

Annual Report and Financial Statements

Year ended 31 March 2019

Private company limited by guarantee
Company number: 10704997

Registered Charity
Charity Registration number: 1177565



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mhs homes limited

Report and Financial Statements for the year ended 31 March 2019



Chair's Statement

This year, we enter a new chapter in our forthcoming 30 year history. We have used our first year as a registered charity to restate our purpose. We're here to meet the housing crisis in North Kent.

A key priority has been to ensure that the organisation and the resources available to us are most effectively used to help achieve this purpose. We also want to ensure that the 25,000 people who live in our homes receive the best services and support that we can provide.

This year we launched our Service Deal programme to transform the way we deliver services. The Service Deal will ensure we make the best use of digital channels so the support and help needed from our most vulnerable customers is increased. The Service Deal has required a huge effort from colleagues. Their enthusiasm, commitment and hard work to ensure customers get the highest standards of service during this period of change is something I'm both proud of and grateful for.

I'm also grateful to Simon Braid, who stepped down as chair of mhs homes in 2018. Simon served nine years as board member – one year as the Chair. He led the board with a clear sense of social purpose and drive. His legacy is to leave a board with a strengthened skill set and ready for the future.

Some of the highlights over the past year evidence our ability to embrace change while preparing for future opportunities and challenges. I've every confidence this new chapter will deliver more for the customers who need us most and help us deliver our ultimate ambition to help end the housing crisis locally.

Over the past year we have:

- + Spent £29 million on new properties with 149 new homes coming into management in the year
- + Supported over 370 customers with debt and arrears
- + Invested £16 million in our existing homes
- + Housed 674 households in our new and existing properties
- + Retained our Investors in People Gold status. This keeps us in the top 2 percentile of organisations assessed

We have big plans for the future so the work continues. In particular, we want to ensure that the voice of the customer is heard throughout the organisation and helps design the services we deliver. We want to fight the stigma of social housing. Everyone deserves a decent home. We know that safe, affordable housing changes lives.

Over the coming year we will use our financial strength to invest in existing homes and communities as well as deliver our ambitious new build development programme. I'm grateful

for the support of our many partners, staff and customers whose contributions to making us a more effective organisation are crucial to our future success.

Richard Cooper

Chair / 25 July 2019

The Report of the Board of Trustees is set out on pages 28-46

Who we are

mhs homes limited ("mhs homes") is a registered charity with the objectives to provide social housing in Kent and all services linked to this provision. It is the parent body of mhs homes group ("**the Group**"). We reinvest all of our surpluses into building more new homes and supporting local communities.

mhs homes continues to be the only housing association of size not to be a registered provider and, although we comply with the ethos and aims of the social housing sector, our status allows us control of our own destiny and objectives. We value our relationships

with the regulated sector and **mhs homes** generally follows the guidance of the Regulator of Social Housing in areas such as service to customers, quality of homes and governance.

We own and manage over 9,000 homes mainly in Medway but with an increasing number in Maidstone. Most of our homes are social rents, though we also provide shared ownership and market rented homes. **mhs homes** owns the majority of our properties, 8,252, with 806 in Heart of Medway, who are registered with the Regulator of Social Housing.



Heart of Medway is a registered provider with charitable status.



Our registered community charity delivers community based projects and support in Kent.



We've also got four other subsidiaries:

- mhs commercial services (no longer trading)
- Chartham Maritime K1 Developments
- Chatham Maritime K1 Construction
- Lord Kitchener Memorial Homes Trust

mhs homes at a glance

What we do

We provide safe secure affordable homes as a stepping stone to a better future.

Our purpose

We have defined our purpose according to why we exist and what we do.

Why?

Because everyone needs a decent home.

Who we are in numbers



149

Homes built in the year



674

No of new tenancies started in the year



£19.9m

Surplus in year



507

Homes in development



16,000

Number of repairs

Our values underpin

our purpose

Community

We are community focused; a charitable housing provider with a clear social purpose.

Respect

We respect our customers and one another, this means having respect for our environment and the diversity of the individuals, communities and partners we work with.

Excellence

With a can do attitude, we strive for service excellence and to be the best in everything we do.

Agility

We're light on our feet and able to respond quickly and effectively to new challenges. This agility provides organisational flexibility and resilience so we can respond to our customers' fast changing needs.

Teamweek

We are one organisation and succeed together as one team. Everyone takes personal responsibility for contributing positively to the team.

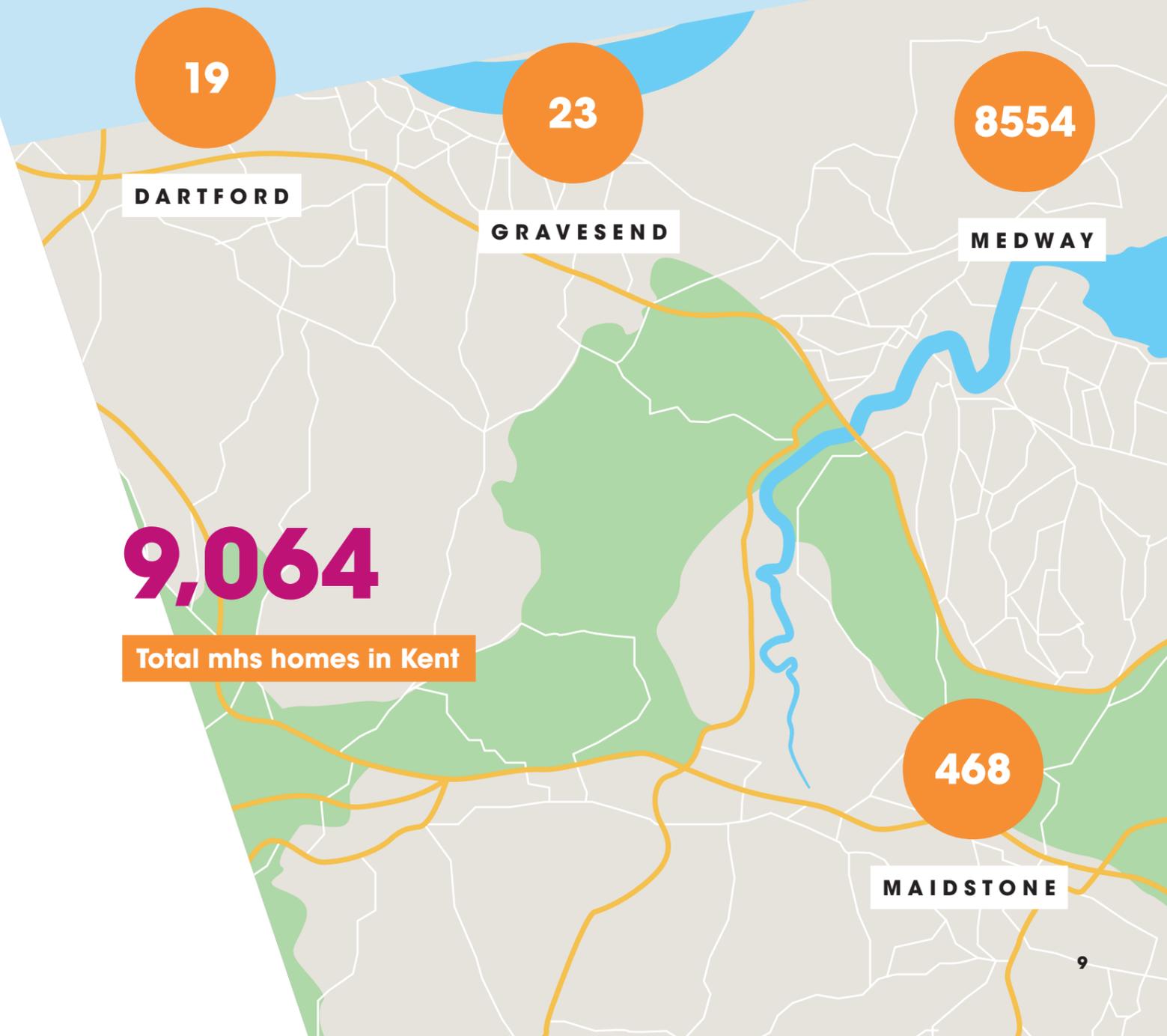
Enjoyment

We have a serious job to do but don't need to take ourselves too seriously. We want everyone to enjoy their job and enjoy helping our customers.

Our areas of operation

Our strategy is to operate in a focused geographic area: this allows us to be a visible partner making a real difference at a local level. We are committed to delivering high quality services in a cost effective way - our costs per unit is one of the lowest in the sector.

We are located in the Thames Estuary - an area of exciting growth and regeneration. The High Speed 1 Rail network has made London readily accessible, and this will improve with the planned Lower Thames Crossing.





Strategic Report and Financial Review

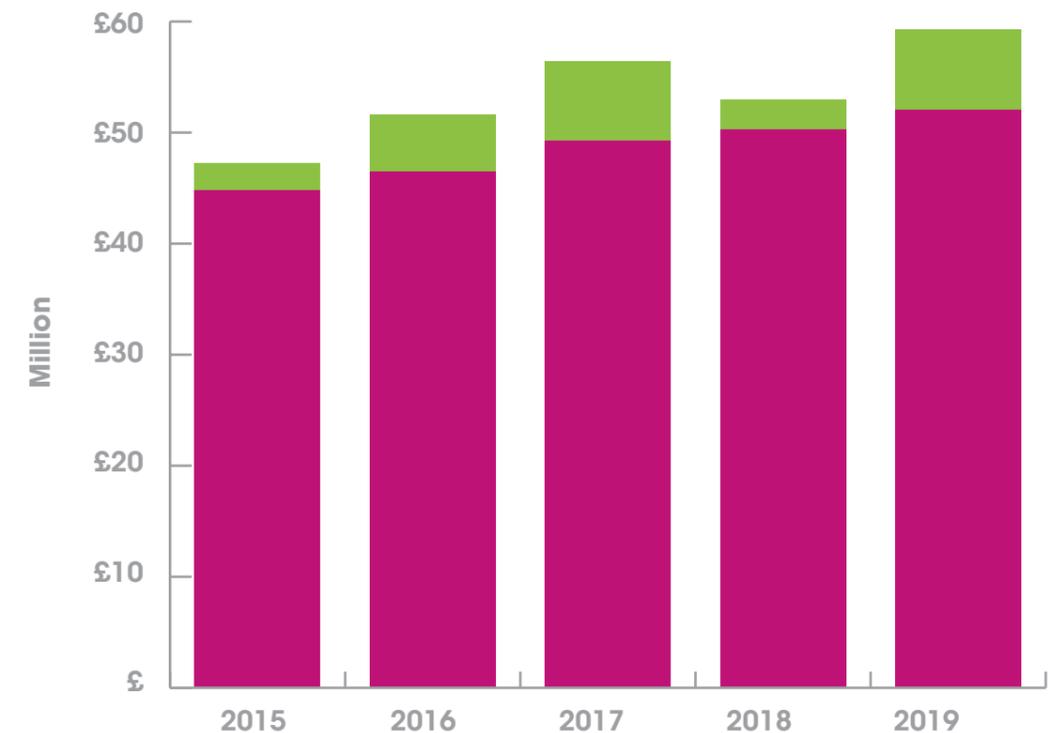
As a charity we have a responsibility to use our resources effectively so we can help those in housing need and provide a safe, secure affordable home. The financial results for the year highlight the financial strength of **the Group** with a surplus before tax of almost £20 million.

This in turn allowed £29 million to be invested in new homes, resulting in 149 new homes being brought into management and over 500 forecast to complete over the next two years 2019/20.

Turnover increased in the year because of sales activity on first tranche shared ownership. During the year we sold 68 compared with 28 in the year before. If these sales are stripped out turnover from rental income increased from £50 million to £52 million, reflecting the impact of new units as the majority of our properties either had rents frozen or reduced.

Turnover

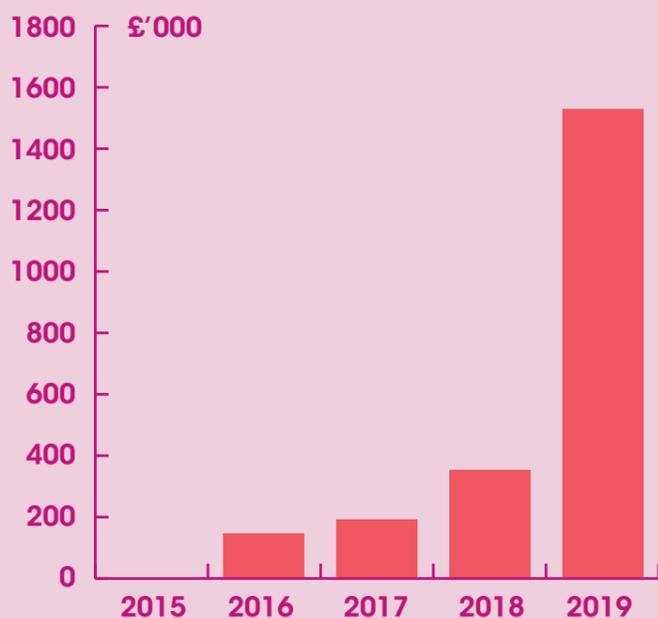
- Sale of shared ownership
- Rental income



Operating Surplus by activity

The operating surplus increased from last year. Whilst an increasing amount of surplus is being realised from property sales, the core activity of social housing properties provides the majority of our surplus.

- Non Social Housing
- Property Sales
- Social Housing Activities



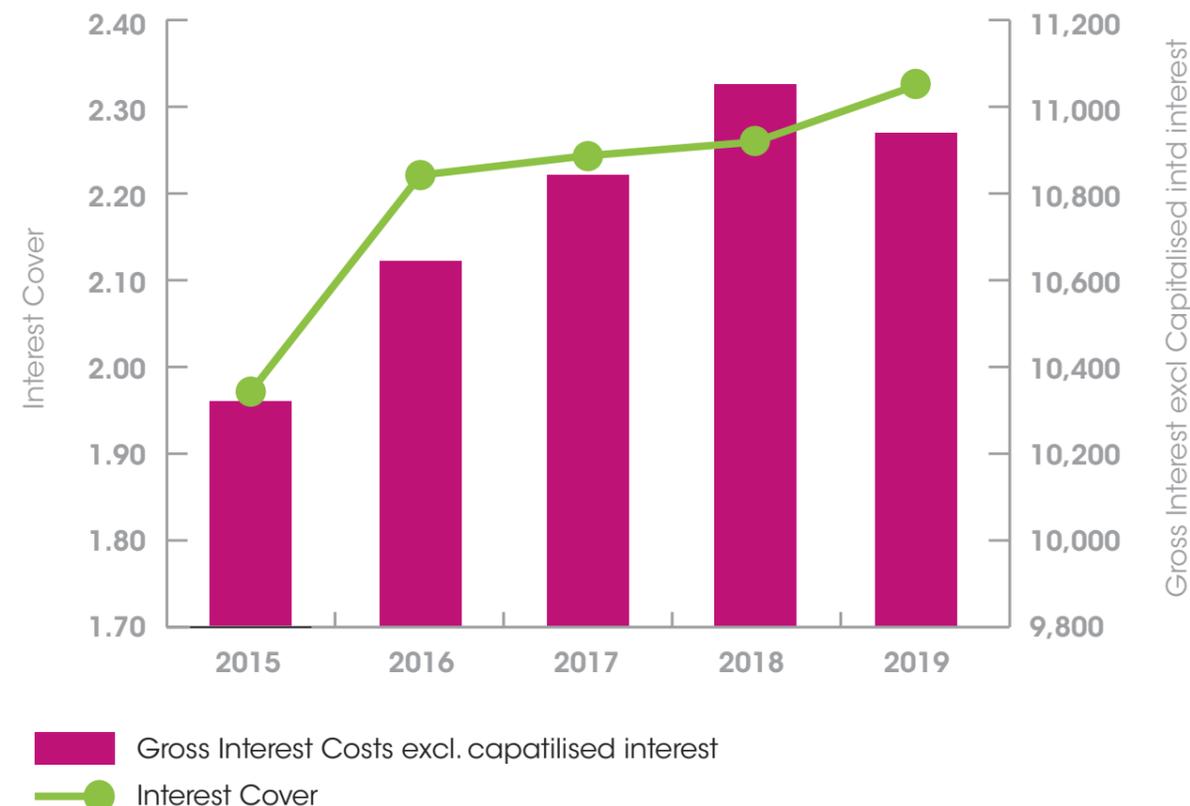
Increase in income from staircasing

This year we started to see increased income from shared owners buying increased amounts of their properties ("staircasing"). Going back five years **the Group** only had 32 shared ownership properties compared to 352 now. We are therefore starting to see an increasing income from this activity with over £1.5 million received this year, a fourfold increase on the previous year.

Interest payable

An increasing expenditure is interest payable, though **mhs homes** continue to take advantage of the low interest rate environment to reduce our interest costs as a % of our debt.

This has enabled the ratio of surpluses (excluding sale of existing properties and first tranche shared ownership) to interest costs to increase even as our debt, and therefore interest costs, rises.



Markets Rents

Over the years the group has built up a portfolio of 323 market rented properties rented to private tenants. These are a valuable investment, and produce a return to our original cost of 5.8% (2018: 4.2%). During the year house prices fell in Maidstone, and this is reflected in the

decrease in "fair value" of the investment. However these properties are held for the long term and there is no intention of selling them. The Group has invested £37 million in these properties, which despite the fall in house prices, we now estimate to be worth £68 million.

The Group

The Group headline results are summarised below.

Year ending 31 March	2015	2016	2017	2018	2019
<i>Excluding 1st tranche Shared Ownership sales</i>					
Turnover	45	46	49	50	54
Expenditure	25	24	25	27	29
Surplus on rents	20	22	24	23	25
<i>1st Tranche Shared Ownership sales</i>					
Turnover	3	5	7	3	7
Cost of sales	2	4	6	2	6
Surplus on 1st Tranche	1	1	1	1	1
Disposal of assets	-	1	1	-	1
Operating Surplus	21	24	26	24	28
Net Interest Cost	10	10	10	10	11
Breakage costs converting loans from fixed to variable rate				3	-
Surplus for the year before tax and fair value	11	14	16	11	17

Fixed Assets less revaluation reserve	182	199	211	233	256
Social Housing Grant *	24	24	27	27	29
Investment Properties	36	48	59	70	74
Net Current Assets	-	-	3	1	14
Creditors: > than one year	190	199	201	215	239
Pension liability	14	12	11	11	8
Deferred Tax provision	45	41	37	-	-
Total reserves - excluding SHG*	(55)	(29)	(3)	51	68

* Under the Charity SORP social housing grant is taken to income upon receipt and held in the revenue reserve

Key Ratios

Voids: net rental income	0.5%	0.4%	0.4%	0.7%	0.6%
Bad Debt: net rental income	0.8%	0.9%	0.7%	0.9%	0.6%

Financial Performance

EBITDA * MRI: Turnover	46%	46%	46%	49%	44%
EBITDA * MRI: Turnover excluding home ownership	47%	48%	50%	48%	51%
Debt: EBITA * MRI	8.9	8.5	8.2	8.1	8.6
EBITDA MRI: Interest Payable %	2.2	2.4	2.5	2.4**	2.5

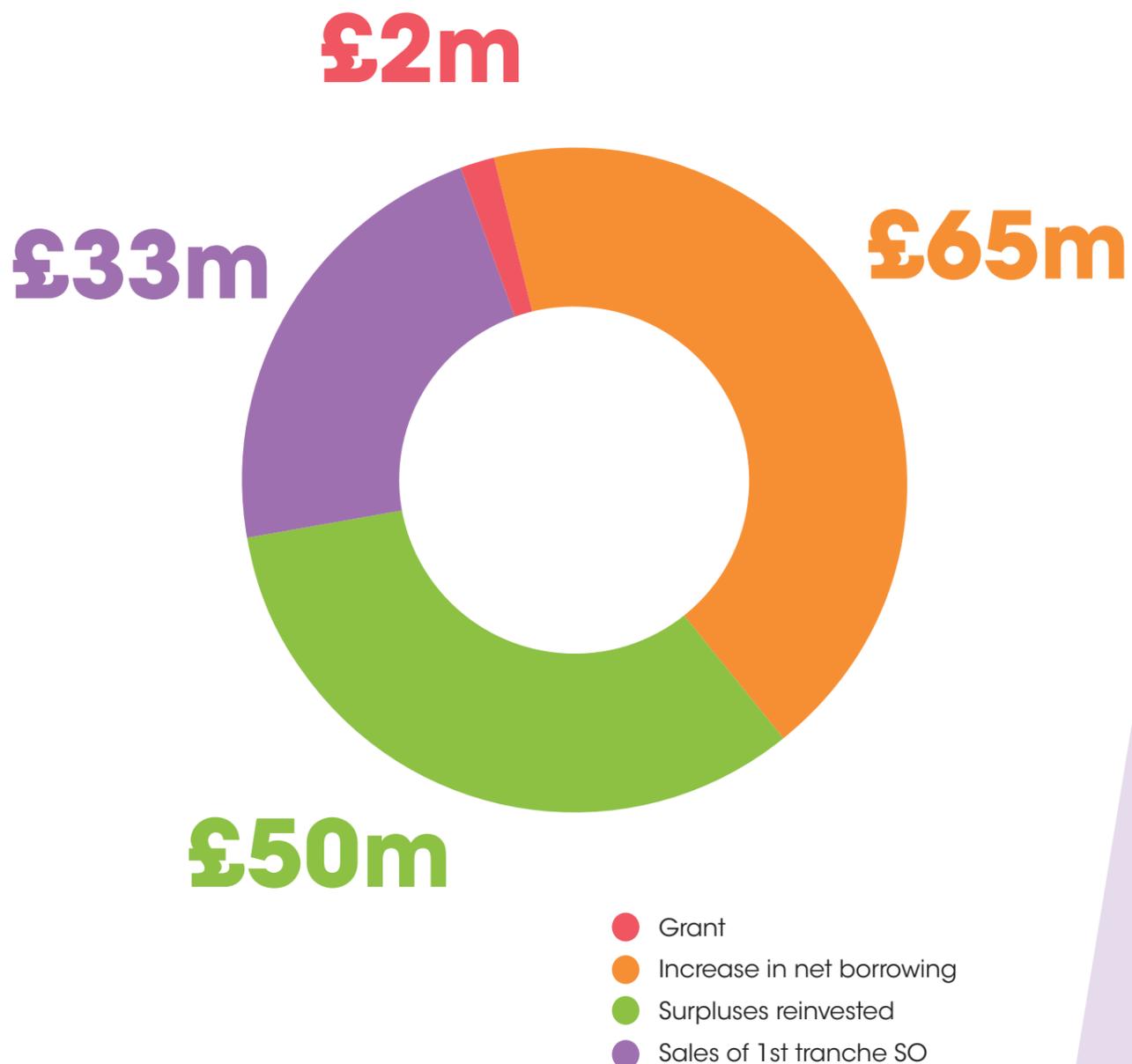
* EBITDA = Earnings before interest, depreciation and amortisation

** exclude breakage costs

Future Planning

Over the next three years the Group is looking to invest £150 million in delivering 900 new properties. At least 90% of these homes will be social housing.

How we fund our development aspirations



Financial planning is predicated on prudent assumptions. For example, we assume interest rates increasing up to 5.75% from 2025 onwards. Our results are stress tested against a number of different

scenarios. These show that our covenants are all met even if interest rates rise over the long term to 8% whilst inflation stays at 2%. The financial ratios into the future show the financial strength of the Group.

Group Ratio's	2020	2021	2022	2023	2024
EBITDA * MRI : Turnover % (excluding shared ownership)	45%	47%	48%	45%	45%
EBITDA * MRI : Turnover	41%	39%	43%	45%	45%
Debt: EBITA * MRI	10.1	11.2	11.3	11.2	10.8
Interest rate assumption	2.25%	2.5%	3.0%	4%	5.5%
EBITDA MRI : Interest Payable %	193%	193%	190%	183%	182%

* EBITDA = Earnings before Interest, Depreciation and Amortization

The key strategic risks can be summarised below along with the key controls in place:

Strategic Risk	Controls and Key Actions
<p>Failure to ensure tenants are safe at home and staff are safe at work</p> <p>The safety of our staff and customers is paramount. Our approach in this area is described on page 39.</p>	<ul style="list-style-type: none"> • Assurance from the 5 star British Safety Council Awards • All buildings above 6 floors reviewed with the Kent Fire and Rescue Service • 100% compliance with properties requiring a fire Risk Assessment • Health & Safety Policy & Fire Safety Task Force • Monitoring of landlord compliance information • Regular review and monitoring of Lone Working Policy
<p>Failure to maintain properties:</p> <p>That our properties fall beneath the standard expected leading to low customer satisfaction and a build up of unplanned repair works.</p>	<ul style="list-style-type: none"> • 100% compliance with Decent Homes Standard • External validation of stock condition data • Regular business planning meetings to ensure sufficient resource is allocated in the Long Term Financial Plan • Active Asset Management Strategy • Ring fenced funding for estates
<p>Failure to maintain long term financial viability:</p> <p>The risks that the economy enters a climate of increased interest rates with low inflation combined with reduced income from sale of first tranche hared ownership properties.</p>	<ul style="list-style-type: none"> • Rigorous stress testing • Over 70% of our debt is on fixed rates • A robust treasury policy that ensures liquid funds are available above that anticipated in the base scenario
<p>Failure to respond to welfare reforms:</p> <p>Adverse changes in the Government's policy on rents and/or welfare reform could result in a reduction in rental income which could have an effect the Group's long term financial forecast.</p>	<ul style="list-style-type: none"> • A robust Treasury policy means that liquid funds are available for unexpected falls in receipts • Welfare reform action plan • Tenancy sustainment programme with advice and support

Strategic Risk	Controls and Key Actions
<p>Failure of governance leading to a breach of regulation:</p> <p>mhs homes are registered with the Charity Commission and Heart of Medway registered with the Regulator of Social Housing.</p>	<ul style="list-style-type: none"> • Compliant to NHF Code of Governance with assurance supplied annually to Board • A robust governance and risk management framework
<p>Failure to maintain a talented, diverse, engaged workforce:</p> <p>Without which we cannot meet any of our goals.</p>	<ul style="list-style-type: none"> • Monitoring of key business metrics. (staff turnover, vacancy rates) • Talent Management and succession planning • Learning and development programme • Staff Engagement Plan and Health Wellbeing programme
<p>Failure of data security:</p> <p>Failure to ensure the Group has appropriate cyber security arrangements in place could lead to data losses, damage to our reputation and sanctions from the Information Commissioner's Office.</p>	<ul style="list-style-type: none"> • ICT, Digital & Data Governance Strategies • Regular checks against cyber security and Cyber Essential Plus accreditation • Staff training programme on cyber security • Disaster recovery plan in place and tested regularly
<p>Failure to achieve value for money:</p> <p>We need this to be at the heart of all decisions to ensure that our resources are used effectively and efficiently.</p>	<ul style="list-style-type: none"> • Monthly management accounts • Value for Money Statement and Strategy • Budget setting process • Procurement strategy

Under the Group's Risk Management Strategy, agreed by the Group Board, all risks are managed with an acceptable level of residual risk to the business. The risk register is split into strategic and operational risks. Strategic risks are managed by the Leadership Team and reported to the Group Board and Group Finance, Risk and Audit Committee.

Assistant Directors are asked to sign statements which are presented to the Group Finance, Risk and Audit Committee quarterly, detailing that all risks have been considered, that controls and assurances are in place and that all appropriate legislation has been considered and flowed into policies where necessary.

All controls have specific accountability to Operational Managers and staff with timescales for implementation and on-going review through the assurance map. The Governance and Risk Manager meet monthly with the Internal Audit Manager to ensure audit actions are captured and monitored. Internal Audit Compliance continues to be reported quarterly to Senior Management, Group Finance, Risk and Audit Committee, and Group Board.

The Strategic Report was approved by the Board of Trustees on 25 July 2019

Richard Cooper
Chair

Value for money Standard

Housing associations must demonstrate a robust approach to Value

for Money. The section below outlines our approach to Value for Money

and demonstrates how:

- + The Board set targets, monitor and drive value for money and performance against our own targets
- + Our performance compares to other similar organisations
- + We ensure satisfactory return on assets



Approach to Value for Money and performance against our targets

The success of the approach taken by the Group in embedding value for money can be seen by our results. These successes are the result of a robust framework that ensures that value for money is at the heart of all decision making. Firstly, the Board ensure that our strategic plans include challenging targets for efficiency, cost control and customer service. The primary financial control in the 2018 - 2021 Strategic Plan is a minimum ratio of surplus

(as measured by Earnings before interest, depreciation and amortisation and adding back capitalised major repairs) to turnover. Without this level of performance we would be unable to sustain the development programme in place. The Board therefore carefully monitors progress in this area. Budgets are set within this framework and any decisions made that have a financial consequence are considered through this prism.

Other arrangements for ensuring that value

for money is being obtained include:

- + There is an annual programme of investment in the housing stock which is based on a 30 year stock investment plan for replacing building components such as windows, roofs, kitchens, bathrooms, etc., which maintains our stock at 100% Decent Homes Standard
- + There is a comprehensive Procurement Strategy that sets a discipline to seek value for money in the evaluation and award of new contracts. Where possible supply chains are consolidated to provide greater scope for efficiency and reducing costs
- + The Customer Scrutiny Panel commission service reviews, including value for money considerations, and based on these reports recommendations are made to the Board
- + Intrinsically linked to the Asset Management Strategy is our approach to active asset management, in which every property has been reviewed for maintenance costs (both past and future), income, demand and management considerations. Properties that require excessive investment to raise them to the standard required are identified for disposal and the proceeds are reinvested into new or existing homes. Over the past three years such asset disposals have raised almost £2.2 million
- + We have commenced the Service Deal business transformation programme which seeks to optimise digital channels and provide improved customer service by reallocating staff resources into areas that add greatest value to the customer
- + Salaries are reviewed against external benchmarking every three years with salaries being set against the market median salary. The annual salary increase is recommended to the Board by the Remuneration Committee where independent evidence on pay rises is presented

Our performance compared to comparable organisations

We have compared **the Group's** results to the sector as presented in the Regulator of Social Housing Summary of Global Accounts for 2018. The results highlight the financial strength of the organisation with most results being top quartile.

Metric	The Group		
	2019	2018	Median
Investment in properties - new and existing	7.1%	6.7%	6.0%
New Supply Delivered – Social Housing	1.4%	1.4%	1.2%
New Supply Delivered – Non Social Housing	0.2%	0.2%	0%
Gearing	49.1%	48.4%	43.2%
EBITDA Interest Rate Cover	246%	236% ¹	208%
Social Housing Cost per Unit £	3,209	2,868	3,390
Operating Margin – (social housing lettings only) ²	44.2%	46.5%	30.3%
Operating Margin (overall) ²	41.2%	45.2%	26.7%
Return on Capital Employed	5.0%	4.7%	4.1%

¹ Excludes one off breakage costs

² Operating margin excludes Social Housing Grant taken to income due to a different accounting treatment in mhs homes group (under the charity SORP) and the social housing sector under the Housing SORP

Green denotes top quartile All other results are greater than median

The fall in operating margin and increase in unit costs reflect a significant increase in investment in our properties with major repair costs (including capitalised repairs) increasing from £4.7 million in 2018 to £6.5 million.

Return on assets

While the majority of the activity in the Group relates to social housing, the Group own 323 market rented properties. These properties are held to generate a surplus that can be reinvested back into social housing. This process is managed by:

- + The Board setting the expected return from any new market rented properties taken into management, with this return taking into account the expected risk
- + The Board agreeing an amount to be invested into market rent on an annual basis that is appropriate considering the charitable status of mhs homes and the size of the overall development programme
- + The return from the market rent portfolio is reviewed on an annual basis by the Board to satisfy them that the return is commensurate to the risk involved

The overall return on the social housing stock is also monitored.
A greater return would be obtained if rents were permitted to increase above Local Housing Allowances rates, however the Board took the view that it was essential that rents were kept affordable to those in housing need, with social benefit outweighing return on assets.

Financial return on assets for the Group are summarised below:

	Net Cost of Asset* £'m	Income** £'00 £'m	Surplus** £'00 £'m	2018/19 Return on investment %	2017/18 Return on investment %
General Needs	189.9	46.1	20.6	10.7%	11.1%
Shared Ownership	31.3	1.3	0.6	2.0%	2.9%
Market Rented***	32.7	2.8	1.9	5.8%	4.2%

* Being based on historic cost (before deemed cost adjustment) net of depreciation

** Net of social housing grant received in the year

*** After adjusting for depreciation to ensure comparability with other income streams

The high return on general needs stock reflects the purchase of the stock 29 years ago though slight reduction compared to last year reflects the pressures from the governments rent reduction policy

rent combined with increased major repairs in our stock. The fall in shared ownership return reflects that the net cost in increased substantially, with many units coming in towards the end of year.

Working with Customers

Our Tenancy Support team have focused on helping customers to maximise their income, restructure debts and prioritise expenditure.

Over the course of the year we have:

- + Supported 372 people to reduce their debts and rent arrears
- + Helped tenants to pay off £214,000 of rent arrears
- + Increased annual income for customer's households by £974,827

We have particularly focused our support to help those moving on to Universal Credit to ensure they are not financially impacted during the transition and continue to sustain their tenancy.

In addition we have also provided individual support to over 100 customers moving on to Universal Credit. Many of whom are our most vulnerable customers who, without support are at risk of falling into financial difficulties.



Trustees' Annual Report incorporating Directors Report

Trustee	Position	Changes in year
R Cooper	Chair & Non Executive	Appointed Chair 19 July 2018
S Braid	Chair & Non Executive	Resigned 19 July 2018
A Baker	Non Executive	
K Franklin	Non Executive	
A Van der Veer	Non Executive	
R Christopher	Non Executive	Appointed 10 September 2018
A Hook	Chief Executive	

Elected By Tenants annually

T Bunton	Tenant Nominee
J Seager	Tenant Nominee

Finance Risk and Audit Committee

A Van der Veer	Chair
R Oirschot	Member
S Bate	Member

Remuneration Committee

K Franklin	Chair	
R Christopher	Non Executive	Appointed 22 November 2018
A Baker	Non Executive	
R Cooper	Non Executive	
S Braid	Non Executive	Resigned 19 July 2018

Executive Team

A Hook	Chief Executive
B Shelmerdine	Finance Director
S Goad	Operations Director

Auditors - External

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

Charity's address

mhs homes
Broadside
Leviathan Way
Chatham
Kent
ME4 4LL

Country of Incorporation: England

Bankers: National Westminster Bank Plc

Legal Status

Private company limited by guarantee without share capital No. 10704997
Registered charity with the Charity Commission No. 1177565



Ashley Hook
Chief Executive

Ashley, a chartered surveyor, was appointed Chief Executive of mhs homes in 2009. He has a strong background in housing, having previously worked for various local authorities and housing associations.



Richard Cooper
Chair

Richard joined the Board on 1 May 2016 and was appointed as Chair in July 2018. He has a track record in the private sector of creating value through organic growth, business turnarounds and managed a number of mergers and acquisitions.



Andrea Baker
Board Member

Andrea has worked in housing for 25 years and is currently Director of Housing at Poplar HARCA delivering services to 9,000 households in London's East End. She has previously worked for Southwark and Tower Hamlets Councils, Swan Housing Group and Richmond Housing Partnership.



Arnout van der Veer
Board Member

Arnout is a respected and pragmatic leader in areas of finance, audit and risk management with more than 30 years of international business and consultancy experience. His expertise includes financial management, corporate finance, compliance and risk management in highly transformational and digital businesses.



Kate Franklin
Board Member

Kate has a combination of housing and retail experience which has drawn on her commitment to customer experience and insight. As an experienced executive director she has a track record of delivering organisational value through creating a clear line of sight between the customer, operational performance and business results.



Ray Christopher
Board Member

Ray is a corporate financier and treasurer with more than 30 years of international finance experience across many sectors including energy, high-tech and social housing. His expertise includes capital markets, risk and active asset management.



Tina Bunton
Board Member

Tina was born in Gillingham and has always lived in Kent. She is actively involved in charity work and has volunteered for Demelza House.



Julie Seager
Board Member

Julie has been a mhs homes tenant for a number of years. She knows first hand the difference quality; affordable housing makes to people's lives and has many years of experience working in special needs education.



Public Benefit Statement

The Trustees of mhs homes ensure that the purpose of the charity are for the public benefit by:

Adopting policies that requires it to allocate housing, both rented and shared ownership, to applicants that meet with its objectives of acting for the relief of those in need by reason of poverty, age, ill health or disability – all social housing is rented to new customers in conjunction with our partner local authorities with rent levels on average of 75% of market rent.

Developing new affordable housing both rented and shared ownership – by investing our surpluses in building new properties.

Underneath these broad aims are strategies to ensure the properties we own are managed in a way that provides an excellent customer service through our day to day interactions with our tenants and a high quality home to live in. These strategies are considered in detail in the Strategic Report on pages 11-12 which also considers the difference the charity's work has made to the circumstances of its beneficiaries and the society in which we operate.

The Trustees recognise that a financially successful **mhs homes** is able to provide more new social housing. Therefore as

well as having the objective of financial efficiency, which is described in more detail under the value for money statement on page 22, the objectives of **mhs homes** allow for financial investments. These are defined under an investments policy agreed by the Trustees and our current strategy limits the investments to the supply of market rented properties and a loan to a subsidiary that owns the head office building.

The level of investment in market rented properties is considered each year as part of the annual budget setting procedure, with the current policy stating that no more than 35% of cash surpluses should be used for financial investments. These properties are purchased with the intention of holding them over the long term, with the returns being reviewed at regular intervals.

mhs homes limited ("**mhs homes**"), the parent body of the mhs homes group ("**the Group**"), is a registered charity (1177565) and a company limited by guarantee (10704997). It is governed through a Memorandum and Articles of Association. The Board of Trustees of mhs homes, who are also directors of the charity for the purpose of the Companies Act 2006, have overall responsibility for the direction, management and control of the charity.

Objectives and Activities

mhs homes limited ("mhs homes") is a registered charity with the objectives to provide social housing in Kent and all services linked to this provision to alleviate housing need in Medway and the surrounding areas. These include constructing, improving and managing social housing, along with the sale of shared ownership properties.

It was formed on 29 July 1990 when it acquired the entire housing stock of the then Rochester upon Medway City Council. We were one of the first large-scale voluntary transfers and the only one to take place that was not registered with the regulator.

Whilst **mhs homes** is not registered with the RSH it is fully committed to reinvest any surpluses back into social housing. It is regulated by the Charity Commission and its disclosures and accounting treatment follow those outlined by the Charity Commission. However as a provider of social housing we have structured this

report to be comparable with those provided by the regulated social housing sector. In April 2017 **mhs homes** became registered as a company limited by guarantee without share capital and was registered with the Charity Commission in March 2018.



As the parent organisation, mhs homes has five subsidiary companies:

- 1 Heart of Medway Limited**
is registered as a community benefit society under the Co-operative and Community Benefit Societies Act 2014 and is registered with the RSH.
- 2 mhs community charity limited**
whose purpose is to encourage, foster and assist with the charitable works of the Group, is registered with the Charity Commission.
- 3 Chatham Maritime K1 Construction Limited**
is responsible for delivering elements of the Group development programme.
- 4 Chatham Maritime K1 Developments Limited**
is a commercial subsidiary whose sole activity is the ownership of the head office for the Group.
- 5 mhs commercial services limited**
is a dormant company.

In addition **mhs homes** is the corporate trustee for Lord Kitchener Memorial Homes Trust, an Almshouse in Medway owning six properties and registered with the Charity Commission.

mhs homes has adopted and is fully compliant with the National Housing Federation's Code of Governance: promoting board excellence for housing associations (2015 edition). This code is more relevant to **mhs homes** than the Charity Governance Code. In common with many housing associations, board members receive a fee and the

reimbursement of properly incurred business expenses. Along with the National Housing Federation Code of Governance **mhs homes** has adopted the "Conduct Becoming" standard with respect to conduct and probity.

There is a system of open declaration recorded in the minutes of Board meetings and for other matters occurring outside the Boardroom there is a Declarations Register. This is accessible to all members of the Board and is systematically scrutinised by the Group Finance, Risk and Audit Committee.

Responsibility to Heart of Medway Housing Association

mhs homes acknowledges its responsibility as parent of Heart of Medway Housing Association Ltd; an entity regulated by the RSH and subject to the regulatory Framework. An Intra Group Agreement exists between Heart of Medway Housing Association and **mhs homes** that recognise the duty of

the unregistered parent to provide support or assistance to the registered provider to ensure that it fulfils its regulatory requirements. It further ensures that the social housing assets within Heart of Medway cannot be put at risk through the activities of the Parent.

Role of the Board

As a Parent Charitable Company limited by guarantee the Board can consist of up to ten Trustees, including two tenant Board members who are nominated annually by the tenants of mhs homes.

During the year there are at least six meetings, one of which is the Annual General Meeting. The role of the Board is to govern the Group to provide accountability, to ensure positive relationships with stakeholders, to give advice to management, to provide strategic direction, and to be collectively responsible for the proper stewardship of the organisation. Moreover, the Board strives for high standards of governance by ensuring effective performance and rigorous compliance in ever changing environments.

As a means of renewal and self evaluation, the Board holds away

days and strategy days to review its own performance and keep updated. The agenda covers strategy, board development, team building, financial matters, vision and business proposals.

The Board delegate the day to day management of the business to the staff, within the strategic direction agreed by the Board. Responsibilities of staff are defined through Standing Orders, which are reviewed regularly by the Board. Major financial contracts where the charity is committed to expenditure of more than £5 million are agreed by the Board, with smaller amounts delegated to senior staff. The Board monitor this expenditure through an agreed budget and long term financial plan, with management accounts being scrutinised by both the Group Finance Risk and Audit Committee and the Board.

Composition of the Board

Details of membership during the course of the year are shown on page 16. During the year the Board held eight meetings, inclusive of the Annual General Meeting, at which the average attendance rate was 93% (2018: 94%). Applications for membership, with the exception of the tenant Trustees, are invited by open advert. Applicants are shortlisted and interviewed with appointments made

according to required skills, competencies and experience. Regular skill audits of the Board are undertaken. Trustee terms are normally limited to two terms of three years, although with the provision of our chosen governance code by exception a trustee may serve up to a maximum of nine years. The tenant trustees are appointed annually through a ballot of all tenants of **mhs homes**.

Induction and Training Opportunities for Trustees

The induction process includes visits to projects, meetings with staff and one to one sessions with the other Trustees, as a preliminary to attending Trustee Board meetings. All new trustees, irrespective of experience, are also required to attend the Institute of Directors course on the role of the director and the board. A briefing

Arrangement for remuneration of Trustees

In order to ensure transparency and independence is maintained the Board has established that the fees of the Non Executive Directors be reviewed annually within the context of a three year cycle.

Fair representation

The Board communicates with and manages the interests of its stakeholder through the full time professional input of the Executive Directors' Team. The Board conforms to best practice as defined in standards published by the National Housing Federation. There is an annual

session on the governing documents of the charity is provided by the Secretary, in liaison with the other Executives of **mhs homes**. All Trustees undergo an annual appraisal with the Chair as well as conducting a review of board effectiveness of the board as a whole.

Year 1: the fees are subject to a benchmarking exercise using an external consultant, to maintain alignment with the market.

Years 2 and 3: cost of living increases linked to pay inflation in the sector.

governance report which scrutinises and appraises the Board, and to which each member contributes. The report confirms that boardroom conduct meets the highest standards of corporate governance.

Group Finance, Risk and Audit Committee

The Committee met 5 times last year and is responsible for reviewing the finances, policies and procedures for identifying and assessing business risks, and the on-going management of those risks. The Committee also reviews the effectiveness of internal control systems, considers reports from the internal and external auditors and reviews the annual financial statements prior to Board approval.

Remuneration Committee

The Remuneration Committee is responsible for reviewing the pay and conditions of service of the Executives and has oversight of the Chief Executive's annual appraisal. It met on three occasions in the year and consists of four Non Executives from the Group Board. The recommendations to the Board are based on independent external advice.

Customer Scrutiny Panel

The Customer Scrutiny Panel is an essential part of the governance structure and exists to hold the organisation to account from a customer perspective. The services to be reviewed are decided by the Panel and carried out at short notice to ensure a realistic view of strengths and areas of improvement are gained. This process is supported by external consultants so the Panel can call upon independent expertise to assist their work.

Treasury Committee

When appropriate an adhoc Treasury Committee is put in place to scrutinise and approve new loan facilities as required.

Leadership Team

The Leadership Team during the year consisted of nine members, being the Chief Executive, Executive Directors and Assistant Directors. Together they are responsible for the day-to-day

Interests of the Employees

The Board is committed to maintaining a competent and motivated workforce by ensuring that sufficient staff with the appropriate skills, knowledge and experience is employed to meet all business objectives. Details on employee numbers are contained in note 9 to the financial statements.

Our staff are our greatest resource and we place great emphasis on high levels of staff engagement. We were delighted to achieve 34th in the 2018 Sunday Times Top 100 not for profit organisations to work for. We are proud to hold Gold Investors in People (IiP) and Investors in Diversity (level 2) accredited status.

There is a Staff Forum which meets regularly to discuss terms and conditions of service, and resolve matters deemed to be of concern to staff and requiring their input. The constitution has provision for meetings between the Directors and elected staff representatives. For purposes of understanding and clear direction, there is a framework of delegation to staff set out in Financial Regulations and

operations of the Group and act within the authority delegated to them by the Board, as set out in Standing Orders and Delegated Arrangements.

Procurement Guide. It provides the details of the fundamental rules and procedures by which business is conducted, including the high expectation we have with regard to integrity and probity.

A policy of diversity and fairness over all aspects of its employment policies and practices is pursued, from the recruitment process through to appointments and onward, including training, career development and promotion opportunities. The Group recognises its legal and social obligations and has a recruitment policy that is inclusive of all protected characteristics.

We aim to attract and retain the best talented people. The Human Resource team ensure that we have in place effective procedures for employee relations, recruitment, selection, compliance, pay, reward, and learning and development. Terms and conditions, including salaries, are set at competitive rates to attract and retain high calibre employees and are regularly benchmarked.

Modern Slavery and Human Trafficking Act 2015

We have a Modern Slavery and Human Trafficking statement. It was agreed by the Board and signed by the Chief Executive. Our statement is published on our website

and confirms our commitment to ensuring that there is no modern slavery in our business or in our supply chains.

Impact on the Environment

The Group recognises that it spends substantial amounts on new build projects, repairs and planned maintenance, and there is an acceptance of the responsibility through its business operations to minimise our environmental impacts as far as is reasonably practicable. An environmental management system (EMS) is in place that is certified to ISO14001. We are committed to conserving resources, minimising the risk of pollution, reducing waste produced and waste to landfill,

and assisting with regeneration. The EMS is regularly reviewed and significant impacts are monitored to ensure that adequate measures are in place to reduce our impacts and promote sustainability.

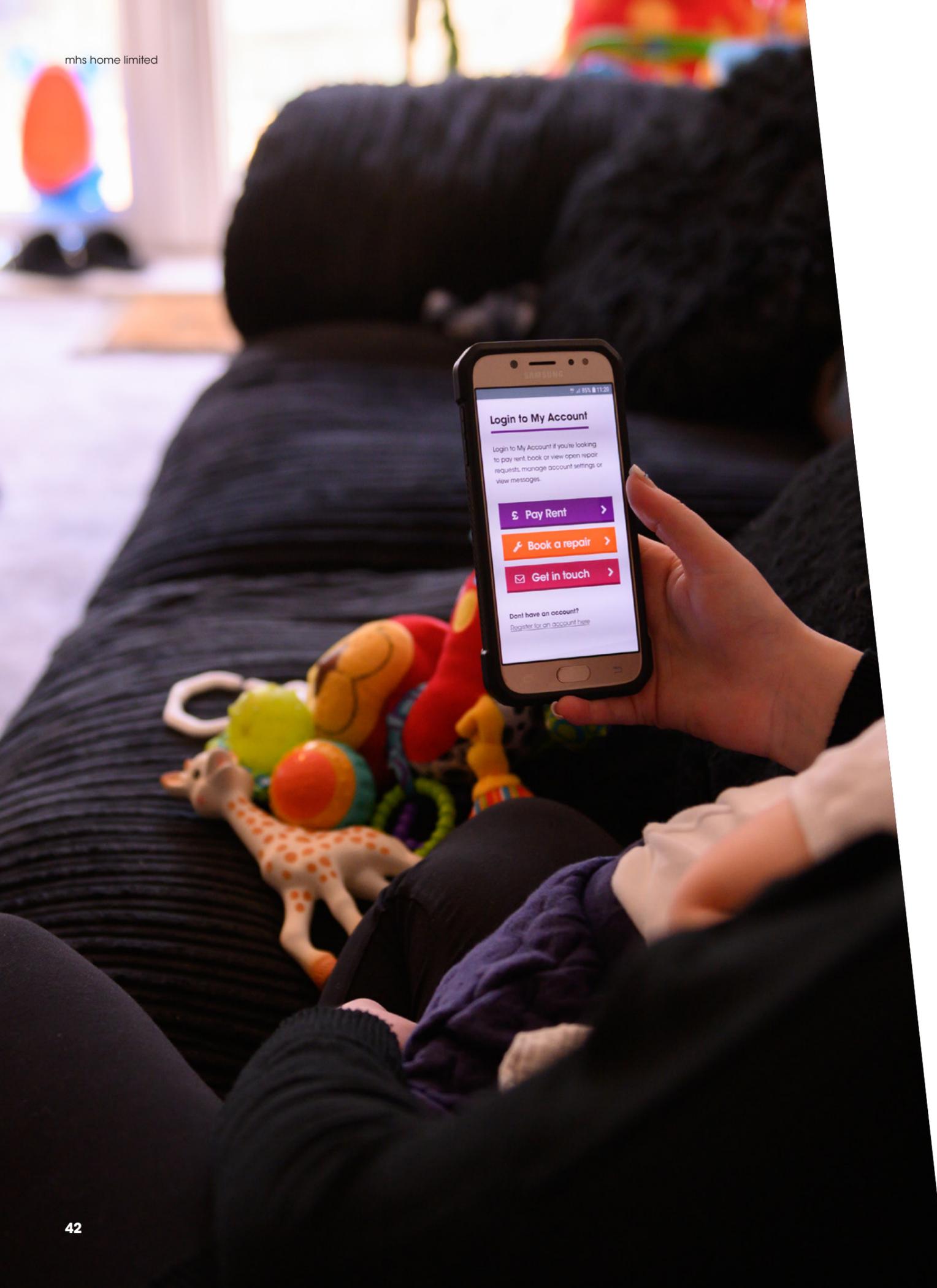


Health & Safety

The Board is aware of its Health and Safety responsibilities and receives reports on Health and Safety issues, including accident statistics and monitoring reports. Detailed Health and Safety policies and procedures are in place and provide staff training and education on matters of health, safety and welfare. The Health and Safety Manager reports to the Board, Leadership Team and Group Finance, Risk and Audit Committee.

Besides the duties of compliance testing and evaluation, the Health and Safety Manager serves the interests of staff, as well as the organisation, by promoting safe working practices with the aim of reducing the risk of accidents and loss to the business.

A Health and Safety Committee works to further embed safe working practices. The Committee will consider any health and safety matter and reports through to the Executive Directors Team. The British Safety Council audit grading has been in place since 2015, and was a validation of the work taking place organisation wide and the importance given to a safe working culture. Our focus on Health and Safety was also rewarded with the British Safety Council level 5 award this year, one of the highest standards of achievement in the world of health and safety management.



Creditor Payment Policy

It is the policy to agree terms of payment with suppliers at the time of negotiating the transaction and abide by those arrangements conditional on being satisfied that the goods or services are in accordance with the agreed specification.

Funds held as custodian on behalf of others

No funds are held as custodians on behalf of others.

Compliance with Governance and Financial Viability Standard

The Board of **mhs homes** determines and monitors the strategic direction of the Group and has voluntarily adopted the National Housing Federation's Code of Governance: promoting board excellence for housing associations [2015 edition]. It is an RSH requirement under the Governance and Financial Viability Standard to adopt the code and therefore a regulatory requirement for Heart of Medway. Both **mhs homes** and Heart of Medway undertake an annual review of compliance against this

Going Concern

After reviewing the budget of **mhs homes** for 2019/20 and beyond, based on normal business planning and control procedures, the Directors have a reasonable expectation that **mhs homes** has adequate resources to continue in operational existence for the foreseeable future.

Exemptions from disclosures

No Exemptions from disclosures have been made in this report.

standard which is certified by the Board. As the unregistered parent of a registered provider, **mhs homes** is fully committed to maintaining Heart of Medway compliance with the RSH's Governance and Financial Viability Standards. **mhs homes** has formalised the management arrangements in place through an Intra Group Agreement that acknowledges and supports the Registered Provider status of Heart of Medway.

Fundraising statement

Although we do not undertake fundraising from the general public, the legislation defines fund raising as "soliciting or otherwise procuring money or other property for charitable purposes." Such amounts receivable would be presented in our accounts as donations.

In relation to the above we confirm that if funds were held they would be managed internally, without involvement of third parties. The day to day management of all income generation is delegated

to the Leadership Team, who are accountable to the Trustees. The charity has no undertaking to be bound by any regulatory scheme.

We have received no complaints in relation to fundraising activities. Our terms of employment require staff to behave reasonably at all times; as we do not approach individuals for funds we do not consider it necessary to design specific procedures to monitor such activities.

Our Reserves Policy

The amount of reserves held by a registered charity will normally be the amount of unrestricted funds held.

However the past activities of **mhs homes** have been funded through a combination of surpluses and borrowings which means that this methodology is not appropriate and does not reflect the substantial portfolio of properties that is held that allows **mhs homes** to meet its charitable objectives.

mhs homes is in the position where it has a high degree of certainty over the income from its property portfolio, being able to set rents that it feels are affordable within the boundaries of providing social housing.

This allows the long term financial plans to incorporate:

- + A surplus that exceeds the covenants set by its funders after allowing for management and maintenance costs that ensure our properties are kept at a high standard
- + This surplus being reinvested into new properties that meet the objectives of the charity

For the purpose of short and medium term financial management the Trustees are concerned more with the management of working capital, and the trustees consider that a healthy working capital position is in line with

a policy of keeping reserves to fund future unrestricted expenditure in the event of a material decline in surpluses. Therefore **mhs homes** has a robust treasury strategy that ensures:

- + Sufficient cash is available to fund 3 months of cashflow
- + Sufficient loans, with security in place, are available to cover 12 months of cashflow
- + Sufficient loans are in place to cover 3 years of cashflow

mhs homes currently meets the reserves policy and our future planning show us maintaining this position for the foreseeable future.

Trustees' responsibilities for the financial statements

The Trustees, who are also Directors of **mhs homes limited** for the purposes of company law, are responsible for preparing the Strategic Report, the Trustees' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Trustees to prepare financial statements for each financial year. Under that law the Trustees have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted

Auditors

All of the current board members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Associations' auditors for the purpose of their audit and to establish that the auditors are aware of that information. The board members are not aware of any relevant audit information of which the auditors are unaware. BDO LLP have expressed their willingness to continue. A resolution for the re-appointment of BDO LLP as auditors of the Association is to be proposed at the forthcoming Annual General Meeting.

Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law, the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the Group and of the incoming resources and application of resources, including the income and expenditure, of the

charitable company and the Group for that period. In preparing these financial statements, the Trustees are required to:

- + select suitable accounting policies and then apply them consistently
- + observe the methods and principles in the Charities SORP (FRS 102)
- + make judgements and accounting estimates that are reasonable and prudent
- + state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- + prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. The Trustees are also responsible for safeguarding the assets of the charitable company and the Group and hence for taking reasonable

steps for the prevention and detection of fraud and other irregularities.

The Trustees confirm that so far as each Trustee is aware there is no relevant audit information of which the Parent Charitable Company's auditors is unaware and the Trustees have taken all steps that they ought to have taken as Trustees in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Trustees are also responsible for the maintenance and integrity of the corporate and financial information included on the Parent Charitable Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Assessment of the Effectiveness of Internal Controls

Statement of Internal Control

The Board of mhs homes Limited manages its business in accordance with the objectives set out in its constitution and in the organisations own best interest, having overall responsibility for establishing and maintaining the system of internal control for the whole organisation and for reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate all risk of failure to achieve business objectives. The system of internal control is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Groups assets and interest.

Whilst **mhs homes** is not a registered provider, our subsidiary, **Heart of Medway** Housing Association, is registered with the Regulator of Social Housing. In accordance with the RSH regulatory framework, **mhs homes** must ensure **Heart of Medway** complies with the regulatory requirements which it does through the Group's Governance and

Compliance Framework, reflecting the requirements of law, adopted Codes of Governance, the Risk Management Strategy and the Regulator of Social Housing Standards. The focus on financial controls extends to the commitment of resources for monitoring operations, compliance testing, reputational risk evaluation and a wide range of risk management activities. This has included stress testing of different scenarios and the creation of an Assets & Liabilities Register.

Self assessments against the Governance and Viability Standard has found that the **Heart of Medway** is compliant and the Board of **Heart of Medway** has confirmed that in its Assurance Statement. In meeting its responsibilities, the Board of **mhs homes limited** has adopted a risk-based approach to internal controls which is embedded within the normal management and governance processes. This approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed and is consistent with Turnbull principles.

The Group has adopted the National Housing Federations Code of Governance. We are compliant to the Code.

Group Finance, Risk and Audit Committee

To assist it fulfil its duties, the Board of mhs homes Limited has appointed a Group Finance Risk and Audit Committee to provide oversight and scrutiny of the risk and controls monitoring. Recognising the importance of this Committee, the membership includes two independent

Identification and evaluation of key risks

Management responsibility has been clearly defined for identification, evaluation and control of significant risks through the Risk Management Strategy. This puts in place a formal and on-going process of management review for all areas of the Groups activities.

Monitoring and corrective action

A process of control, self assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous

Fraud

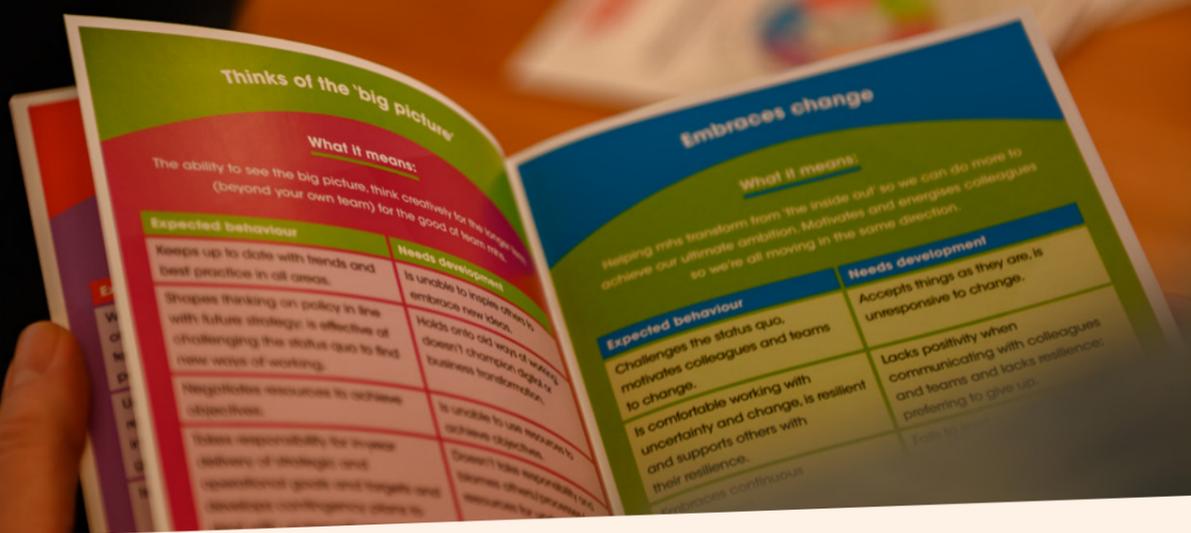
The Board has a policy on fraud covering prevention, detection and reporting of fraud and the recovery of assets. A register is maintained of any frauds or potential frauds.

Committee members. The Chair is also a non executive director on the Group Board. The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some key elements of the controls framework, includes the items listed below:

The Leadership Team regularly reviews and receives reports on significant risks facing the organisation and the Chief Executive is responsible for reporting to the Group Finance Risk and Audit Committee and the Board any significant changes affecting key risks.

procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those that may have a material impact on the financial statements and delivery of our services.

The Group Finance, Risk and Audit Committee reviews the fraud register at each meeting and has taken the results of these reviews into account in its report on assurances to the Board.



Information and financial reporting systems

The Board approves a strategic plan in each financial year, which includes longer-term financial plans and limits on investment in its various activities. Financial reporting procedures include detailed budgets for the year ahead, management accounts produced monthly and forecasts for the remainder

of the financial year. These are reviewed in various levels of detail by appropriate staff and in summary on a quarterly basis by the Board. The Board also regularly reviews progress towards the achievement of key business objectives, targets and outcomes.

Control environment and control procedures

The Board retains responsibility for a defined range of matters covering strategic, operational, and financial and compliance issues, including treasury strategy and large new investment projects. The Board has adopted and disseminated to all employees a code of conduct for employees. This sets out the Group's policies with regard to the quality,

integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection, and fraud prevention and detection.

Audit assurance

A summary of all internal reports and the resultant actions are reported to the Group Finance, Risk and Audit Committee during the year. The Business Assurance Manager, who is a Chartered Auditor, has direct access to the Group Finance, Risk and Audit Committee and presents the Audit Reports. An audit plan was agreed by the Committee for 2018/19. The Committee met 5 times during the financial year and considered internal control and risk at each of its meetings. The minutes of these meetings are presented to both the **mhs homes Limited** Board and the **Heart of Medway** Board.

BDO LLP provides external auditing services. The Board receives a memorandum from the external auditors identifying any internal control weaknesses that may have come to their attention in the course of their duties.

This letter is considered by the Group Finance Risk and Audit Committee and the Board of mhs homes Limited and the Board of **Heart of Medway**. The Committee met with the internal and external auditors during the year without the presence of staff or executive directors. The Group Finance, Risk and Audit Committee is kept informed of all non-audit services and the level of fees charged.

The Committee conducts an annual review of the effectiveness of the system of internal control and takes account of any changes that may be needed to maintain the effectiveness of the risk management and control process. The Committee makes an annual report to the Board of **mhs homes Limited** and the Board of **Heart of Medway**, which both Boards have received.

Anti-bribery policy statement

We seek to maintain the highest standards of ethics and integrity in the way we conduct our business. We recognise that bribery and corruption, in all its forms, is illegal and unacceptable.

Our bribery policy statement has been integrated into our code of conduct and our gifts and hospitality policy, adopted by the Board, and made available on our intranet.

Financial Controls

On behalf of the Board, the Group Finance Risk and Audit Committee have reviewed the effectiveness of the system of internal control, which operate across the Group for the year ended 31 March 2019. The system of internal financial control includes:

- + The operation of formal policies and procedures, including the documentation of key systems and processes recorded in Financial Regulations, Standing Orders and Delegated Arrangements which enables the monitoring of controls and restricts the unauthorised use of assets. Regular reviews take place to ensure that procurement takes place in a manner that complies with Financial Regulations and Delegated Arrangements.
- + A pro active approach to fraud based on prevention and detection rather than being reactive to frauds that have taken place. An Anti-Fraud and Corruption Policy is in place, which is reviewed and approved by the Group Board. A fraud risk register is incorporated within the Risk Management Framework and controls are monitored regularly.
- + Suitably qualified and experienced staff take responsibility for important business functions. Each service receives a Performance Review Board appraisal by the Executive Team every six months to review risk, performance and service delivery. Budgets and forecasts are prepared and reviewed on a systematic basis, which enables the Board and management to monitor the key business risks, financial performance and track progress against targets. All major new initiatives, commitments and investment projects are subject to formal authorisation procedures, through relevant committees comprising Board members and other suitably experienced and qualified executives.

The organisation has a whistleblowing policy encouraging staff to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The Group Finance Risk and Audit Committee also receive reports if issues are raised.

Other External Sources of Advice and Evaluation

The Board has at its disposal a wide range of independent external sources of advice to validate control mechanisms, verify performance and report on findings. Quality assurance is assessed through the regular renewal of ISO and Customer Service Excellence standard's. The Group's commitment to drive improvement by listening to customers is supported by the use of various methods to measure

customer insight and satisfaction including Net Promoter Score and Net Emotional Value, which are subject to annual audit. Ad-hoc advice on legal issues is provided by Trowers & Hamblins, who are leading lawyers in the sector. Other expert professionals are engaged from time to time; for example, Savills advises on matters of stock valuation.

Performance Indicators

Reports are presented to the Board covering key performance indicators across the activities of the Group. These are subject to a continuous review to reflect current targets and business priorities. Reports cover progress against the annual business plan, budget performance information, treasury management, equal opportunities, employee sickness and absence, staff

turnover, housing statistics, health and safety and customer complaints.

The Board of mhs homes limited confirms there were no material failures in its control environment, and an effective control framework has been in place for the 2018/19 year and up until the adoption of these accounts.

Independent Auditor's Report to the Members of mhs homes limited

Opinion

We have audited the financial statements of mhs homes limited and its subsidiaries for the year ended 31 March 2019 which comprise the consolidated and Parent Charitable Company statement of financial activities, the consolidated and Parent Charitable Company balance sheet, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- + give a true and fair view of the state of the Group's and of the Parent Charitable Company's affairs as at 31 March 2019 and of the Group's incoming resources and application of resources and the Parent Charitable Company's incoming resources and application of resources for the year then ended;
- + have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- + have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Charitable Company in accordance with

the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

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

- + the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- + the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Charitable Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The other information comprises, the Trustees Report, the Strategic Report, Value for Money and Assessment of the Effectiveness of Internal Controls. The Trustees are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- + the information given in the Trustee's Annual Report incorporating Directors' Report and the Strategic report prepared for the purposes of Company Law, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- + the Strategic report and the Trustee's Annual Report incorporating Directors' Report, have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Charitable Company and its environment obtained in the course of the audit, we have not identified material misstatement in the Strategic report or the Trustee's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- + adequate accounting records have not been kept by the Parent Charitable Company, or returns adequate for our audit have not been received from branches not visited by us; or
- + the Parent Charitable Company financial statements are not in agreement with the accounting records and returns; or
- + certain disclosures of Directors' remuneration specified by law are not made; or
- + we have not received all the information and explanations we require for our audit.

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement, the Trustees (who are also the directors of the Parent Charitable Company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Group's and the Parent Charitable Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Group or the Parent Charitable Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under the Companies Act 2006 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at: <https://www.frc.org.uk/auditors/responsibilities>



Use of our report

This report is made solely to the Parent Charitable Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Charitable Company'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 Charitable Company and the Charitable Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

E. Kulczyk

Elizabeth Kulczyk

(Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Gatwick, West Sussex

United Kingdom

25 July 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Financial Activities

mhs homes group	Note	Revaluation Reserve 2019 £'000	Unrestricted Funds 2019 £'000	Restricted Funds 2019 £'000	Total Funds 2019 £'000	Total Funds 2018 £'000
Income from charitable activities						
Social Housing	4	-	49,506	-	49,506	45,997
Supporting people	4	-	-	388	388	388
Other Income	4	-	362	-	362	373
Sale of Fixed Assets	12	-	1,325	-	1,325	197
First tranche low cost home ownership sales	4	-	7,253	-	7,253	2,735
Income from non-social housing activities						
Other	4	-	990	-	990	827
Income from investment						
Market Rented	4	-	2,878	-	2,878	2,627
Investment Income	13	-	59	-	59	24
Total Income		-	62,373	388	62,761	53,168
Expenditure on charitable activities						
Social Housing	4	-	26,346	-	26,346	24,590
Supporting people	4	-	-	646	646	687
Other expenditure	4	-	673	-	673	367
First tranche low cost home ownership sales	4	-	5,998	-	5,998	2,061
Expenditure on non-social housing activities						
Other	4	-	620	-	620	574
Expenditure on investment activities						
Market Rented	4	-	726	-	726	749
Interest and financing costs	14	-	10,557	-	10,557	13,702
Total Expenditure		-	44,920	646	45,566	42,730
Net Income		-	17,453	(258)	17,195	10,438

mhs homes group	Note	Revaluation Reserve 2019 £'000	Unrestricted Funds 2019 £'000	Restricted Funds 2019 £'000	Total Funds 2019 £'000	Total Funds 2018 £'000
Gains in fair value of:						
Investments	19	-	5	-	5	2
Investment properties	18	-	(742)	-	(742)	5,230
Actuarial gains on defined benefit	26	-	2,708	-	2,708	1,194
Taxation on surplus	15	-	(15)	-	(15)	(72)
Deferred tax		-	-	-	-	36,604
Net Movement in Funds		-	19,409	(258)	19,151	53,396
Total funds brought forward		213,414	77,392	-	290,806	237,410
Movement in reserves		(899)	641	258	-	-
Total funds carried forward		212,515	97,442	-	309,957	290,806

All activities relate to continuing operations.



Consolidated Statement of Comprehensive Income

mhs homes group	Note	Total 2019 £'000	Total 2018 £'000
Turnover	4	61,377	52,947
Cost of sales	4	(5,998)	(2,061)
Operating costs	4	(29,011)	(26,967)
Surplus on disposal of fixed assets	12	1,325	197
Operating surplus		27,693	24,116
Other interest receivable and similar income	13	59	24
Interest and financing costs	14	(10,557)	(13,702)
Movement in fair value of investments	19	5	2
Movement in fair value of investment properties	18	(742)	5,230
Surplus before taxation		16,458	15,670
Taxation on surplus	15	(15)	36,532
Surplus for the year		16,443	52,202
Actuarial gains on defined benefits pension scheme		2,708	1,194
Total comprehensive income for the financial year		19,151	53,396

mhs homes limited	Note	Total 2019 £'000	Total 2018 £'000
Turnover	4	53,262	45,115
Donation to subsidiary		(115)	(9,900)
Cost of Sales	4	(3,848)	(130)
Operating costs	4	(26,233)	(24,561)
Surplus on disposal of fixed assets	12	868	82
Operating surplus		23,934	10,606
Other interest receivable and similar income	13	606	799
Interest and financing costs	14	(10,541)	(13,923)
Movement in fair value of investment properties	18	(565)	5,083

mhs homes limited	Note	Total 2019 £'000	Total 2018 £'000
Surplus before taxation		13,434	2,565
Taxation on surplus	15	(15)	36,529
Surplus for the year		13,419	39,094
Actuarial gains on defined benefits pension scheme		2,708	1,194
Total comprehensive income for the financial year		16,127	40,288

All activities relate to continuing operations.
The notes on pages 68-130 form part of these financial statements.

Consolidated Statement of Financial Position

	Note	Group 2019 £'000	Group 2018 £'000	mhs homes 2019 £'000	mhs homes 2018 £'000
Fixed assets					
Tangible fixed asset - housing properties	16	460,922	436,333	376,996	351,137
Tangible fixed assets - other	17	8,750	8,762	2,656	2,518
Investment Properties	18	73,486	70,297	67,554	64,201
Investments	19	258	68	-	-
		543,416	515,460	447,206	417,856
Current assets					
Stock and work in progress	20	8,011	4,215	8,011	2,883
Debtors - receivable within one year	21	3,994	2,061	3,783	1,880
Debtors - receivable after one year	21	-	-	15,976	15,935
Short term deposits		1,443	1,320	1,443	1,320
Cash and cash equivalents		18,208	9,516	3,392	9,470
		31,656	17,112	32,605	31,488

	Note	Group 2019 £'000	Group 2018 £'000	mhs homes 2019 £'000	mhs homes 2018 £'000
Creditors: amounts falling due within one year					
	22	(17,598)	(16,300)	(16,912)	(14,741)
Net current assets		14,058	812	15,693	16,747
Total assets less current liabilities		557,474	516,272	462,899	434,603
Creditors: Amounts falling due after more than one year:					
Loans	23	(239,139)	(214,783)	(229,267)	(214,793)
Net assets excluding pension liability		318,335	301,489	233,632	219,810
Pension liability	26	(8,378)	(10,683)	(8,378)	(10,683)
Net Assets		309,597	290,806	225,254	209,127
Capital and reserves					
Income and expenditure reserve		97,442	77,392	12,754	(4,279)
Revaluation reserve		212,515	213,414	212,500	213,406
		309,957	290,806	225,254	209,127

These financial statements were approved and authorised for issue by the Board on 25th July 2019 and were signed on its behalf by:



A Hook
Chief Executive



C Hardy-Smith
Company Secretary



R Cooper
Chair

The notes on pages 68-130 form part of these financial statements.

Consolidated Statement of Cash Flows

mhs homes group	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Surplus for the financial year		16,443	52,202
Adjustments for:			
Depreciation of fixed assets - housing properties	16	4,777	4,605
Loss on disposal of replaced components		183	149
Depreciation of fixed assets - other	17	484	453
Impairment of assets	16	119	825
Interest payable and finance costs		10,557	13,702
Cost element of housing property sales in operating surplus	12	1,924	1,492
Tax credit		15	(36,532)
Decrease/(Increase) in fair value of investment properties	18	742	(5,230)
Increase in fair value of investments	19	(5)	(2)
Increase in trade and other debtors		(1,933)	(290)
Difference between net pension expense and cash contribution		403	465
(Increase)/decrease in stocks		(2,575)	1,783
Increase/(decrease) in trade creditors		2,714	(726)
Interest received		(59)	(24)
Cash from operations		33,789	32,872
Taxation paid		(113)	-
Net cash generated from operating activities		33,676	32,872
Cash flows from investing activities			
Purchase of fixed assets - housing properties	16	(28,710)	(29,004)
Purchase of fixed assets - investment properties	18	(4,216)	(5,600)
Purchases of fixed assets - other	17	(472)	(463)

mhs homes group	Note	2019 £'000	2018 £'000
Purchase of investments	19	(185)	-
Major repairs capitalised as components	16	(3,335)	(2,901)
Interest received	13	59	24
Net cash from investing activities		(36,859)	(£37,944)
Cash flows from financing activities			
Interest paid		(11,241)	(13,582)
New loans	23	29,815	20,000
Repayment of loans	23	(5,639)	(6,015)
Net cash used in financing activities		12,935	403
Net increase in cash and cash equivalents		9,752	(4,669)
Cash and cash equivalents at beginning of year		9,486	14,155
Cash and cash equivalents at end of year		19,238	9,486

The notes on pages 68-130 form part of these financial statements.

Notes forming part of the financial statements

1

Legal status

mhs homes is a Parent Charitable Company limited by guarantee incorporated in England and a registered charity. The registered office is Broadside, Leviathan Way, Chatham, Kent ME44LL.

In the event of the Charity being wound up the liability in respect of the guarantee is limited to £1 per member. There were 8 members at 31 March 2019.

2

Accounting Policies

The financial statements have been prepared in accordance with UK accounting standards, including FRS102 and the Charities SORP (FRS102) "Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102)" and the Companies Act 2006.

Due to the majority activities of the group being Social Housing the parent and group have also chosen to include information required under the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, "Accounting by registered social housing providers 2014" and the Accounting

Direction for Private Registered Providers of Social Housing 2015 where it is judged that this information will aid the user of the accounts.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

mhs homes is a public benefit entity as defined by FRS102.

The financial statements are prepared in sterling which is the functional currency of the Group and rounded to the nearest thousand.

Parent Charity Company disclosure exemptions

In preparing the separate financial statements of the Parent Charitable Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- + Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the Parent Charitable Company would be identical;
- + No cash flow statement has been presented for the Parent Charitable Company;
- + No disclosure has been given for the aggregate remuneration of the key management personnel of the parent association as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements present the results of **mhs homes** limited and its subsidiaries (**mhs commercial services, mhs community charity, Chatham Maritime K1 Construction, K1 Development, Lord Kitchener and Heart of Medway**) as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full, mhs homes is required by statute to prepare the group accounts.

Going concern

After reviewing the group's forecasts for a minimum of 12 months and their accompanying risks the Trustees have a reasonable expectation that the charity and the Group have adequate resources to continue in operational existence for the foreseeable future.

Income

Income is measured at the fair value of the consideration received or receivable. The group generates the following material income streams:

- + Rental income receivable (after deducting lost rent from void properties);
- + First and subsequent tranche sales of Shared Ownership housing properties developed for sale;
- + Service charges receivable;
- + Capital Grants;

- + Revenue grants; and
- + Proceeds from the sale of land and property.

Rental income is recognised from the point when properties under development reach practical completion and are formally let; income from first tranche sales and other property is recognised at the point of legal completion of the sale. Income from revenue and capital grants are recognised when the conditions of the grant are met.

Supported housing schemes

The Group receives Supporting People grants from Medway Council. The grants receivable in the period as well as costs incurred by the Group in the provision of support services have been included in the Income and Expenditure Account.

Social Housing Grant

Where developments have been financed wholly or partly by social housing grant the amount of grant received has been included as income and recognised in turnover when it becomes receivable. Where social housing grant funded property is sold, the grant become recyclable and is transferred to a recycled capital grant fund until reinvested in a replacement property.

Service charges

The Group operates both the variable and fixed method for calculating and charging service charges to its tenants and leaseholders.

Where variable service charges are used expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

Taxation

The charge for taxation is based on surpluses arising from non – charitable group companies for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that an asset or liability is expected to be payable or recoverable in the foreseeable future. An amount of taxable profit from the period before charitable status was confirmed was paid over to the subsidiary Heart of Medway and Charity as a qualifying charitable donation.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income

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

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

Following charitable conversion the net reversal of the deferred tax assets and liabilities of £36.6m has taken place.

Value Added Tax

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

Pension costs

The Group participates in two schemes.

Contributions to the Group's defined contribution pension scheme are charged to profit or loss in the year which they become payable. Contributions to the Group's benefit pension scheme are determined using actuarial valuations so as to spread the cost of pensions over employees' working lives and are based on triennial valuations. Details of the pension costs are disclosed in Note 26.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods.

Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

The difference between the fair value of the assets held in the group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the group's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Tangible fixed assets

Social Housing Properties

Social Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable). The cost of social housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development. Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis.

Deemed cost on transition to FRS 102 for Social Housing Properties

On transition to FRS 102 the Group took the option of carrying out a one-off valuation exercise of selected items of social housing properties and using that amount as deemed cost. To determine the deemed cost at 1 April 2014, the Group engaged independent valuation specialist Savills to value social housing properties on a EUV-SH basis.

Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated. Social Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in properties under construction and held at cost less any impairment, and are transferred to completed properties when ready for letting.

Social Housing properties will subsequently be measured at cost less depreciation.

Any difference between historic cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve.

Depreciation of social housing property

Social Housing land and property is split between land, structure and other major components that are expected to require replacement over time. Land is not depreciated on account of its indefinite useful economic life.

The structure and other major components are depreciated over the determined average useful economic life as follows:

Description	Economic useful life (years)
Structure - Houses	100
Structure - Flats	65
Kitchen	20
Bathroom and new central heating	30
Roofs	50
Boiler	15
Electrics	30
External windows & cold water mains	30
Fire Door External	30
Adaptions	20
Shared Ownership - Flats	65
Shared Ownership - Houses	100

The costs of replacement or restoration of these components are capitalised and depreciated over the same average useful economic life. Assets in the course of construction are not depreciated until

they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

Shared ownership properties and staircasing

Under Shared Ownership arrangements, the Group disposes of a long lease to the occupier; the lease premium paid is for between 25% and 75% of the value. The occupier has the right to purchase further proportions up to 100% based on the market valuation of the property at the time each purchase transaction is completed. A shared ownership property comprises two assets: that to be disposed of in the first tranche sale, which is recorded as a current asset and stated at the lower of cost and net realisable value; and that retained by the Group, which is

recorded as a fixed asset in the same manner as for general needs housing properties.

Proceeds of sale for first tranches are accounted for as turnover in the income and expenditure account, with the apportioned cost being shown as cost of sales within operating results. Subsequent tranches sold ("staircasing") are reflected in the statement of comprehensive income as a surplus or deficit on sale of housing properties.

Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific

tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

Tangible fixed assets - Other

Other tangible fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable

to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The group adds to the carrying amount of an item of fixed assets the cost of

replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is

derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value

over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Description	Economic useful life (years)
Freehold Premises	50
Fixtures and Fittings	1-5
Other Offices	50

Recycled Capital Grant Fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the HCA can direct Heart of Medway to recycle capital grants or to make repayments of the recoverable amount. The Group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the HCA with interest.

Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under "creditors due after more than one year". The remainder is disclosed under "creditors due within one year".

Investment properties

Investment properties consist of market rented properties, part of the head office rented to other organisations and other properties not held for social benefit. Investment properties are measured at cost on initial recognition and subsequently carried at fair value determined by external valuers in 2015

Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

Stock

Stock represents work in progress and completed properties, including housing properties developed for transfer to other registered providers and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

and uplifted based on the Land Registry in the current year. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income. Investment properties under construction are carried at cost.

Recoverable amount of rental and other trade receivables

The Group estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt, historical collection rates and the class of debt.

Materials are stated at the lower of cost and net realisable value. Cost comprises of materials and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

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 income statement in other operating expenses.

Loans and short term deposits

All loans and short term deposits held by the group are classified as basic financial instruments in accordance with FRS102. These instruments are initially recorded at the transaction price less any transaction costs (historic cost), FRS102 requires that basic financial instruments are subsequently measured at amortised

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Leasehold Sinking Funds

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included in creditors.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

cost, however the group determined that the difference between the historic cost and amortised cost is not material and so these financial instruments are stated on the balance sheet at historic cost. Loans and investments are payable or receivable within one year are not discounted.

Leased assets: Lessee

All leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease. A review of all leases has been carried out and there are no finance leases.

Reserves

Income received, and expenditure incurred, for restricted purposes is separately accounted for within restricted funds. Realised and unrealised gains and losses on assets held by these funds are also allocated to the fund. The revaluation reserve is created from surpluses on asset revaluation. Unrestricted reserves are

subject to specific conditions imposed by the donors and are within the objectives of the Charity. The funds are transferred to the unrestricted when the specific requirements of the income are satisfied.



3

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key judgements have been made in respect of the following:

- + whether there are indicators of impairment of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The Director's considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost. The members have also considered impairment based on their assumptions to define cash or asset generating units.
- + the anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, they then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the member's best estimate of sales value based on economic conditions within the area of development.
- + the critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.
- + whether leases entered into by the group either as a lessor or a lessee are operating or lease or finance leases. These decisions depend on 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.

- + the appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.
- + the categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset.
- + what constitutes a cash generating unit when indicators of impairment require there to be an impairment review.

Other key sources of estimation uncertainty

- + Tangible fixed assets (see note 16 and 17)

Tangible fixed assets, other than investment properties, 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. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

The group's market rented investment properties are measured at cost on initial recognition and subsequently carried at fair value determined by external valuers in 2015 and uplifted based on the Land Registry in the subsequent years.

- + *Rental and other trade receivables (debtors) (see note 21)*

The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.

- + *Valuation of pension scheme (see note 26)*

The estimates have been informed by an actuary and are presented in note 26. The note sets out the assumptions used by the actuary in determining the assets and liabilities of the pension scheme.

4

Particulars of turnover, cost of sales, operating costs and operating surplus

mhs homes group	Turnover 2019 (£'000)	Cost of sales 2019 (£'000)	Operating costs 2019 (£'000)	Operating surplus/(deficit) 2019 (£'000)
Social housing lettings (Note 5)	49,506	-	(26,346)	23,160
Other Social Housing Activities				
First tranche shared ownership sales	7,253	(5,998)	-	1,255
Development	-	-	(135)	(135)
Supporting people	388	-	(646)	(258)
Foyers	297	-	(477)	(180)
Managed Properties	65	-	(61)	4
	57,509	(5,998)	(27,665)	23,846
Activities other than Social Housing Activities				
Market Rented Properties	2,878	-	(726)	2,152
Charity Projects	-	-	(102)	(102)
Other properties and commercial activities	990	-	(518)	472
	3,868	-	(1,346)	2,524
	61,377	(5,998)	(29,011)	26,368

mhs homes group	Turnover 2018 (£'000)	Cost of sales 2018 (£'000)	Operating costs 2018 (£'000)	Operating surplus/(deficit) 2018 (£'000)
Social housing lettings (Note 5)	45,997	-	(24,590)	21,407
Other Social Housing Activities				
First tranche shared ownership sales	2,735	(2,061)	-	674
Development	-	-	(130)	(130)
Supporting people	388	-	(687)	(299)

mhs homes group	Turnover 2018 (£'000)	Cost of sales 2018 (£'000)	Operating costs 2018 (£'000)	Operating surplus/(deficit) 2018 (£'000)
Foyers	315	-	(181)	134
Managed Properties	58	-	(56)	2
	49,493	(2,061)	(25,644)	21,788
<u>Activities other than Social Housing Activities</u>				
Market Rented Properties	2,627	-	(749)	1,878
Charity Projects	-	-	(106)	(106)
Other properties and commercial activities	827	-	(468)	359
	3,454	-	(1,323)	2,131
	52,947	(2,061)	(26,967)	23,919

mhs homes limited	Turnover 2019 (£'000)	Cost of sales 2019 (£'000)	Operating costs 2019 (£'000)	Operating surplus/(deficit) 2019 (£'000)
Social housing lettings (Note 5)	44,569	-	(24,475)	20,094
<u>Other Social Housing Activities</u>				
First tranche shared ownership sales	4,964	(3,848)	-	1,116
Development	-	-	(135)	(135)
Supporting people	188	-	(357)	(169)
Managed Properties	65	-	(61)	4
Charitable Donations Received	50	-	-	50
Charitable activities	49,836	(3,848)	(25,028)	20,960
<u>Activities other than Social Housing</u>				
Market Rented Properties	2,696	-	(687)	2,009
Other properties and commercial activities	730	-	(518)	212
	3,426	-	(1,205)	2,221
	53,262	(3,848)	(26,233)	23,181

mhs homes limited	Turnover 2018 (£'000)	Cost of sales 2018 (£'000)	Operating costs 2018 (£'000)	Operating surplus/(deficit) 2018 (£'000)
Social housing lettings (Note 5)	41,736	-	(22,883)	18,853
<u>Other Social Housing Activities</u>				
First tranche shared ownership sales	220	(130)	-	90
Development	-	-	(130)	(130)
Supporting people	188	-	(372)	(184)
Managed Properties	58	-	(56)	2
Donation to Subsidiaries	-	-	(9,900)	(9,900)
	42,202	(130)	(33,341)	8,731
<u>Activities other than Social Housing</u>				
Market Rented Properties	2,128	-	(654)	1,474
Other properties and commercial activities	785	-	(466)	319
	2,913	-	(1,120)	1,793
	45,115	(130)	(34,461)	10,524

Qualifying Charitable Donations

mhs homes paid over an amount of its taxable profits, representing the period up to February 2018 when mhs homes successfully registered as a charity, to its subsidiaries; Heart of Medway nil (2018:£9.1 million) and mhs community charity nil (2018:£100,000).

This support was in place to help further the objectives of both organisations, which both coincide with those of mhs homes. A charitable donation was made from K1 Construction to mhs homes of £50,000 (2018:£39,000).

5

Income and expenditure from social housing lettings

mhs homes group	General needs (£'000)	Supported housing (£'000)	Shared ownership (£'000)	Affordable (£'000)	Total 2019 (£'000)	Total 2018 (£'000)
Income						
Rents net of identifiable service charges	39,502	2,864	1,096	3,182	46,644	45,346
Service charge income	-	-	219	236	455	352
Grant received	310	-	1,991	-	2,301	-
Other income	102	4	-	-	106	299
Turnover from social housing lettings	39,914	2,868	3,306	3,418	49,506	45,997
Expenditure						
Management	(4,480)	(614)	(197)	(283)	(5,574)	(5,260)
Service Charge costs	(1,538)	(534)	(232)	(178)	(2,482)	(2,057)
Routine Maintenance	(4,305)	(286)	(22)	(82)	(4,695)	(4,410)
Planned Maintenance	(4,285)	(512)	(22)	(145)	(4,964)	(5,007)
Major Repairs	(2,344)	(820)	-	(71)	(3,235)	(1,849)
Bad debts	(261)	(17)	-	(25)	(303)	(395)
Depreciation of housing properties:						
- annual charge	(3,502)	(119)	(221)	(935)	(4,777)	(4,575)
- impairment	-	(119)	-	-	(119)	(826)
- accelerated on disposal of components	(172)	-	-	(12)	(184)	(149)
Other costs	(2)	-	(2)	(9)	(13)	(62)
Operating expenditure on social housing lettings	(20,889)	(3,021)	(696)	(1,740)	(26,346)	(24,590)
Operating surplus on social housing lettings	19,025	(153)	2,610	1,678	23,160	21,407
Void losses	(231)	(43)	(1)	-	(275)	(274)

*Rents charged in mhs homes are inclusive of service charges and cannot be separated out.

mhs homes limited	General needs (£'000)	Supported housing (£'000)	Shared ownership (£'000)	Total 2019 (£'000)	Total 2018 (£'000)
Income					
Rents net of identifiable service charges*	39,486	2,864	231	42,581	41,638
Amortised Grant	-	-	1,882	1,882	-
Other income	102	4	-	106	98
Turnover from social housing lettings	39,588	2,868	2,113	44,569	41,736
Expenditure					
Management	(4,945)	(614)	(59)	(5,618)	(5,290)
Service Charge costs	(1,538)	(534)	(13)	(2,085)	(1,717)
Routine Maintenance	(4,304)	(286)	(16)	(4,606)	(4,314)
Planned Maintenance	(4,237)	(512)	(22)	(4,771)	(4,953)
Major Repairs	(2,344)	(820)	-	(3,164)	(1,751)
Bad debts	(261)	(17)	-	(278)	(368)
Depreciation of housing properties:					
- annual charge	(3,497)	(119)	(46)	(3,662)	(3,523)
- impairment	-	(119)	-	(119)	(826)
- accelerated on disposal of components	(172)	-	-	(172)	(141)
Other costs	-	-	-	-	-
Operating expenditure on social housing lettings	(21,298)	(3,021)	(156)	(24,475)	(22,883)
Operating surplus on social housing lettings	18,290	(153)	1,957	20,094	18,853
Void losses	(216)	(43)	-	(259)	(258)

*Rents charged in mhs homes are inclusive of service charges and cannot be separated out.

6

Expenditure on charitable activities

mhs homes group	Depreciation and Amortisation (£'000)		Direct Activities (£'000)		Support and Governance Costs (£'000)		Total (£'000)	Total (£'000)
	2019	2018	2019	2018	2019	2018	2019	2018
General Needs	(3,674)	(3,755)	(12,046)	(11,482)	(5,169)	(4,325)	(20,889)	(19,562)
Affordable	(947)	(899)	(510)	(592)	(283)	(166)	(1,740)	(1,657)
Supported housing	(238)	(713)	(2,405)	(1,885)	(378)	(376)	(3,021)	(2,974)
Shared ownership	(221)	(183)	(316)	(143)	(159)	(71)	(696)	(397)
Social housing lettings	(5,080)	(5,550)	(15,277)	(14,102)	(5,989)	(4,938)	(26,346)	(24,590)
Supported People	-	-	(646)	(687)	-	-	(646)	(687)
Other expenditure	-	-	(673)	(367)	-	-	(673)	(367)
Total Charitable expenditure included in operating costs	(5,080)	(5,550)	(16,596)	(15,156)	(5,989)	(4,938)	(27,665)	(25,644)
First Tranche shared ownership sales	-	-	(5,998)	(2,061)	-	-	(5,998)	(2,061)
Operating surplus on social housing lettings	(5,080)	(5,550)	(22,594)	(17,217)	(5,989)	(4,938)	(33,663)	(27,705)

mhs homes limited	Depreciation and Amortisation (£'000)		Direct Activities (£'000)		Support and Governance Costs (£'000)		Total (£'000)	Total (£'000)
	2019	2018	2019	2018	2019	2018	2019	2018
General Needs	(3,669)	(3,750)	(12,752)	(11,827)	(4,877)	(4,267)	(21,298)	(19,844)
Supported housing	(238)	(714)	(2,427)	(1,921)	(356)	(340)	(3,021)	(2,975)
Shared ownership	(46)	(26)	(88)	(17)	(22)	(21)	(156)	(64)
Social housing lettings	(3,953)	(4,490)	(15,267)	(13,765)	(5,255)	(4,628)	(24,475)	(22,883)
Supported People	-	-	(357)	(372)	-	-	(357)	(372)
Other expenditure	-	-	(196)	(186)	-	-	(196)	(186)
Total Charitable expenditure included in operating costs	(3,953)	(4,490)	(15,820)	(14,323)	(5,255)	(4,628)	(25,028)	(23,441)
First Tranche shared ownership sales	-	-	(3,848)	(130)	-	-	(3,848)	(130)
Operating surplus on social housing lettings	(3,953)	(4,490)	(19,668)	(14,453)	(5,255)	(4,628)	(28,876)	(23,571)

7

Units of housing stock

mhs homes limited Social Housing	Group 2019 Number	Group 2018 Number	mhs homes 2019 Number	mhs homes 2018 Number
General needs housing	6,442	6,411	6,442	6,411
Sheltered schemes	532	532	532	532
Shared Ownership	101	34	101	34
Intermediate rent	4	4	4	4
Social leaseholders	480	480	480	480
Foyers	36	36	-	-
	7,595	7,497	7,559	7,461
<u>Heart of Medway Social Housing</u>				
General Needs	523	511	-	-
Shared Ownership	255	238	-	-
Social leaseholders	9	2	-	-
<u>Lord Kitchener Social Housing</u>				
General Needs	6	6	-	-
<u>mhs homes limited Non-Social Housing</u>				
Managed freeholders	177	173	177	173
Market Rent	306	289	306	289
Commercial Lettings	47	63	47	63

mhs homes limited Social Housing	Group 2019 Number	Group 2018 Number	mhs homes 2019 Number	mhs homes 2018 Number
<u>Heart of Medway Non-Social Housing</u>				
Market Rent	17	17	-	-
Managed freeholders	2	1	-	-
Total Owned	8,937	8,797	8,089	7,986
Accommodation managed for others	84	84	84	84
Total managed accommodation	9,021	8,881	8,173	8,070
Units managed by other associations	43	43	79	79
Total owned or managed accommodation	9,064	8,924	8,252	8,149
<u>Garages</u>				
	1,445	1,445	1,445	1,445
<u>Units under construction: Commitments contracted</u>				
Houses	113	62	113	53
Flats	394	111	340	111
<u>Units under development : Commitments approved but not contracted</u>				
Houses	25	24	25	24
Sheltered	46	54	-	-
Flats	50	126	12	126
	628	377	490	314

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Operating surplus

	Group 2019 £'000	Group 2018 £'000	mhs homes 2019 £'000	mhs homes 2018 £'000
This is arrived at after charging:				
Depreciation of housing properties:				
- annual charge	4,777	4,605	3,662	3,553
Depreciation of other fixed assets:				
- annual charge	481	453	334	306
Accelerated depreciation on replaced components	184	149	172	149
Operating leases	461	437	461	437
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	30	31	30	31
- fees for audit of accounts of subsidiary entities	13	14	-	-
- fees for other audit services	4	-	4	-

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Employees

	Group 2019 £'000	Group 2018 £'000	mhs homes 2019 £'000	mhs homes 2018 £'000
Number of Employees	237	238	237	238
	£'000	£'000	£'000	£'000
Wages and salaries	8,355	7,989	8,355	7,989
Social security costs	759	760	759	760
Cost of defined benefit scheme (see note 26)	212	185	212	185
Cost of defined contribution scheme	340	363	340	363
	9,666	9,297	9,666	9,297

The average number of employees (including Executive Management Team) expressed as full time equivalents (calculated based on a standard working week of 37 hours) during the year was 237 (2018:238).

A defined benefit (closed to new members) and a defined contribution pension scheme is operated by the Group on behalf of the employees. The assets of the scheme are held separately from those of the group in an independently administered fund. Full details are contained in note 26.

10 Trustee remuneration

The trustees are defined as Directors under company law, and are defined as the members of the Board of Management as disclosed on page 7.

Trustee	Remuneration £'000	Expenses £'000	Remuneration Committee	Finance, Risk and Audit Committee	Group Board
S Braid	6	-	✓	✓	✓
K Franklin	11	-	✓		✓
T Bunton	9	-			✓
R Cooper	18	-	✓	✓	✓
A Baker	9	-	✓		✓
R Christopher	5	-		✓	✓
J Seager	9	-			✓
A Van der Veer	12	-		✓	✓

The articles of association contain the clause "members may receive such reasonable and proper remuneration as the Boards members may from time to time decide having taken advice from an independent remuneration committee".

11 Senior executive remuneration

	Group 2019 £'000	Group 2018 £'000
Key Management personnel emoluments	520	460
Amounts paid to non-executive	61	61
Total expenses reimbursed to the directors not chargeable to income tax	1	1
	582	522

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments was £155,000 (2018: £150,368). Pension contributions of £43,098 (2018: £43,000) were made to Kent County Council pension fund on his behalf. As a member of the Kent County Council Pension Fund, the pension entitlement of the Chief Executive is identical to those of other members.

There were 2 directors (2018:2) in the group's defined contribution pension scheme. Contributions were paid into the scheme on their behalf £19,773 (2018: £18,078).

The remuneration paid to staff (including Leadership Team) earning over £60,000 upwards:

	Group 2019 £'000	Group 2018 £'000
£60,000 - £69,999	4	5
£100,000 - £109,999	-	-
£110,000 - £119,999	1	2
£120,000 - £129,999	1	-
£150,000 - £159,999	1	1

12 Surplus on disposal of fixed assets

Group	Right To Buy 2019 (£'000)	Shared ownership 2019 (£'000)	Other housing properties 2019 (£'000)	Total 2019 (£'000)	Total 2018 (£'000)
Housing Properties:					
Disposal proceeds	519	1,530	1,213	3,262	1,689
Cost of disposals	(39)	(854)	(1,031)	(1,924)	(1,486)
Legal and other fees	-	(11)	(2)	(13)	(6)
	480	665	180	1,325	197

mhs homes	Right To Buy 2019 (£'000)	Shared ownership 2019 (£'000)	Other housing properties 2019 (£'000)	Total 2019 (£'000)	Total 2018 (£'000)
Housing Properties:					
Disposal proceeds	519	461	1,213	2,193	1,332
Cost of disposals	(39)	(250)	(1,031)	(1,320)	(1,250)
Legal and other fees	-	(3)	(2)	(5)	-
	480	208	180	868	82

13 Interest receivable and income from investments

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Interest receivable from group undertakings	-	-	547	775
Interest receivable and similar income	59	24	59	24
	59	24	606	799

14 Interest payable and similar charges

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Bank loans and overdrafts	10,167	9,840	10,125	9,840
Breakage costs	-	3,253	-	3,253
Other fees	401	766	396	766
	10,568	13,859	10,521	13,859
Amortisation of Issue Costs	133	151	133	151
	10,701	14,010	10,654	14,010
Net Interest on defined pension liability (note 26)	268	302	268	302
Interest capitalised on construction of housing properties	(412)	(610)	(381)	(389)
	10,557	13,702	10,541	13,923

The breakage costs reflect fees payable on a fixed rate loan of £7.5 million at 4.85% plus margin that matured in 2030 being converted to a variable rate loan.

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Taxation on surplus on ordinary activities

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
UK corporation tax				
Current tax on surplus for the year	-	72	-	75
Adjustment in respect of previous periods	15	-	15	-
Total current tax	15	72	15	75
Deferred tax				
Origination and reversal of timing differences	-	(36,512)	-	(36,512)
Adjustments in respect of prior periods	-	(92)	-	(92)
Changes to tax rates	-	-	-	-
Taxation on surplus on ordinary activities	15	(36,532)	15	(36,529)

The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to surplus before tax.

The differences are explained on the following page:

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Surplus on ordinary activities before tax	16,458	15,670	13,434	2,565
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 19% (2018 - 19%)	3,127	2,977	2,552	488
Effects of:				
Expenses not deductible for tax purposes	-	1,465	-	1,362
Fixed asset adjustments	-	488	-	488
Utilisation of tax losses	-	-	-	-
Income not taxable	-	(4,598)	-	(2,130)
Additional deduction for land remediation expenditure	-	(36)	-	(36)
Other payment differences	-	9	-	9
Reverse deferred tax on grant of charity status	-	(36,896)	-	(36,787)
Amount in respect of prior periods	15	3	15	-
Chargeable (losses)/gains	-	(25)	-	(25)
Amounts credited to equity or otherwise transferred	-	219	-	227
Net income subject to charitable exemptions	(3,085)	-	(2,552)	-
Adjustments in respect of prior years- deferred tax	(37)	(92)	-	(92)
Adjust closing deferred tax to average rate of 20%	(5)	(46)	-	(33)
Total tax credit for period	15	(36,532)	15	(36,529)

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a charge of £15,000 (2018: credit of £36.532 million).


Tangible fixed assets - Housing properties

Group	General needs completed (£'000)	Shared ownership completed (£'000)	General needs under construction (£'000)	Shared ownership under construction (£'000)	Total (£'000)
Cost or valuation:					
At 1 April 2018	442,818	23,161	5,175	9,618	480,772
Additions:					
- construction costs	-	-	15,769	13,421	29,190
- replaced components	3,335	3,335	3,335	-	3,335
Completed schemes	6,209	11,421	(6,209)	(11,421)	-
Transfer from/(to) investment properties	297	-	(5)	-	292
Staircasing disposals	-	(881)	-	-	(881)
Transfer to current assets	-	(1,221)	-	-	(1,221)
Property disposals	(1,090)	-	-	-	(1,090)
Disposal of replaced components	(529)	-	-	-	(529)
At 31 March 2019	451,040	32,480	14,730	11,618	509,868
Depreciation:					
At 1 April 2018	42,017	717	-	-	42,734
Charge for the year	4,556	221	-	-	4,777
Staircasing disposals	-	(24)	-	-	(24)
Disposal of replaced components	(346)	-	-	-	(346)
Eliminated on disposals	(19)	-	-	-	(19)
At 31 March 2019	46,208	914	-	-	47,122
Impairment:					
At 1 April 2018	1,472	233	-	-	1,705
Charge for the year	119	-	-	-	119
At 31 March 2019	1,591	233	-	-	1,824
Net book value at 31 March 2019	403,241	31,333	14,730	11,618	460,922
Net book value at 31 March 2018	399,329	22,211	5,175	9,618	436,333

mhs homes limited	General needs completed (£'000)	Shared ownership completed (£'000)	General needs under construction (£'000)	Shared ownership under construction (£'000)	Total (£'000)
<u>Cost or valuation:</u>					
At 1 April 2018	377,072	3,223	3,968	6,670	390,933
Additions:					
- construction costs	-	-	14,215	13,804	28,019
- replaced components	3,310	-	-	-	3,310
Completed schemes	4,656	8,855	(4,656)	(8,855)	-
Transfer to current assets	-	(494)	-	-	(494)
Transfer from investment properties	297	-	-	-	297
Staircasing disposals	-	(258)	-	-	(258)
Property disposals	(1,090)	-	-	-	(1,090)
Disposal of replaced components	(513)	-	-	-	(513)
At 31 March 2019	383,732	11,326	13,527	11,619	420,204
<u>Depreciation:</u>					
At 1 April 2018	38,587	204	-	-	38,791
Charge for the year	3,616	46	-	-	3,662
Disposal of replaced components	(341)	-	-	-	(341)
Eliminated on disposals	(19)	-	-	-	(19)
Staircasing disposals	-	(9)	-	-	(9)
At 31 March 2019	41,843	241	-	-	42,084
<u>Impairment:</u>					
At 1 April 2018	1,005	-	-	-	1,005
Charge for the year	119	-	-	-	119
At 31 March 2019	1,124	-	-	-	1,124
Net book value at 31 March 2019	340,765	11,085	13,527	11,619	376,996
Net book value at 31 March 2018	337,480	3,019	3,968	6,670	351,137

Impairment

The group considers schemes to represent separate cash generating units (CGU's) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014.

During the year a number of schemes were identified for regeneration, and the therefore the value attached to the structure of the buildings was written down to nil and treated as an impairment.

Valuation

On transition to FRS 102 the Group took the option of carrying out a one-off valuation exercise of selected items of social housing properties and using that amount as deemed cost. To determine the deemed cost at 1 April 2014, the Group engaged independent valuation specialist Savills to value social housing properties at the price at which a property can be sold on the open market assuming that it can only be used for

the existing use, for the foreseeable future (EUV-SH) basis. Social Housing properties will subsequently be measured at cost less depreciation. Any difference between historic cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve. The estimated value in use of the social housing stock is estimated as below.

	Group 2019 (£'million)	Group 2018 (£'million)	mhs homes 2019 (£'million)	mhs homes 2018 (£'million)
Estimated total EUV - SH	545	523	491	480
Estimated EUV- SH value of properties charged	439	421	439	421

The net book value of housing properties may be further analysed as:

	Group 2019 (£'million)	Group 2018 (£'million)	mhs homes 2019 (£'million)	mhs homes 2018 (£'million)
Freehold	455,788	431,474	373,587	348,030
Long leasehold	5,134	4,859	3,409	3,107
	460,922	436,333	376,996	351,137

Interest capitalisation

Interest capitalised in the year	412	610	381	389
Cumulative interest capitalised	3,023	2,611	1,418	1,037
Rate used for capitalisation %	3.7	3.2	3.7	3.2

Works to properties

Improvements to existing properties capitalised	3,334	2,901	3,310	2,885
Major repairs expenditure to income and expenditure account	3,235	1,849	3,164	1,751
	6,569	4,750	6,474	4,636

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Other tangible fixed assets

Group	Other Offices (£'000)	Freehold Premises (£'000)	Fixtures & Fittings (£'000)	Total (£'000)
Cost or valuation:				
At 1 April 2018	7,982	2,547	5,915	16,444
Additions	-	111	361	472
At 31 March 2019	7,982	2,658	6,276	16,916
Depreciation:				
At 1 April 2018 Restated	1,738	594	5,350	7,682
Charge for year	150	30	304	484
At 31 March 2019	1,888	624	5,654	8,166
Net book value:				
At 31 March 2019	6,094	2,034	622	8,750
At 31 March 2018 Restated	6,244	1,953	565	8,759

mhs homes	Freehold Premises (£'000)	Fixtures & Fittings (£'000)	Total (£'000)
Cost or valuation:			
At 1 April 2018	2,547	5,915	8,462
Additions	111	361	472
At 31 March 2019	2,658	6,276	8,934
Depreciation:			
At 1 April 2018 Restated	594	5,350	5,944
Charge for year	30	304	334
At 31 March 2019	624	5,654	6,278
Net book value:			
At 31 March 2019	2,034	622	2,656
At 31 March 2018	1,953	565	2,518

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Investment properties

Group	Head Office Buildings (£'000)	Market Rent Completed (£'000)	Market Rent Under Construction (£'000)	Total (£'000)
At 1 April 2018	2,554	61,899	5,844	70,297
Units converted from market rent to social housing	-	(298)	-	(298)
Construction costs	-	19	4,214	4,233
Completed schemes	-	2,915	(2,915)	-
Land transfer from social	-	-	-	-
Disposals	-	(4)	-	(4)
Revaluations	-	(742)	-	(742)
At 31 March 2019	2,554	63,789	7,143	73,486

*The opening balances are amended to correct the classification between WIP and completed at the beginning of the year.

mhs homes	Market Rent Completed (£'000)	Market Rent Under Construction (£'000)	Total (£'000)
At 1 April 2018	58,357	5,844	64,201
Units converted from market rent to social housing	(298)	-	(298)
Land transfer from social	-	-	-
Construction costs	6	4,214	4,220
Completed schemes	2,915	(2,915)	-
Disposals	(4)	-	(4)
Revaluations	(565)	-	(565)
At 31 March 2019	60,411	7,143	67,554

The group's market rented investment properties are measured at cost on initial recognition and subsequently carried at fair value determined by external valuers in 2015 and uplifted based on the Land Registry in the subsequent years. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income. The loss on revaluation of investment property arising of £742,000 (2018 – a surplus of £5.23 million) has been debited to the Statement of Comprehensive Income for the year.

Market Value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. If investment property had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Historic cost	37,061	34,432	33,864	31,246
Accumulated depreciation	(4,353)	(3,861)	(4,092)	(3,653)
	32,708	30,571	29,772	27,593

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Fixed asset investment

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Investments	185	-	-	-
Listed Investments	68	63	-	-
Other investments	5	5	-	-
	258	68	-	-

mhs homes ltd	Total 2019 (£)	Total 2018 (£)
Heart of Medway Housing Association	1	1
mhs commercial services limited	1,500,000	1,500,000
Chatham Maritime K1 Developments Limited	1	1
Chatham Maritime K1 Construction Limited	1	1
Provision against mhs commercial services limited	(1,500,000)	(1,500,000)
	3	3

Details of Subsidiary undertakings, associated undertakings and other investments

The group comprises of the following entities all incorporated in England

Subsidiary Undertaking	Nature of Business	Registered Company Number	Registered Charity /Society Number
<u>Nature of Entities : Company</u>			
<u>Proportion of ordinary share capital 100%</u>			
Chatham Maritime K1 Developments Ltd	Ownership of Head Office	03254705	
Chatham Maritime K1 Construction Ltd	Development Activity	03254689	
mhs commercial services Ltd	Not Active	02751669	
<u>Nature of Entity: Community Benefit Society</u>			
<u>Proportion of voting rights 25%</u>			
Heart of Medway Housing Association Ltd ¹	Social Housing	-	31076R
<u>Nature of Entity: Charity</u>			
mhs community charity Ltd ²	Charitable Works	03714658	1080067
<u>Nature of Entity: Trust</u>			
Lord Kitchener Memorial Homes Trust ³	Social Housing		209751

¹ mhs homes controls Heart of Medway through an inter group agreement

² mhs community charity is a company limited by guarantee with mhs homes defined as the parent charitable company

³ Lord Kitchener is administered by mhs homes who were appointed a corporate trustee

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Stock and Work in Progress

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Materials	18	12	18	12
Shared ownership under construction	6,256	4,203	6,256	2,871
Shared ownership completed properties	1,737	-	1,737	-
	8,011	4,215	8,011	2,883

Properties developed for sale includes capitalised interest of £70,457 (2018; £48,000)

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Debtors

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Due within one year				
Rent and service charge arrears	1,452	1,691	1,345	1,563
Less: Provision for doubtful debts	(409)	(407)	(392)	(389)
	1,043	1,284	953	1,174
Prepayments	494	345	494	345
Taxes and social security	89	-	44	-
Other debtors	548	412	472	341
Social Housing Grant Receivable	1,800	-	1,800	-
Loans to employees	20	20	20	20
	3,994	2,061	3,783	1,880
Due after one year				
Loan to Heart Of Medway	-	-	3,547	3,284
Loan to Chatham Maritime K1 Development	-	-	12,416	12,614
Loan to Lord Kitchener	-	-	13	37
	-	-	15,976	15,935

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Creditors: amounts falling due within one year

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Bank overdrafts (unsecured)	413	1,350	413	1,350
Loans and borrowings (note 24)	5,575	5,755	5,575	5,755
Trade creditors	1,298	834	1,066	800
Rent in Advance	534	684	490	573
Taxation and social security	-	98	-	98
Other creditors	534	572	533	572
Amounts Due to Subsidiaries	-	-	162	67
Accruals	6,239	3,801	5,841	2,411
Loan interest and fees due	1,617	1,889	1,577	1,889
Grant due	-	-	-	-
Sinking fund balances	1,388	1,317	1,255	1,226
	17,598	16,300	16,912	14,741

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Creditors: amounts falling due after more than one year

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Loans (Note 24)	245,414	221,169	235,414	221,169
Less repayable within one year	(5,575)	(5,755)	(5,575)	(5,755)
Less issue costs	(700)	(631)	(572)	(621)
Loans and borrowings	239,139	214,783	229,267	214,793

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Loans and borrowings: Maturity of Debt

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Less than one year	5,575	5,755	5,575	5,755
Between two and five years	30,789	28,234	30,789	28,234
In five years or more	209,050	187,180	199,050	187,180
Loans and borrowings	245,414	221,169	235,414	221,169

During the year, £30 million was borrowed and £6 million of term debt was repaid. The debt is comprised of £175 million of bank loans, which are repaid by instalments up to 2039, and three private placements, two of £20m (repayable in 2051 and 2044), in mhs homes and one of £10m in Heart of Medway (repayable in 2039). Interest rates are fixed for more than one year on 73% of our debt,

with the amounts spread across different funders and periods of time. At 31 March 2019 the group had unused facilities of £60 million all of which is charged and available to draw. In addition we have also arranged a further private placement of £10m in July 2019 for which security is already in place. This covers all our funding requirements to 2021.

25 Financial instruments

The Group's and mhs homes financial instruments may be analysed as follows:

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Financial assets				
Financial assets measured at fair value:				
- Investments	258	68	-	-
Total financial assets	258	68	-	-
Financial liabilities				
Financial liabilities measured at amortised cost				
- Loans payable	239,139	214,780	229,267	214,793
Total financial liabilities	239,139	214,780	229,267	214,793

Financial assets measured at fair value comprise of:

- Fixed asset investments

Financial liabilities measured at amortised cost comprise of:

- Bank loans

26 Pensions

Defined benefit pension scheme

mhs homes limited participates in the Kent County Council Local Government Superannuation Scheme. It provides benefits based on final pensionable pay with contributions being charged to the income and expenditure account so as to spread the cost of pensions over employees working lives with mhs homes limited. The employer contributions are determined by a qualified actuary whilst the employee contributions are fixed by regulations governing the scheme. The most recently completed full actuarial valuation was in March 2016 with the next formal valuation due in the 2019.

The contribution rate for the Group was 25.7% (2018:25.7%) for employer contributions and 5.5% to 11.4% (2018:5.5% to 11.4%) for employee contributions. The pension contribution for the year for the Kent County Council Local Government Superannuation Scheme amounted to £437,975 (2018: £465,507). The scheme was withdrawn from new staff in 2005 and a defined contribution scheme offered in its place.

Pension benefits depend upon age, length of service and salary level.

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2016 to determine the employer contribution. A valuation for the purposes of the accounts is provided annually by a qualified independent actuary.

Contributions to the scheme are made based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees.

There were no changes to the scheme during the year and no amounts owing to the scheme at the year end.

	31 March 2019 (£'000)	31 March 2018 (£'000)
Reconciliation of present value of plan liabilities		
At the beginning of the year	51,234	51,587
Current service cost	507	558
Interest cost	1,286	1,374
Change in financial assumptions	2,160	(900)
Change in demographic assumptions	(2,774)	-
Experience (gain)/loss	-	-
Benefits paid net of transfers in	(1,694)	(1,451)
Contributions by scheme participants	96	105
Unfunded Pension Payments	(40)	(39)
At the end of the year	50,775	51,234

	31 March 2019	31 March 2018
Reconciliation of fair value of plan assets		
At the beginning of the year	40,551	40,175
Interest on assets	1,018	1,072
Return on assets less interest	2,094	294
Other actuarial gains	-	-
Administration expenses	(20)	(20)
Contributions by employer excluding unfunded	392	415
Contributions by members	96	105
Benefits paid	(1,734)	(1,490)
At the end of the year	42,397	40,551

	31 March 2019 (£'000)	31 March 2018 (£'000)
Fair value of plan assets	42,397	40,551
Present value of plan liabilities	50,139	50,559
Deficit	7,742	10,008
Present value of unfunded obligation	636	675
Net pension scheme liability	8,378	10,683

	31 March 2019 (£'000)	31 March 2018 (£'000)
Amounts recognised in other comprehensive income are as follows:		
Included in administrative expenses:		
Service cost	507	558
Net interest on the defined liability	268	302
Administration expenses	20	20
	795	880

	31 March 2019 (£'000)	31 March 2018 (£'000)
Analysis of actuarial gain recognised in other comprehensive income		
Actual return less expected return on fund assets	2,094	294
Experience (gains)/losses on defined benefit obligation	-	-
Change in demographic assumptions	2,774	-
Other actuarial gains on assets	-	-
Changes in financial assumptions	(2,160)	900
	2,708	1,194

	31 March 2019		31 March 2018	
	£'000	%	£'000	%
Composition of plan assets				
Equities	29,071	68	27,059	67
Gilts	279	1	310	1
Other bonds	3,861	9	3,877	9
Property	5,092	12	5,099	13
Cash	740	2	1,344	3
Target return portfolio	3,354	8	2,862	7
Total plan assets	42,397	100	40,551	100

Principal actuarial assumptions used at the balance sheet date	31 March 2019	31 March 2018	31 March 2017	31 March 2016
	%	%	%	%
Discount rates	2.40	2.55	2.7	3.6
Future salary increases	3.95	3.85	4.1	4.1
Future pension increases	2.45	2.35	2.6	2.3
Inflation assumption	2.45	2.35	3.5	3.2

Defined Contribution Scheme

mhs homes limited also operates a defined contribution scheme administered by Aviva. The employer's contributions, at a rate of between 1% to 10%, were £460,765 (2018: £336,683).

At 31 March 2019 the number of staff participating in the scheme was 210 (2018:200). There were no contributions outstanding or prepaid as at 31 March 2019.

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Share capital

	(£'000)
At 1 April 2018	7
Shares issued in the year	-
Shares cancelled on 16 March 2018	(7)
At 31 March 2019	-

The shares were cancelled when mhs homes limited became a Parent Charitable Company limited by guarantee.

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Contingent liabilities

mhs homes has guaranteed construction contracts for Heart of Medway. At the year end the liabilities covered by these guarantees are nil (2018: nil).

The Group receives grant from Homes England, which is used to fund the acquisition and development of housing properties and their components. The Group has a future obligation to recycle

such grant once the properties are disposed of. At 31 March 2019, the value of grant received in respect of these properties that had not been disposed of was 28,945,000.

As the timing of any future disposal is uncertain, no provision has been recognised in these financial statements.

Total Social Housing Grant received or receivable to date is as follows:	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Recycled Capital Grant	128	97	51	-
Capital Grant	28,946	26,679	16,195	12,854
Total Grant	29,074	26,776	16,246	12,854

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Operating leases

The group and the association had minimum lease payments under non-cancellable operating leases as set out below:

Amounts payable as Lessee	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Not later than 1 year	63	54	63	54
Later than 1 year and not later than 5 years	398	389	398	389
Later than 5 years	-	-	-	-
Total	461	443	461	443

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Capital commitments

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Commitments contracted				
New Build	51,832	27,884	42,737	25,412
Commitments approved by the board but not contracted				
New Build	22,243	31,876	5,986	24,159
	74,075	59,760	48,723	49,571

Capital commitments for the Group and association will be funded as follows:

	Group 2019 (£'000)	Group 2018 (£'000)	mhs homes 2019 (£'000)	mhs homes 2018 (£'000)
Social Housing Grant	7,490	1,590	1,590	1,590
New loans	8,930	1,036	6,448	1,036
Sales of properties	20,176	18,556	20,176	15,696
Existing reserves	37,479	38,578	20,509	31,249
	74,075	59,760	48,723	49,571

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Related party disclosures

The Board includes two tenant members who holds a tenancy agreement on normal terms and cannot use their position to their advantage. The rent charged for the year was £14,342 (2018: £14,042) and the tenants had arrears balances of £0 at the 31 March 2019 (31 March 2018: Arrears balance nil).

The association provides management services, other services and loans to its subsidiaries. The association also receives charges from its subsidiaries. The quantum and basis of those charges is set out below.

Payable to mhs homes by subsidiaries:	Management charges		Interest charges	
	2019 (£'000)	2018 (£'000)	2019 (£'000)	2018 (£'000)
Heart of Medway	429	320	-	220
K1 Development	-	-	546	554
	429	320	546	774

Intra-group management fees are receivable by the association from subsidiaries to cover the running costs the association incurs on behalf of managing its subsidiaries.

The management fee is calculated on a department basis, with varying methods of allocation. The costs are calculated by reference to the Housemark Benchmarking report.

Intra-group interest is charged by the association to its subsidiaries at the rates incurred by the association on its bank loans.

Entity granting loan	Entity receiving loan	Interest Rate***	Opening balance (£'000)	Movement (£'000)	Closing balance (£'000)
mhs homes	Heart of Medway*	1.91%	3,284	263	3,547
mhs homes	Lord Kitchener**	1.91%	38	(25)	13
mhs homes	K1 Development*	3.21%	12,914	(198)	12,716
			16,236	40	16,276

mhs provided parent guarantees as disclosed in note 29. Kent County Council pension scheme is a related party, refer to note 26 for transactions posted during the year.

Key	Terms of repayment
*	Repayable by 2040
**	Repayable by 2039
***	Average rate charged across the year



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Capital and reserves

The Revaluation Reserve contains the unrealised gains of £212.5 million (2018: £213.4 million) in respect of fixed assets for which the deemed cost option was taken.



mhs
homes