows

	2019 £000	2018 £000
Oakbrook Limited	<u>160</u>	<u>-</u>

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

	2019 £000	2018 £000
Administrative recharges	93	39
Property purchase	<u>4,782</u>	<u>8,512</u>
	<u>4,875</u>	<u>8,551</u>

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

	2019 £000	2018 £000
Included within debtors	<u>1,081</u>	<u>39</u>
Included within creditors due within one year	<u>2,008</u>	<u>219</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

35. Pension obligations

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

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

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

Summary of pension schemes balances (Group)

	2019 £000	2018 £000
Creditors due less than one year		
Royal London Defined contribution scheme	<u>54</u>	<u>55</u>
	54	55
Provisions for Pensions		
Avon pension fund LGPS	13,337	9,562
SHPS	<u>2,211</u>	<u>-</u>
	<u>15,548</u>	<u>9,562</u>

Gloucestershire LGPS (closed schemes – cessation liabilities only)

	2018 £000
Gloucestershire LGPS cessation debt from the acquisition of Severn Vale Housing Society by Merlin Housing Society Limited on 2 January 2019 (note 39)	6,216
Payment of cessation debt	<u>(6,216)</u>
Creditors due in less than one year – cessation debts 31 March 2019	<u>-</u>

In March the cessation debt acquired by Merlin on the acquisition of Severn Vale due to Gloucestershire LGPS was paid and the liability settled in full.

Avon Pension Fund

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

The latest triennial actuarial valuation was carried out at 31 March 2016 and this has been updated to 31 March 2019 by a qualified independent actuary.

Merlin Housing Society Limited

**Notes to the Financial Statements
For the year ended 31 March 2019**

35. Pension obligations (continued)

Contributions for year ended 31 March 2019

	£000
Employee	271
Employer	927
Employer deficit	-
Total	<u>1,198</u>
Agreed contribution rates for future years:	%
Employee (% dependent on salary)	2.75% to 12.5%
Employer	19.5% to 26.4%

Principal actuarial assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 March 2019 by a qualified independent actuary:

	At 31/03/19	At 31/03/18
Rate of inflation - CPI	2.2%	2.1%
Rate of increase for pensions in payment	2.3%	2.2%
Rate of increase in salaries	3.7%	3.6%
Discount rate for scheme liabilities	2.5%	2.7%

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

	At 31/03/19	At 31/03/18
Males		
Current Pensioners (years)	23.7	23.6
Future Pensioners retiring in 20 years (years)	26.3	26.2
Females	At 31/03/19	At 31/03/18
Current Pensioners (years)	26.2	26.1
Future Pensioners retiring in 20 years (years)	29.0	28.8

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:

	£000	£000
Fair Value of fund assets	47,168	44,619
Present value of defined benefits obligations	<u>(60,505)</u>	<u>(54,181)</u>
Pension deficit	<u>(13,337)</u>	<u>(9,562)</u>

Merlin Housing Society Limited

Notes to the Financial Statements
For the year ended 31 March 2019

35. Pension obligations (continued)

Reconciliation of assets and liabilities

Reconciliation of assets at 31 March 2019

	£000
Assets at start of period	44,619
Interest credits on plan assets	1,209
Re-measurements	1,069
Administration expenses	(20)
Employer contributions paid	927
Employee contributions	271
Benefits paid	(907)
Assets at end of period	<u>47,168</u>

Reconciliation of liabilities at 31 March 2019

	£000
Liabilities at start of period	(54,181)
Service Cost	(1,274)
Interest Cost	(1,455)
Past service cost *	(473)
Employee contributions	(271)
Re-measurements	(3,759)
Benefits Paid	(907)
Liabilities at end of period	<u>(62,320)</u>
Actual return on plan assets 1 April 2017 to 31 December 2018	2.0%
Total return on plan assets 1 April 2018 to 31 March 2019	<u>5.6%</u>

*Includes allowance for the effects of the McCloud judgement (see notes below)

The fair value of the assets

	31 March 2019 £000	31 March 2018 £000
Equities	12,688	12,224
Government Bonds	3,821	3,213
Other Bonds	19,386	15,349
Property	3,066	2,633
Cash	519	1,071
Other	7,688	10,129
Total fair value of assets	<u>47,168</u>	<u>44,619</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

35. Pension obligations (continued)

Analysis of the amount charged to operating costs in the Statement of Comprehensive Income at 31 March 2019

	£000
Employer service cost (net of employee contributions)	(1,274)
Past service costs*	<u>(473)</u>
Total operating charge	<u>(1,747)</u>
Analysis of pension finance income/(costs)	(20)
Expected return on pension scheme assets	1,209
Interest on pension liabilities	<u>(1,454)</u>
Amounts charged/credited to financing costs	<u>(265)</u>

**Includes allowance for the effects of the McCloud judgement (see notes below)*

Analysis of gains and losses recognised in the Statement of Other Comprehensive Income at 31 March 2019

	£000
Actuarial gains on pension scheme assets	1,069
Actuarial (losses) on pension scheme liabilities	<u>(3,759)</u>
Actuarial gains/(losses) recognised	<u>(2,690)</u>

Movement in deficit during the year

	£000
(Deficit) in scheme at 1 April 2018	(9,562)
Employer service cost (net of employee contributions)	(1,274)
Employer contributions paid	927
Past service costs*	(473)
Pension administration expenses	(20)
Net interest/return on assets	(245)
Re-measurements Other Comprehensive Income	<u>(2,690)</u>
(Deficit) in pension fund scheme at 31 March 2019	<u>(13,337)</u>

**Includes allowance for the effects of the McCloud judgement (see notes below)*

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

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). This has consequently been assessed against the Group's defined benefit schemes.

**Notes to the Financial Statements
For the year ended 31 March 2019**

35. Pension obligations (continued)

Local government pension schemes

The Group has reviewed the impact of GMP Equalisation in respect of its Avon LGPS and identified that a range of approaches has been adopted by the scheme actuaries for those schemes. These approaches range from a detailed assessment of the impact of the requirements in 2019 through to limited recognition of the impact as the scheme actuaries wait for guidance from the Government on the methodology to be applied in calculating the full liability.

McCloud

The decisions of the Court of Appeal in the Sargeant/McCloud cases (generally referred to for the LGPS as "McCloud") have ruled that the transitional protections afforded to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination. At this stage it is uncertain whether or not there will be an issue for the LGPS and its employers, nor is it clear what the exact extent would be of any required changes, but this note sets out some approximate effects of the costs if the transitional protections need to be extended to younger members.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data for this employer as supplied to us for the 31 March 2016 actuarial valuation, and the results of those calculations based on the IAS19/FRS102 assumptions used for this employer are set out below. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a 'final salary underpin' (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and would not otherwise have benefited from the underpin.

For Merlin, the IAS19/FRS102 liabilities which we have used in our calculations is: £60,033,000

Applying the above calculations to the employer's estimated active member liabilities and service cost at 31 March 2019 gives the following figures:

Additional past service liabilities as at 31 March 2019: £473,000

Additional projected service cost for the year commencing 1 April 2019: £96,000

(equivalent to about 2.3% of the current active membership pensionable payroll)

The additional costs are very sensitive to the assumptions made. For example, the above figures are based on an assumed future real pay growth of 1.5% p.a. above CPI. Were the assumed future real pay growth instead to be set at zero then the potential additional costs in relation to McCloud would not be significant and could be taken as zero. Figures for other levels of real pay growth could be obtained approximately by interpolation from the above. For example, assuming future real pay growth of 0.75% p.a. above CPI would result in (approximate) additional past service of liabilities as at 31 March 2019 of £237,000 and an additional projected service cost for the year commencing 1 April 2019 of £48,000.

Social Housing Pension Scheme (SHPS)

The SHPS is a multi-employer defined benefit scheme administered by The Pensions Trust.

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

The SHPS pension scheme liability as at 2 January 2019 was transferred from Severn Vale Housing Society to Merlin Housing Society Ltd as part of the acquisition of Severn Vale, see note 36. On transfer the scheme was closed to future accrual and all active members transferred to the SHPS Defined Contribution scheme. No contributions were paid to the scheme during the period from 2 January 2019 to 31 March 2019.

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

35. Pension obligations (continued)

Principal actuarial assumptions

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

	At 31/03/19	At 31/03/18
Rate of inflation (RPI)	3.25%	3.14%
Rate of inflation (CPI)	2.25%	2.14%
Rate of increase in salaries	3.25%	3.14%
Discount rate for scheme liabilities	2.35%	2.60%
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies

	Males	Females
Current Pensioners (years)	21.8	23.5
Future Pensioners retiring in 20 years (years)	23.2	24.7

The information disclosed below is for the period 2 January 2019 to 31 March 2019 only.

	£000
Fair Value of fund assets	6,326
Present value of defined benefits obligations	<u>(8,537)</u>
Pension deficit	<u>(2,211)</u>

Reconciliation of assets and liabilities

Reconciliation of assets at 31 March 2019

	£000
Assets acquired on the acquisition of Severn Vale – note 36	<u>6,326</u>
Assets at end of period	<u>6,326</u>

Reconciliation of liabilities at 31 March 2019

	£000
Liabilities acquired on the acquisition of Severn Vale – note 36	<u>(8,537)</u>
Liabilities at end of period	<u>(8,537)</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

35. Pension obligations (continued)

The fair value of the assets

	31 March 2019 £000
Global Equity	1,065
Absolute Return	547
Distressed Opportunities	115
Credit Relative Value	116
Alternative Risk Premia	365
Fund of Hedge Funds	28
Emerging Markets Debt	218
Risk Sharing	191
Insurance-Linked Securities	181
Property	142
Infrastructure	332
Private Debt	85
Corporate Bond Fund	295
Long Lease Property	93
Secured Income	227
Over 15 Year Gilts	-
Liability Driven Investment	2,314
Net Current Assets	<u>12</u>
Total fair value of assets	<u>6,326</u>

None of the fair value of the assets shown above include and direct investments in the employers own financial instruments or any property occupied by, or other assets used by the employer.

There were no amounts charged to operating costs in the Statement of Comprehensive Income at 31 March 2019

There were no gains or losses recognised in the Statement of Other Comprehensive Income at 31 March 2019.

Analysis of the amount charged to operating costs in the Statement of Comprehensive Income at 31 March 2019

	£000
Employer service cost	(-)
Past service costs	-
Total operating charge	<u>(-)</u>
Analysis of pension finance income/(costs)	
Expected return on pension scheme assets	-
Interest on pension liabilities	<u>(-)</u>
Amounts charged/credited to financing costs	<u>(-)</u>

Analysis of gains and losses recognised in the Statement of Other Comprehensive Income at 31 March 2019.

	£000
Actuarial gains/(losses) recognised	<u>(-)</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

35. Pension obligations (continued)

Movement in deficit during the period

	£000
(Deficit) in scheme at 2 January 2019 – on acquisition of Severn Vale – see note 36	<u>(2,211)</u>
(Deficit) in pension fund scheme at 31 March 2019	<u>(2,211)</u>

There is no movement shown in the various elements of the SHPS pension scheme as the value that was recognised on acquisition (note 36) was the value at 31 March 2019.

36. Acquisition of business

On 2 January 2019 Bromford Housing Group Limited entered into a business combination recognising the value of Severn Vale Housing Society in the statement of comprehensive income as a gift to the group as per FRS102 (PBE3477) All post acquisition results of Severn Vale Housing Society have been consolidated in the group statement of comprehensive income. The acquisition had the following effect on the group's assets and liabilities:

	Notes	Book values £000	Fair value adjustments £000	Recognised value on acquisition £000
Tangible fixed assets - housing properties	11	82,599	86,555	169,154
Investment properties	13	13,939	(2,893)	11,046
Tangible fixed assets - other	14	1,381	740	2,121
Stocks	16	199	7	206
Trade and other debtors : receivable within one year	17	572	-	572
Investments	18	11,740	(3,740)	8,000
Cash and cash equivalents	19	6,280	-	6,280
Creditors: Amounts falling due within one year	20	(1,921)	-	(1,921)
Loans	21	(114,365)	(10,317)	(124,682)
Deferred Capital Grant	22	(16,117)	15,429	(688)
Other creditors: Amounts falling due after more than one year	21	(451)	-	(451)
Pension liability	26,35	(3,895)	(4,532)	(8,427)
Other provisions	26	(657)	116	(541)
		<u>(20,696)</u>	<u>81,365</u>	<u>60,669</u>

Merlin Housing Society Limited

Notes to the Financial Statements For the year ended 31 March 2019

37. Bromford Housing Group Limited – New Merged Entity

On 2 July 2018 Bromford Housing Group Limited amalgamated with Merlin Housing Society Limited into a new group that retained the name Bromford Housing Group Limited.

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

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

Accounting policy adjustments

Merlin previously held investment properties at cost as they were deemed not material enough to require a valuation. They have now been valued as investment properties in line with Group policies.

Change in value in Statement of Financial Position.

	£'000
Tangible Fixed Assets – Investment Properties	2,293
Tangible fixed assets – other	(169)
Income and Expenditure Reserve	2,124

38. Contingent Liability

During the year social housing grant held in Severn Vale (£15,429k) was fair valued to nil on acquisition. This movement is recorded in note 31 Grant and financial assistance