

Annual Report and Financial Statements
Year ended 31 March 2020

Private company limited by guarantee
Company number: 10704997

Registered Charity
Charity Registration number: 1177565



mhs homes limited

Report and Financial Statements for the year ended 31 March 2020

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As this financial year ended many of the certainties we took for granted suddenly ended as a result of the COVID-19 pandemic. At the time this report is written we are all still having to adapt to the profound and unsettling changes it has made to our lifestyles. Through all of this I am very grateful and proud of the response of my colleagues at mhs homes as it maintains its key services and provides help and support for vulnerable customers and members of the wider community at large. We have always worked closely with partner organisations, and the responses to the current crisis have shown the benefit of these relationships, often forged over many years.

Despite these upheavals it is important that we still celebrate our successes across the year and some of the most notable are below. These highlight our commitment to meeting the demand for high quality, affordable housing.

- *Spent £35 million on new properties with 223 new homes coming into management in the year.*
- *Invested £15 million in our existing homes.*
- *Housed 644 households in our new and existing properties, 3 out of 10 people housed were previously homeless.*
- *Sold 129 new shared ownership properties.*
- *Had a customer satisfaction level above average for the sector.*

It is now even more important that we look forward and plan for the future. Thanks to our financial strength we are able to fulfil our charitable objectives even as the country enters a period of unprecedented economic uncertainty. We are in the position of having cash and facilities available to fund all of our development aspirations, along with financial ratios that are consistently above average in the sector.

As we evolve our services to meet the challenges in social housing, 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 continue to fight the stigma of social housing. Everyone deserves a decent home. We know that safe, affordable housing changes lives.

We are an ambitious organisation in our plans to meet these goals, although the road ahead is uncertain we have the financial and organisational foundations in place, along with the talent and desire to adapt so that we continue to make a positive difference to the lives of our customers and the communities in which we work.



Richard Cooper
Chair
23 July 2020

The Report of the Board of Trustees is set out on pages 20 to 33

The World Health Organisation classed COVID-19 as a pandemic on 11 March 2020. Following that announcement, the UK Government introduced various measures to address the impact in the UK, resulting in lockdown from 23 March 2020. We adopted a number of measures to ensure the safety of tenants, colleagues and business partners during this time including the below.

- postponing major component replacements such as kitchens and bathrooms and stopping non-emergency repairs for the foreseeable future.
- All construction on our rented and shared ownership programme was halted in line with Government recommendations to protect our colleagues and business partners.
- All decisions on uncommitted schemes were put on hold.
- Continued with our programme of gas safety testing, wherever possible, balancing the risks of carbon monoxide poisoning against the need to protect residents and colleagues from COVID-19.
- Provided regular contact with older and vulnerable people to ensure they had access to food and required medicines.
- Provided guidance to residents who faced financial difficulties.

All colleagues who could started working from home. Where colleagues were not able to work from home, they were redeployed where appropriate to provide support to other areas of the organisation.

The impact on the results for year ending 31 March 2020 are minimal but the impact going forward is yet to be seen. However, at the time of writing construction sites are opening up, non-emergency repairs are starting, and we are beginning to let both new and existing properties. In our experience, sales demand for our shared ownership properties remains good as the lockdown eases, though with only six properties at the end of the year completed and not sold, along with thirty one forecast to complete by September 2020, our exposure is limited.

Our main concern about the financial impact of COVID-19 is the impact on rent arrears. As this report is written, rent arrears have not increased significantly but we are aware that the full impact may not be apparent till later in the year. We therefore reworked our financial plans on cautious assumptions which led us to significantly reduce our development aspirations over the next three years as discussed on page 11. There are uncertainties around the future value of our market rented properties and defined benefit scheme, though the former represents less than 5% of our stock and the latter was closed to new entrants in 2005, so even a significant deterioration in either will have a limited effect on **the Group**.

We continue to monitor the situation closely with the safety of customers and colleagues paramount in our thinking, but with the knowledge that our strong financial position ensures that we can continue to meet our charitable objectives.

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 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 effective corporate governance.

Heart of Medway Housing Association is a subsidiary of mhs homes and is registered with the Regulator of Social Housing.

We own and manage about 9,300 homes, mainly in Medway, but with an increasing number in Maidstone. Most of our properties are social rented homes, though we also provide shared ownership and market rented homes. **mhs homes** owns the majority of our properties, 8,473 homes, and with a further 805 in Heart of Medway.

Who we are in numbers

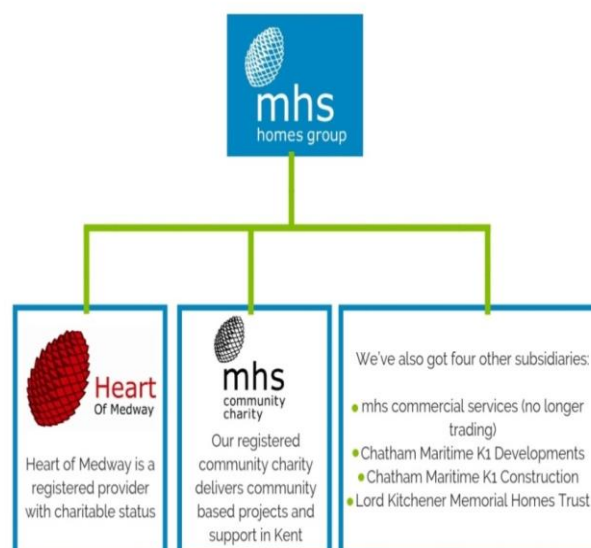
Surplus in year £11.3 million

Homes built in the year 223

Homes in development 271

New general needs tenancies started in the year 534

Number of repairs 16,226



Our Purpose

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

What we do: We provide safe secure affordable homes as a steppingstone to a better future.

Why: Because everyone needs a decent home.

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.

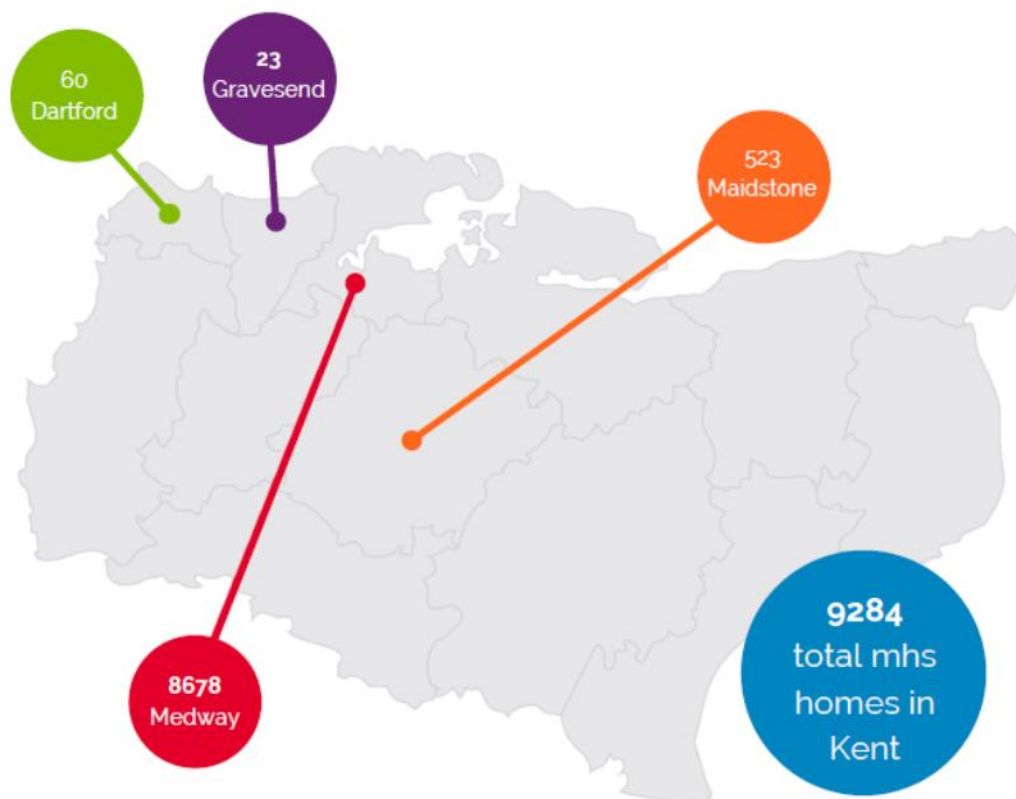
Agility: We're light on our feet and able to respond quickly and effectively to new challenges. This agility provides organisational flexibility and resilience so we can respond to our customers' fast changing needs.

Teamwork: 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 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 further improve with the planned Lower Thames Crossing.



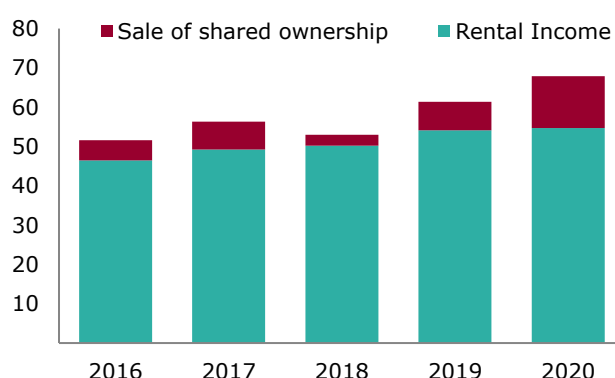
Summary of results

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 £11 million. This in turn allowed £35 million to be invested in new homes, resulting in 223 new homes being brought into management and over 500 anticipated to complete over the next two years.

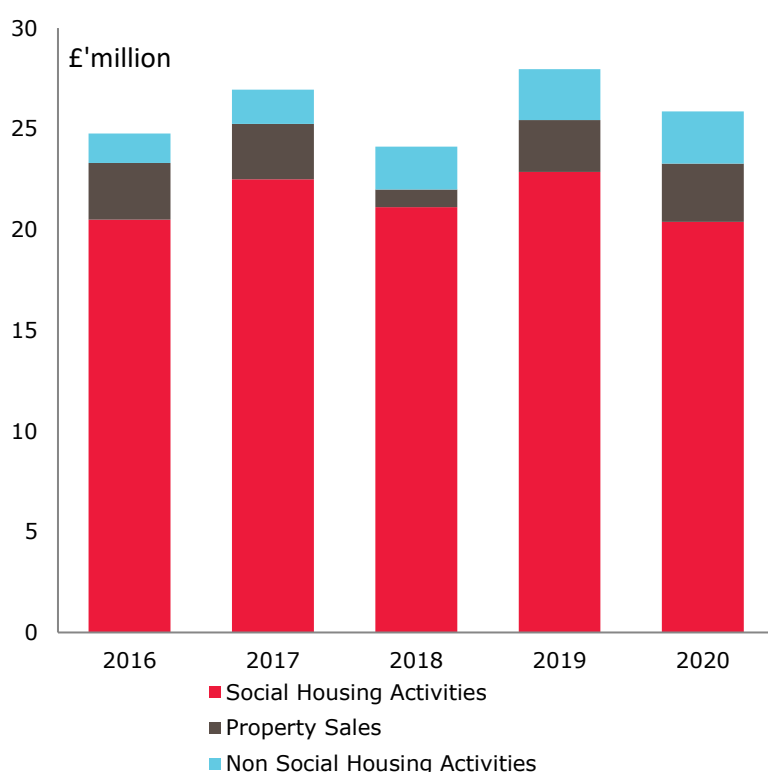
Turnover

Turnover increased in the year both because of sales activity on first tranche shared ownership – our most successful year of 1st tranche sales - and increased rental income from the core business. During the year we sold 130 new shared ownership properties compared to 68 in the year before. If these sales are stripped out, turnover from rents stayed broadly the same, reflecting that most rents were either frozen or reduced during the year.

£'million



Operating surplus by activity

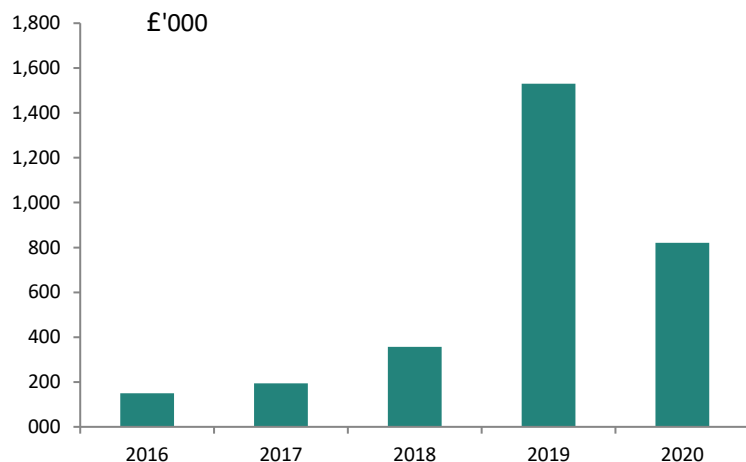


The operating surplus fell, as we spent more on our current stock. Major and cyclical repairs increased from £8.2 million to £10.2 million.

The majority of this increase relates to fire remedial work, including a major investment in new fire safety doors.

Property sales, including 1st tranche shared ownership, staircasing and Right to Buy, continues to provide a steady stream of surpluses.

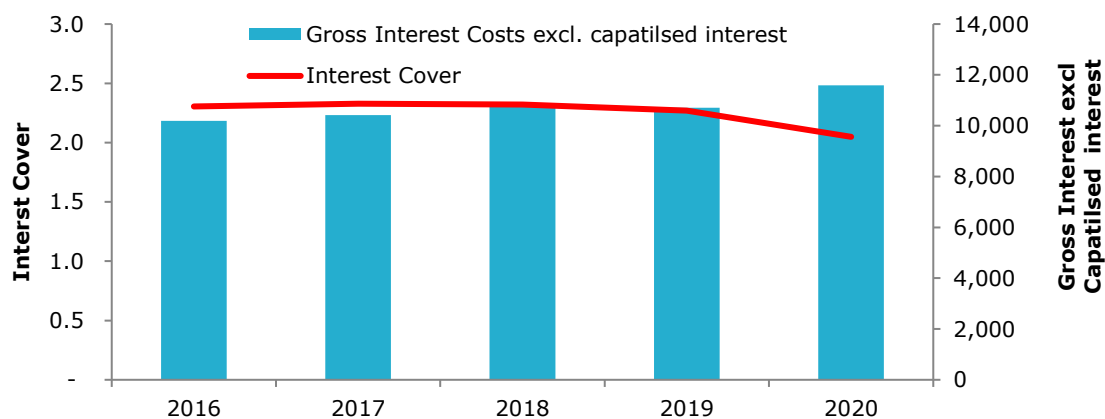
Increase in income from staircasing



Though income from staircasing fell back from 2019 it is still significantly higher than in previous years and we would expect this to grow as the amount of shared ownership stock we have increases. However as this income is unpredictable we do not count on it in our financial planning.

Interest payable

Interest payable continues to increase as our borrowings increase, with a net increase of £65m of new debt over the last two years. However, **mhs homes** continues 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 ("interest cover") staying consistently above two even as our debt, and therefore interest costs, rise.



The average cost of borrowing continued to fall from 4.6% in 2018/19 to 4.4% in 2019/20.

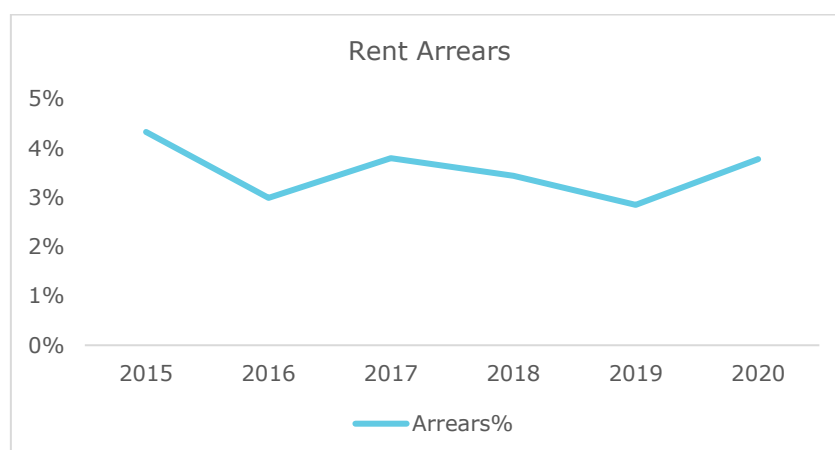
Market Rents

Over the years **the Group** has built up an investment portfolio of 363 properties rented to tenants at market rent. These are a valuable investment and produce a return to our original cost of 3.25% (2019: 5.8%). During the year house prices fell in Maidstone, where some of our properties are located, and this is reflected in the decrease in "fair value" of the investment. **The Group** has invested £45 million in these properties, which despite the fall in house prices, we now estimate to be worth £69 million.

As the accounts are prepared there is considerable uncertainty over the impact on house prices of COVID-19. However, in the absence of any reliable data, we have taken the valuations from February 2020 as fair value. It should be also noted that these properties are held as a long term investment so that the annual surpluses from the rental stream can be invested into charitable activities rather than for capital gain.

Rent arrears

With the current crisis, along with the continuing introduction of universal credit, rent arrears will come under pressure as never before. It is therefore encouraging to see that at the end of the year gross rent arrears are in line with previous year ends.



The Group headline results are summarised below.

Year Ending 31 March	2016	2017	2018	2019	2020
	£'m	£'m	£'m	£'m	£'m
<i>Excluding 1st tranche shared ownership sales</i>					
Turnover	46	49	50	54	55
Expenditure	24	25	27	29	32
Surplus on rents	22	24	23	25	23
<i>1st tranche shared ownership sales</i>					
Turnover	5	7	3	7	13
Cost of sales	4	6	2	6	11
Surplus on 1st tranche	1	1	1	1	2
Disposal of assets	1	1	-	1	1
Operating surplus	24	26	24	28	26
Net interest cost & breakage costs	10	10	13	11	12
Surplus for the year before tax and fair value	14	16	11	17	14

Fixed assets less revaluation reserve	199	211	233	256	285
Investments	48	59	70	74	72
Net current assets	-	3	1	14	39
	247	273	304	344	396
Social housing grant *	24	27	27	29	31
Creditors: > than one year	199	201	215	239	278
Pension liability	12	11	11	8	11
Deferred tax provision	41	37	-	-	-
	276	276	253	276	320
Total reserves – excluding SHG*	(29)	(3)	51	68	76

* Under the Charity Statement of recommended practice (SORP) social housing grant is taken to income upon receipt and held in the revenue reserve

Key Ratios					
Void: net rental income	0.4%	0.4%	0.7%	0.6%	0.8%
Bad Debt: net rental income	0.9%	0.7%	0.9%	0.6%	0.8%
Financial Performance					
EBITDA-MRI*: Turnover	46%	46%	49%	45%	40%
EBITDA-MRI*: Turnover excluding shared ownership	48%	50%	51%	48%	46%
Ratio of Debt: EBITDA-MRI*	8.5	8.2	8.1	8.6	8.5
Ratio of EBITDA-MRI*: Interest Payable	2.4	2.5	2.4**	2.5	2.3

*EBITDA-MRI = Earnings before interest, depreciation and amortisation excluding major repairs

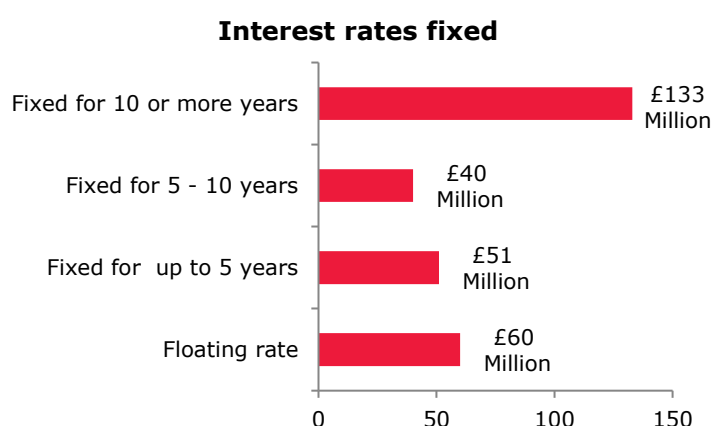
** exclude breakage costs

As at 31 March 2020 **the Group** had

- Total borrowings of £285 million
- Undrawn charged facilities of £65 million
- Spare security of £58 million

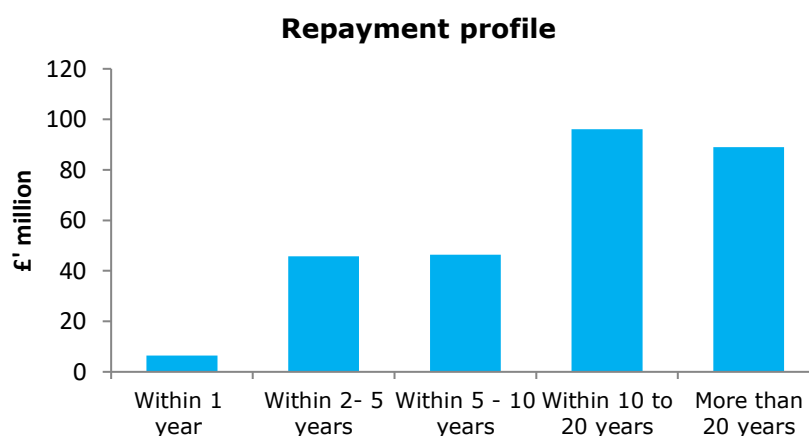
During the year the following activity took place:

- Borrowings during the year £40 million of long-term fixed rate debt
£5 million of short-term revolving credit facility
- Debt repaid in the year £6 million
- Variable loans fixed during the year £7 million



The treasury management for **the Group** is governed by a Treasury Policy regularly reviewed and approved by the Board. **The Group** Treasury Committee monitors treasury activities and makes recommendations to the Board. A key risk is our exposure to interest rate, which is mitigated by having only £60 million (20%) of debt floating for less than one year. This compares to £57 million (23%) last year.

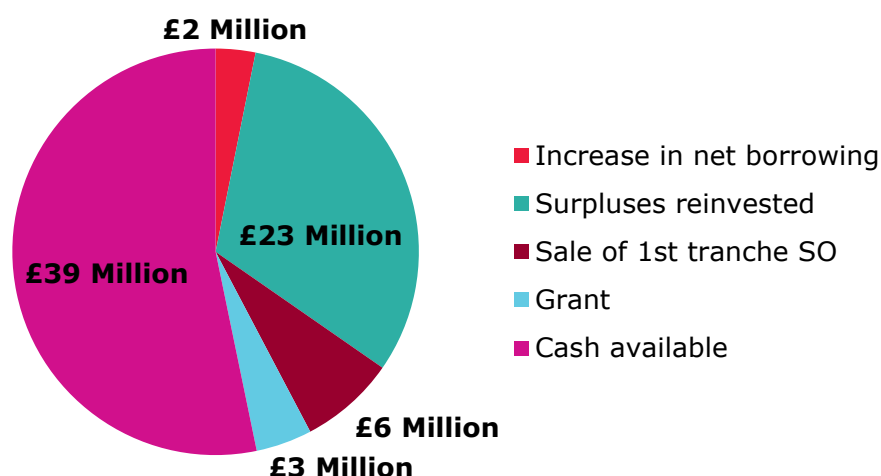
Another key area monitored is the repayment profile of **the Group** with 18% due for repayment in the next five years.



The Group is fully funded for the next four years.

The Group was looking to invest over £140 million over the next three years however after reviewing our plans when considering the COVID-19 crisis, these development aspirations have been reduced until we can properly understand the impact. Under the new plan adopted by the Board in May 2020, the development spend is now set at £74 million delivering over 400 new properties. At least 90% of these homes will be social housing. Over 80% of this programme will be funded through cash already raised and surpluses reinvested, the balance coming from a small increase in borrowing along with a modest amount of social housing grant and sale of shared ownership properties. Our plans assume that no new properties will be let or shared ownership properties sold during the current financial year and the plans have anticipated a substantial fall in rent collected, though we are working hard with our customers to make sure that it does not happen.

**How we fund
our
development
aspirations**



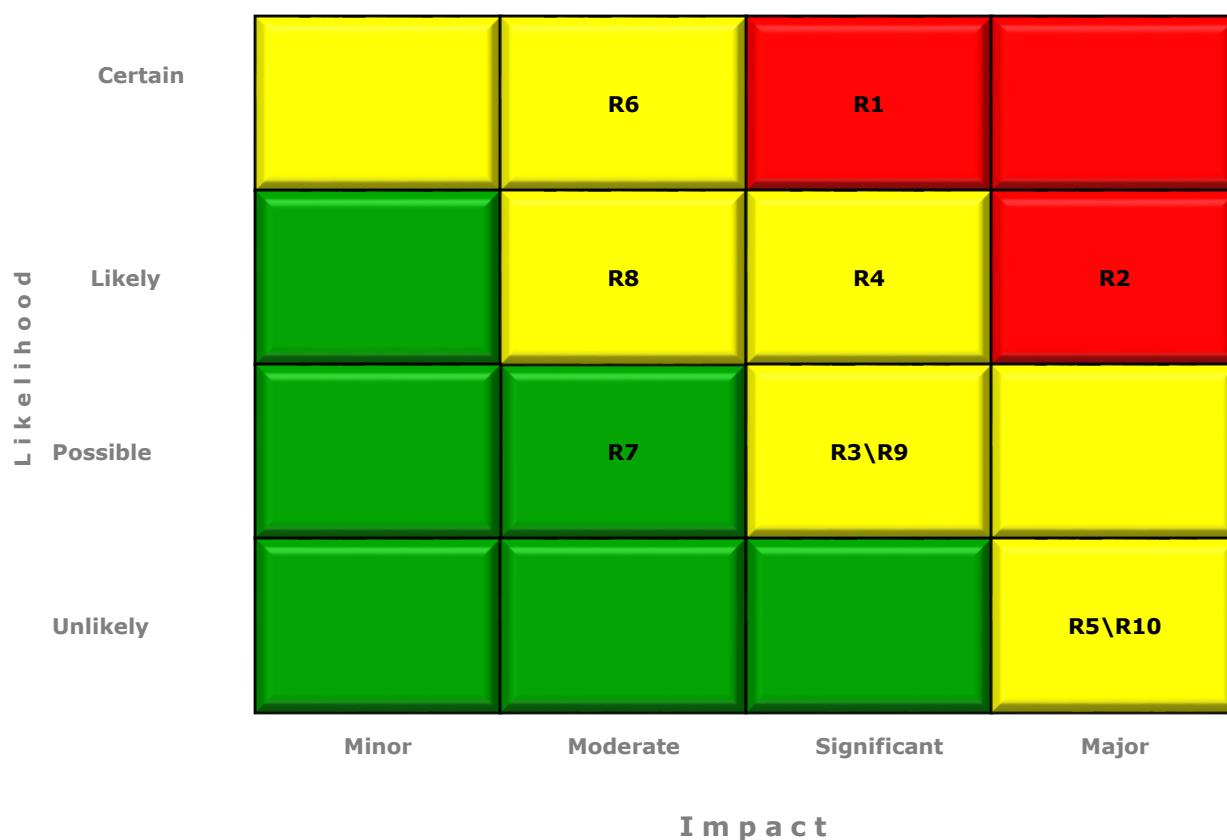
If the financial situation continues to worsen there is substantial liquidity available, with £55 million of facilities charged and available to draw upon, along with £10m of a private placement arranged and charged and due in February 2021 and financial monitoring takes place through the year to identify any changes in circumstances. Financial planning is predicated on prudent assumptions. For example, we assume interest rates increasing up to 5.25% from 2028 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% or rent is waived for a quarter of a year. The financial ratios into the future show the financial strength of **the Group**.

Group Ratio's	2021	2022	2023	2024	2025
EBITDA* MRI: Turnover	36%	36%	37%	38%	39%
Ration of Debt: EBITA-MRI*	14.6	13.7	12.7	10.7	10.0
EBITDA-MRI*: Interest Payable %	156%	155%	162%	176%	185%

* EBITDA-MRI = Earnings before interest, depreciation and amortisation excluding major repairs.

In common with many social landlords we are continuing to investigate our buildings to ensure that they are safe places to live. The Board is clear that cost will not stop this work progressing. There is therefore a risk that some of these margins may fall if additional building safety work is required.

The key strategic risks are summarised in the heat map below with the key controls summarised in the table following.



1	Failure to manage COVID-19
2	Failure to ensure tenants are safe at home and colleagues are safe at work:
3	Failure to maintain properties
4	Failure to deliver the development programme including shared ownership sales
5	Failure to maintain long-term financial viability and failure to meet existing covenants
6	Failure to respond to welfare reforms
7	Failure of governance leading to a breach of regulation:
8	Failure to meet General Data Protection Regulation (GDPR
9	Failure to maintain a talented, diverse, engaged workforce
10	Failure of data security

Strategic Risk

- | | | |
|---|---|--|
| 1 | Failure to manage COVID-19; overarching risk impacting on other strategic risks | <ul style="list-style-type: none"> • New risk • Likelihood: Certain • Impact: Significant |
| | <ul style="list-style-type: none"> • <i>Business continuity plans in place and tested.</i> • <i>Resilience Group led by Chief Executive meet regularly to discuss management of pandemic and recovery plans.</i> • <i>Robust ICT structures in place to support remote working for all office based colleagues.</i> • <i>Appropriate processes and PPE in place to support emergency repairs.</i> • <i>Stress testing of financial plans under different scenarios including increase in rent arrears, delays in sale of properties, delay in letting new and existing properties and general increase in expenditure.</i> | |
| 2 | Failure to ensure tenants are safe at home and colleagues are safe at work:
The safety of our colleagues and customers is paramount. Our approach in this area is described on page 26. | <ul style="list-style-type: none"> • Change in Risk Profile: Increasing • Likelihood: Likely • Impact: Major |
| | <ul style="list-style-type: none"> • <i>Assurance from the five star British Safety Council Awards.</i> • <i>All high risk buildings reviewed with the Kent Fire and Rescue Service.</i> • <i>100% compliance with properties requiring a fire risk assessment.</i> • <i>Health and Safety Policy, along with a Fire Safety Task Force in place.</i> • <i>Regular monitoring of landlord compliance information.</i> • <i>Regular review and monitoring of Lone Working Policy.</i> • <i>COVID-19 secure risk assessments in place for all tasks and activities.</i> | |
| 3 | Failure to maintain properties: That our properties fall beneath the standard expected, leading to low customer satisfaction and a build-up of unplanned repair works. | <ul style="list-style-type: none"> • Change in Risk Profile: Increasing • Likelihood: Possible • Impact: Significant |
| | <ul style="list-style-type: none"> • <i>100% compliance with Decent Homes Standard.</i> • <i>External validation of stock condition data.</i> • <i>Regular business planning meetings to ensure enough resource is allocated in the Long Term Financial Plan.</i> • <i>Active Asset Management Strategy.</i> • <i>Disrepair process and procedure.</i> | |
| 4 | Failure to deliver the development programme including shared ownership sales: | <ul style="list-style-type: none"> • Change in Risk Profile: No change • Likelihood: Likely • Impact: Significant |
| | <ul style="list-style-type: none"> • <i>Contractor viability checks & robust contract management.</i> • <i>Homes England Compliance Audit.</i> • <i>Outturn reporting to Finance Risk and Audit Committee (FRAC) and Board.</i> • <i>Development updates quarterly.</i> • <i>Individual project risk registers in place.</i> • <i>Sales and market analysis; dedicated resource for sales.</i> | |

- | | |
|---|--|
| <p>5 Failure to maintain long-term financial viability and failure to meet existing covenants: The risks that the economy enters a climate of increased interest rates with low inflation combined with reduced income from sales of first tranche shared ownership properties and increasing cost base and ability to meet covenants.</p> <ul style="list-style-type: none"> • <i>Rigorous stress-testing and financial monitoring through the year.</i> • <i>Over 80% of our debt is on fixed rates.</i> • <i>A robust Treasury Policy that ensures liquid funds are available above that anticipated in the base scenario with golden rules for financial planning.</i> • <i>Reducing level of shared ownership sales included in financial planning.</i> | <ul style="list-style-type: none"> • Change in Risk Profile: No change • Likelihood: Unlikely • Impact: Major |
| <p>6 Failure to respond to welfare reforms: 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 on the Group's long-term financial forecast.</p> <ul style="list-style-type: none"> • <i>A robust Treasury Policy means that liquid funds are available for unexpected falls in receipts.</i> • <i>Deep dive information presented on impact of Universal Credit.</i> • <i>Tenancy sustainment programme with advice and support.</i> | <ul style="list-style-type: none"> • Change in Risk Profile: No change • Likelihood: Almost certain • Impact: Moderate |
| <p>7 Failure of governance leading to a breach of regulation: mhs homes are registered with the Charity Commission and Heart of Medway is registered with the Regulator of Social Housing (RSH).</p> <ul style="list-style-type: none"> • <i>Compliant to National Housing Federation (NHF) Code of Governance with assurance supplied annually to Board.</i> • <i>A robust governance and risk management framework including checklists against NHF Code of Governance & RSH Regulatory Standards.</i> | <ul style="list-style-type: none"> • Change in Risk Profile: Reducing • Likelihood: Possible • Impact: Moderate |
| <p>8 Failure to meet General Data Protection Regulation (GDPR): risk of breaching GDPR requirements resulting in fines and/or sanctions from the Information Commissioner's Office and reputational damage with customers and stakeholders</p> <ul style="list-style-type: none"> • <i>Data Protection Officer and Data Protection Advisor in place.</i> • <i>Monitoring of data protection impact assessments, supplier assessments and records of processing.</i> • <i>Breach and subject access request procedures in place</i> • <i>Information Governance Working Group meets monthly to review compliance.</i> | <ul style="list-style-type: none"> • Change in Risk Profile: No change • Likelihood: Likely • Impact: Moderate |

- 9 Failure to maintain a talented, diverse, engaged workforce:** Without which we cannot meet any of our goals.
- Change in Risk Profile: **No change**
 - Likelihood: Possible
 - Impact: Significant
- *Monitoring of key business metrics. (colleagues' turnover, vacancy rates)*
 - *Talent management and succession planning.*
 - *Learning and development programme.*
 - *Colleagues engagement plan and Health and Wellbeing programme.*
- 10 Failure of data security:** 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.
- Change in Risk Profile: **No change**
 - Likelihood: **Unlikely**
 - Impact: **Major**
- *ICT, Digital & Data Governance Strategies.*
 - *Cyber Essential Plus accreditation.*
 - *Colleagues training programme on cyber security.*
 - *Disaster recovery plan in place and tested regularly*

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 summarised and presented to the Group Finance, Risk and Audit Committee quarterly as part of the strategic risk update with an annual compliance confirmation, 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 colleagues with timescales for implementation and on-going review through the assurance map. The Company Secretary meets 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 23 July 2020



Richard Cooper
Chair

Housing associations must demonstrate a robust approach to Value for Money. The section below outlines our approach to Value for Money and demonstrates how:

- How the Board set targets, monitors and drives value for money and performance against our own targets.
- Our performance compares to other similar organisations and against our targets
- We ensure satisfactory return on assets.

Approach to Value for Money

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 it 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: -

- 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 and bathrooms, 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 commissions 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 bring them to the standard required are identified for disposal and the proceeds are reinvested into new or existing homes. Over the past four years such asset disposals have raised £2.9 million.
- The business transformation programme continues to optimise digital channels and provide improved customer service by reallocating colleagues 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 with the sector as presented in the Regulator of Social Housing Summary of Global Accounts for 2019 for Registered Providers in the South East of England. The results highlight the financial strength of the organisation with virtually all results being above median or top quartile.

Metric	The Group			Median
	Forecast 2021 ²	2020	2019	
Investment in properties - new and existing	11.3%	7.1%	7.1%	6.5%
New supply delivered – social housing	0.1%	2.0%	1.4%	2.2%
New supply delivered – non-social housing	0.0%	0.5%	0.2%	0.0%
Gearing	52.2%	47.1%	49.1%	49.8%
EBITDA: interest rate cover	157%	228%	246%	191.3%
Social housing cost per unit £	3,711	3,317	3,209	3,610
Operating margin – (social housing lettings only)	35.5%	39.4%	44.2%	38.0%
Operating margin (overall) ¹	35.5%	35.4%	41.2%	34.9%
Return on capital employed	3.0%	4.3%	5.0%	3.8%

¹ Operating margin excludes Social Housing Grant taken to income due to a different accounting treatment in mhs homes group (under the Charities SORP) and the social housing sector under the Housing SORP.

² This is assuming that lockdown restrictions delay the handover of new schemes, sale of shared ownership units and letting of empty properties throughout the year along with increases in rent arrears, though costs on new developments are still taking being incurred. If restrictions do ease, then these metrics will improve.

Green denotes top quartile all other results for 2019 and 2020 are greater than median except new supply delivered (social housing).

Where results are worse than last year, they reflect the increased expenditure on major repairs along with a significant increase in lower margin shared ownerships sales. The forecast results for 2021 are predicated on a significant and material impact from COVID-19.

Our performance against our targets: sector scorecard

Metric	The group 2020		Notes
	Actual	Budget	
Investment in properties - new and existing	7.1%	13.0%	Note 1
New supply delivered – social housing	2.0%	3.0%	
New supply delivered – non-social housing	0.5%	0.5%	
Gearing	47.1%	51.3%	Note 1
EBITDA: interest rate cover	228%	226%	Note 2
Operating margin (overall)	35.4%	39.3%	
Return on capital employed	4.3%	4.3%	

Note 1: The business plan included stretching aspirational targets for development schemes that were not identified at the time the business plan was approved. Rather than develop unsuitable schemes the year was spent identifying suitable schemes, with a £30m developments scheme being approved towards the end of the financial year. This led to less borrowing than anticipated and therefore a lower gearing.

Note 2: The margin on shared ownership achieved was less than budgeted as lower value schemes anticipated to finish in earlier years slipped into the current year, leading to a lower overall margin.

Our performance against our targets and other key indicators

	Target	As at 31 st March 2020
13 week average of gross rent arrears	3.0%	4.3%

The overall gross arrears have continued on an upward trend throughout the year. At present, 22% of general needs customers are on Universal Credit and of these 17.5% are on Alternative Payment Arrangements (APA), so have their housing element paid directly to us. Despite accounting for 22% of customers, 45% of overall debt is owed by general needs customers on Universal Credit.

More work is now being focused on customer support so that we can get improve rent arrears. In response to the COVID-19 situation, we voluntarily committed to not evicting any tenants during the pandemic alongside the Coronavirus Act 2020 that states landlords must now give customers three months' notice of possession proceedings.

Average turnaround time for voids	20	45.4
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We have seen improved performance across the last quarter as the teams and processes have settled, and in February properties were let for an average turnaround time of 27 days. We have strengthened the team to ensure we complete works in the required timescale

Average days to complete a repair	10	11
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The impact of COVID-19 can be identified in the increase in the average days taken in February and March but the service is currently working to ensure that where possible the impact on the service to the customers is kept to a minimum. Our year-end performance puts us in median to top quartile compared to peers.

Repairs completed right first time	85%	86%
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This measure has achieved a sustained level of improvement during the year.

Return on assets

While most of the activity in **the Group** relates to social housing, **the Group** own 363 market rented properties. These properties are held as an assessment 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 reflecting 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*	Income**	Surplus**	Return on investment	
				%	
				2019/20	2018/19
	£'m	£'00 £'m	£'00 £'m		
<i>General needs</i>	202.8	46.2	17.6	8.8%	10.7%
<i>Shared ownership</i>	44.5	1.8	1.0	2.3%	2.0%
<i>Market rented***</i>	40.1	3.1	1.4	3.4%	5.8%

* 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 30 years ago. The slight reduction compared to last year reflects the pressures from the Governments Social Rent Reduction Policy, combined with increased major repairs in our stock. The fall in return on market rent properties represent a 20% increase in the development costs of the asset, though with the units coming in throughout the year, the increase in cost is not matched by an increase in income.

Working with customers

We have changed our ways of working to take a holistic approach to supporting customers and helping them to sustain their tenancies. Customer Liaison Officers work with and support customers with the most complex needs and over the year we completed 502 cases of which we:

- Supported 256 customers with benefits, budgeting and rent arrears advice, leading to a reduction in rent arrears by £133,544
- Dealt with 133 anti-social behaviour cases of which 122 had a positive resolution
- Dealt with 28 domestic abuse cases of which 25 had a positive outcome
- 85 of the cases also had general support, child protection, hoarding and property condition issues

mhs homes limited
Trustees' annual report incorporating directors report
Reference and administrative details

Trustee	Position	Changes in year
R Cooper	Chair and Non-Executive	
M Miles Lea	Non-Executive	Appointed 1 January 2020
N Hopkins	Non-Executive	Appointed 1 January 2020
A Baker	Non-Executive	
K Franklin	Non-Executive	
A Van der Veer	Non-Executive	Resigned 31 December 2019
R Christopher	Non-Executive	
A Hook	Chief Executive	

Elected by Tenants annually

T Bunton	Tenant Nominee	Resigned 25 July 2019
J Seager	Tenant Nominee	
M Mulligan	Tenant Nominee	Appointed 25 July 2019

Group Finance Risk and Audit Committee

A Van der Veer	Chair	Resigned 31 December 2019
N Hopkins	Chair	Appointed 1 January 2020
R Oirschot	Member	
S Bate	Member	

Remuneration Committee

K Franklin	Chair
R Christopher	Member
A Baker	Member
R Cooper	Member

Treasury Committee

R Christopher	Chair	Appointed 25 July 2019
S Bate	Member	Appointed 25 July 2019
L Barton	Member	Appointed 25 July 2019
R Cooper	Member	Appointed 25 July 2019

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.



Nigel Hopkins | Board member

Nigel has over 30 years' experience in finance in a variety of roles including Finance Director for Abbeyfield, a leading charity in the supported housing sector. Nigel is currently a non-executive Director on the board at Places for People, the third largest regulated housing provider in the country, he's also Chair of their Audit Committee.

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.

Mark Miles Lea | Board member

Mark has worked in the housing sector for over 25 years, including over 5 years at a senior executive level. He has particular expertise in the development of new homes. He is also a Non-Executive Director for a community-based Housing Association in east London.



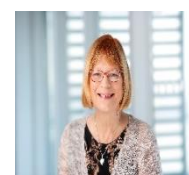
Julie Seager | Board member



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.

Michelle Mulligan | Board member

Michelle is great advocate of the importance of social housing and has a good understanding of tenant issues and shared ownership. Michelle brings a great deal of experience to the board and is dedicated to improving the quality of life of mhs homes tenants.



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.

Public Benefit Statement

The Trustees of **mhs homes** ensure that the purpose of the charity is for the public benefit by: -

Adopting policies that require 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 below 80% 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 customers and a high-quality home to live in. These strategies are considered in detail in the Strategic Report on page 6 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 16, 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.

Whilst mhs **homes** is not registered with the RSH it is fully committed to reinvesting any surpluses back into social housing. It is regulated by the Charity Commission and its disclosures and accounting treatment follow those set out 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 subsidiaries: -

- 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.
- Chatham Maritime K1 Construction Limited is responsible for delivering elements of the Group development programme.
- Chatham Maritime K1 Developments Limited is a commercial subsidiary whose sole activity is the ownership of the head office for the Group.
- mhs commercial services limited and mhs community charity limited are dormant companies.

mhs homes is also 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 recognises 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 colleagues, within the strategic direction agreed by the Board. Responsibilities of colleagues 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 colleagues. 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 year are shown on page 21. During the year the Board held eight meetings, inclusive of the Annual General Meeting, at which the average attendance rate was 89% (2019: 93%). Applications for membership, except for 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** in accordance with the rules of the organisation.

Induction and training opportunities for Trustees

The induction process includes visits to projects, meetings with colleagues 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 an Institute of Directors course on the role of the Director and the Board. A briefing 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 effectiveness of the Board as a whole.

Arrangement for remuneration of Trustees

To ensure transparency and independence the Board has established that the fees of the Non-Executive Directors be reviewed annually within the context of a three-year cycle.

- Year one: the fees are subject to a bench marking exercise using an external consultant, to maintain alignment with the market.
- Years two and three: cost of living increases linked to pay inflation in the sector.

Fair representation

The Board communicates with and manages the interests of its stakeholders 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 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 five times last year and is responsible for reviewing the finances, including budget, long term financial plan, stress testing and mitigation plans before recommending to Board, 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.

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 is gained. This process is supported by external consultants so the Panel can call upon independent expertise to assist its work.

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.

Treasury Committee

A Treasury Committee was agreed by the Board in July 2019 and has met three times during the year. It is responsible for scrutinising treasury activities and recommending policies, strategies and new borrowings to the Board.

Leadership Team

The Leadership Team during the year consisted of eight members, being the Chief Executive, Executive Directors and Assistant Directors. Together they are responsible for the day-to-day operations of the Group and act within the authority delegated to them by the Board, as set out in Standing Orders and Delegated Arrangements.

Interests of the Employees

The Board is committed to maintaining a competent and motivated workforce by

ensuring that sufficient people with the appropriate skills, knowledge and experience are employed to meet all business objectives. Details on employee numbers are contained in note 9 to the financial statements.

Our colleagues are our most valuable resource and we place great emphasis on high levels of colleagues' engagement. We are proud to hold Gold Investors in People and Investors in Diversity (level 2) accredited status.

There is an Employee Forum which meets regularly to discuss terms and conditions of service and matters of colleagues' interest and input. The constitution has provision for meetings between the Directors and elected colleagues' representatives. For purposes of understanding and clear direction, there is a framework of delegation to colleagues set out in Financial Regulations and Procurement Guide. It provides the details of the fundamental rules and procedures by which business is conducted, including the high expectation we have regarding integrity and probity.

Our Equality Diversity and Inclusion Policy covers all aspects of employment practices, from recruitment through to appointments, training, career development and succession planning. **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 most talented people. The Human Resource team ensures that we have effective procedures for employee relations, recruitment, selection, compliance, pay, reward, and learning and development in place. 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 a strong commitment to our responsibility through 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 all significant impacts are monitored to ensure that adequate measures are in place to reduce our impacts and promote environmental sustainability.

Health and 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 colleagues 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 colleagues, as well as the organisation, by promoting safe working practices with the aim of reducing the risk of accidents and loss to the business. 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 ensured the retention of the British Safety Council level 5 award this year, one of the highest standards of achievement in the world of health and safety management.

During the year there was one reportable accident under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (2019:3). Following a visit by the Health & Safety Executive (HSE), two Improvement Notices were served in February 2020. These Improvement Notices related to risk assessments on the use of vibrating equipment and manual lifting. We submitted our response to the HSE Improvement Notices in April 2020. The HSE has now confirmed that the intervention has now been complied with and that the case is now closed.

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.

Going concern

After reviewing the budget of mhs homes for 2020/21 and a period beyond 12 months from the signing of the accounts, and 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.

The impact of the COVID-19 outbreak has led to considerable uncertainty, and we have therefore stress tested a number of different possibilities. These include increases in rent arrears, delays in letting new and existing properties and first tranche and subsequent staircasing of our shared ownership portfolio. These results, along with the considerable liquidity (£55 million) available in **the Group** mean that the Board believes that, while uncertainty exists, this does not pose a material uncertainty that would cast doubt on **the Group's** ability to continue as a going concern as there is a considerable buffer between forecast results and our covenants and available cash and secured loan facilities. The Board, therefore, considers it appropriate for the accounts to be prepared on a going concern basis

Exemptions from disclosures

No exemptions from disclosures have been made in this report.

Qualifying third party indemnity provisions

The directors have the benefit of an indemnity which is a qualifying third party indemnity provision. The indemnity was in force throughout the last financial year and is currently in force. The group also purchased and maintained directors and officer's liability

insurance in respect of itself and its directors throughout the financial year.

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 an appropriate 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 code 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 colleagues 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 homes 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 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 three months of cashflow.
- Sufficient charged loans are available to cover twenty four months of cashflow.
- Sufficient loans are in place to cover three years of cashflow.

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

Auditor

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' auditor for the purpose of their audit and to establish that the auditor is aware of that information. The Board members are not aware of any relevant audit information of which the auditor is 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. During the year BDO were reappointed following an open tender process with the Board making the final decision.

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 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.

How the Board complied with its Section 172 duty

The Companies Act 2006 (CA2006) sets out a number of general duties which directors owe to the company. Under section 172, directors have a duty to promote the success of the company for the benefit of the members as a whole and, in doing so, they should have regard to (amongst other matters) six specified areas that relate, by-and-large, to wider stakeholder interests. These six areas are discussed below.

1. Likely consequence of any decision in the long term

mhs is a long term business that provides homes and therefore security for our customers whilst generating surpluses that allow us to invest, along with new borrowings, into new social housing. As the building of new social housing is a loss-making activity, we monitor closely the impact of our development aspirations on the long-term financial plan. This is considered by the Board on an annual basis, or more often if the situation demands, and the impact is considered in detail in the section Future Planning on page 11. We operate a three year strategic plan, next to be updated for the period April 2021 to March 2024, that involves setting targets, both operational and financial, that address our charitable objectives (see page 22) and ensures that we continue to meet them.

2. Interests of employees

This is considered on page 25.

3. Foster business relationships with suppliers, customers and other

mhs homes works in collaboration with a variety of national, regional and local suppliers, housing and development sector partners and voluntary and charitable organisations. Our engagement with suppliers promotes fair and open competition, and where appropriate we look to foster long-term relationships. We work closely with the councils in the areas in which we are based and value highly their support.

We engage with our customers in several ways. The workings of the Customer Scrutiny Panel are described on page 25. We measure how our customers feel about their day-to-day interactions with **the Group** by measuring the Net Emotional Value. This, paired with the Net Promoter Score (NPS) that measures satisfaction with **the Group** as a landlord, gives us a precise and detailed understanding of individual areas that require improvement, areas that may seem small to us, but have a real impact on our customers. Our NPS averaged at 47 in the year, which compares favourably with the rest of the social housing sector, where the average NPS is 33.

For 2020, we have re-introduced STAR (Survey of Tenants and Residents) surveys which will add a further level of customer feedback and enable more precise sector benchmarking. The STAR surveys cover seven core questions, from satisfaction with the quality of the home, through to value for money.

We aim to deal with complaints promptly so we can learn as a business and resolve the issue for the customer. During the year, 99.6% of complaints were resolved within the agreed timescale.

4. Impact of operations on the community and the environment

See page 26 and 32 for our impact on the environment.

The impact of our operations on the community and environment are widespread and varied, with highlights of our achievements noted below. We have:

- Invested £35 million in new homes delivering 223 new energy efficient properties.
- Invested £15 million in our existing homes ensuring that all our properties met the Decent Homes Standard including improved thermal efficiency performance.
- Housed 644 households in our new and existing properties of which almost one third were let to people previously homeless.
- Supported 256 customers with benefits, budgeting and rent arrears advice, leading to a reduction in rent arrears by £133,544.
- Provided 16,000 repairs taking average of 11 days to complete.
- Sold 129 new shared ownership properties.

5. Maintain a reputation for high standards of business conduct

As a charity our reputation for high standards is essential to how we work. To ensure we meet the highest standards we have policies on fraud and anti-bribery in place which are described in more detail on page 35. The organisation has a whistleblowing policy encouraging colleagues to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The Finance Risk and Audit Committee also receives reports if issues are raised.

6. Act fairly as between members of the company

The disclosure is relevant to joint ventures and associates, and those companies with multiple classes of shares (for example, private-equity owned), minority or dissenting shareholder groups. mhs homes is a company limited by guarantee without share capital and no payment of dividends. In the event of the charity being wound up, the liability in respect of the guarantee is limited to £1 per member.

Streamlined Energy Carbon Report (SECR)

The SECR framework is a mandatory UK-wide energy and carbon reporting scheme, implemented to create a straightforward carbon reporting framework. SECR seeks to improve transparency and help reduce UK carbon emissions associated with business and industry. Measurement and public disclosure of emissions can lead to an increased awareness of energy cost and carbon emissions and in turn improve the visibility of risks and opportunities through improvements to energy efficiency.

Companies that qualify must measure and report energy and GHG emissions annually within their financial accounts and reports. Organisations are encouraged that all information is aligned to financial years, to aid comparability and consistency of information across reports and organisations.

Emissions Performance

The footprint includes the 'Scope 1' (e.g. combustion of fuel, fugitive and process emissions) and 'Scope 2' (electricity) emissions associated with the activities for which MHS Homes Limited are responsible. For the purposes of the report only 'Scope 1' (Direct) and 'Scope 2' (Indirect) emissions sources are required.

The footprint is calculated in accordance with the "Greenhouse Gas (GHG) Protocol and Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance". Activity data has been converted into carbon emissions using published emissions factors. A wide range of published carbon emission factors are publicly available. DEFRA emission factors have been used for all emission sources as this provides the most comprehensive list of factors available. They allow an activity to be converted into tonnes of carbon dioxide equivalent (tCO₂e). Market based emissions factors have been taken from each of mhs homes relevant suppliers.

	Description	kWh: kilowatt hours	metric tonnes of Carbon Dioxide Equivalent (Tco₂e)
Electricity	This is based on all invoices and consumption data which is then fed into the reporting tool. The total location based energy consumption is expressed in kWh: kilowatt hours, as this is the unit specified by SECR legislation.	2,654,380	678
Natural Gas		4,688,583	862
Direct Transport		1,074,715	263
Total		8,417,678	1803

The intensity Ratio

An intensity ratio is a way of defining your emissions data in relation to an appropriate business metric, such as tonnes of CO₂e per sales revenue, or tonnes of CO₂e per total square metres of floor space. This allows comparison of energy efficiency performance over time and with other similar types of organisations. SECR Intensity ratios are calculated by dividing your emissions by your organisation-specific metric. The government's environmental reporting guidelines give plenty of examples of common intensity ratios. While organisations are free to choose their own intensity ratio, these should be most appropriate to your business activity, e.g. tonnes of CO₂e per total million tonnes of production for the manufacturing sector. They should also be calculated on a

consistent basis year on year with the method of calculation disclosed, and meaningful to stakeholders.

The Intensity ratio is calculated at **26.6** Tco2e/£m

Exclusion Statement

This is the first SECR report for MHS Homes and therefore there is no calculation of previous year's data for energy or tCO2e. There are a number of sites for which no data was available in the supplied database. These sites were new assets added to the portfolio in January 2020, the procurement and subsequent billing is yet to be issued by the supplier. In addition, for a few sites there were missing electricity data for some months from the supplied database and in this instance, estimations have been used based on the rest of the year's data and adjusted to pro-rata basis where appropriate.

Energy Efficiency Statement

Continuous improvements are being made to the SAP ratings of mhs homes assets, currently standing at an SAP rating of 68. During the 2019/2020 financial year cavity wall insulation has been completed at 12 properties and loft insulation at 46 properties.

An SAP rating is the calculation that is required in order to produce a Predicted Energy Assessment. A SAP calculation indicates a score from 1 to 100+ for the annual energy cost based on:

- The elements of structure
- The heating and hot water system
- The internal lighting
- The renewable technologies used in the home.

The higher the score the lower the running costs, with 100 representing zero energy cost. Dwellings with a rating in excess of 100 are net exporters of energy.

Statement of Internal Control

The Board has overall responsibility for establishing and maintaining the whole system of internal control for the 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 Group's** 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 (RSH). In accordance with the RSH regulatory framework, **mhs homes** must ensure Heart of Medway complies with the regulatory requirements. 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. In meeting its responsibilities, the Board 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 guidelines. **The Group** has adopted the National Housing Federations Code of Governance and is compliant to it.

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:

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

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 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.

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 regarding 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.

Information and financial reporting systems

The Board approves a long-term financial plan and limits on investment in its various activities on an annual basis that link through to the strategic plan. This is agreed in three year cycles but is updated and reviewed regularly. 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 colleagues 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.

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. The 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 to the Board.

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 forms, are illegal and unacceptable. Our Anti-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.

Audit assurance

A summary of all internal reports and the resultant actions are reported to the Finance, Risk and Audit Committee during the year. The Business Assurance Manager, who is a Chartered Auditor, has direct access to the Finance, Risk and Audit Committee and presents the Audit Reports. An audit plan was agreed by the Committee for 2019/20 and was completed in full apart from the audit on health and safety that was in progress and due to take place in the first quarter of 2020/21. Internal audit reports are undertaken both by the Business Assurance Manager and RSM Risk Assurance Services LLP. The Committee met five times during the financial year and considered internal control and risk at each of its meetings.

BDO LLP provides external auditing services. This service was tendered in 2019. 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 Finance Risk and Audit Committee and the Board. The Committee met with the internal and external auditors during the year without the presence of any paid colleagues or executive directors. 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, which the Board has received.

Financial Controls

On behalf of the Board, the Finance Risk and Audit Committee has reviewed the effectiveness of the system of internal control, which operated across the Group for the year ended 31 March 2020. Recognising the importance of this Committee, the membership includes two independent committee members. The Chair is also a non-executive director on the Group Board. 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 proactive 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. The organisation has a whistleblowing policy encouraging colleagues to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The Finance Risk and Audit Committee also receive reports if issues are raised.
- Suitably qualified and experienced colleagues 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.

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 standards. **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 & Hamlin, who are leading lawyers in the sector. Other expert professionals are engaged from time to time; for example, Savills and JLL 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, colleagues' turnover, housing statistics, health and safety and customer complaints.

The Board of **mhs homes** confirms there were no material failures in its control environment, and an effective control framework has been in place for the 2019/20 year and up until the adoption of these accounts.

The Directors Report was approved by the Board of Trustees on 23 July 2020



Richard Cooper
Chair

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 2020 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 2020 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/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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.



Elizabeth Kulczycki, (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom

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

mhs homes limited
Consolidated Statement of Financial Activities

mhs homes group	Note	Revaluation reserve 2020 £'000	Unrestricted funds 2020 £'000	Restricted funds 2020 £'000	Total funds 2020 £'000	Total funds 2019 £'000
Income from charitable activities						
Social housing lettings	4	-	49,869	-	49,869	49,506
Supporting People	4	-	-	388	388	388
Other income	4	-	348	-	348	362
Sale of fixed assets	12	-	653	-	653	1,325
First tranche low cost home ownership sales	4	-	13,131	-	13,131	7,253
Income from non-social housing activities						
Other	4	-	1,012	-	1,012	990
Income from investment						
Market rented	4	-	3,123	-	3,123	2,878
Investment income	13	-	33	-	33	59
Total income		-	68,169	388	68,557	62,761
Expenditure on charitable activities						
Social housing lettings	4	-	29,118	-	29,118	26,346
Supporting people	4	-	285	388	673	646
Other expenditure	4	-	427	-	427	673
First tranche low cost home ownership sales	4	-	10,905	-	10,905	5,998
Expenditure on non-social housing						
Other	4	-	476	-	476	620
Expenditure on investment activities						
Market rented	4	-	1,058	-	1,058	726
Interest and financing costs	14	-	11,527	-	11,527	10,557
Total expenditure		-	53,796	388	54,184	45,566
Net income		-	14,373	-	14,373	17,195
(Loss)/Gain in fair value						
Investments	19	-	(1)	-	(1)	5
Investment properties	18	-	(3,069)	-	(3,069)	(742)
Actuarial (loss)/gain on defined benefit pension scheme	26	-	(2,207)	-	(2,207)	2,708
Taxation on surplus	15	-	-	-	-	(15)
Net movement in funds		-	9,096	-	9,096	19,151
Total funds brought forward		212,515	97,442	-	309,957	290,806
Movement in reserves		-	-	-	-	-
Total funds carried forward		212,515	106,538	-	319,053	309,957

All activities relate to continuing operations.

mhs homes limited
Consolidated Statement of Comprehensive Income

mhs homes Group	Note	Total 2020 £'000	Total 2019 £'000
Turnover	4	67,871	61,377
Cost of sales	4	(10,905)	(5,998)
Operating costs	4	(31,752)	(29,011)
Surplus on disposal of fixed assets	12	653	1,325
Operating surplus		25,867	27,693
Other interest receivable and similar income	13	33	59
Interest and financing costs	14	(11,527)	(10,557)
Movement in fair value of investments	19	(1)	5
Movement in fair value of investment properties	18	(3,069)	(742)
Surplus before taxation		11,303	16,458
Taxation on surplus	15	-	(15)
Surplus for the year		11,303	16,443
Actuarial (loss)/gain on defined benefits pension scheme	26	(2,207)	2,708
Total comprehensive income for the financial year		9,096	19,151

mhs homes limited	Note	Total 2020 £'000	Total 2019 £'000
Turnover	4	60,912	53,262
Donation to subsidiary		-	(115)
Cost of sales	4	(10,905)	(3,848)
Operating costs	4	(29,173)	(26,233)
Surplus on disposal of fixed assets	12	227	868
Operating surplus		21,061	23,934
Other interest receivable and similar income	13	574	606
Interest and financing costs	14	(11,159)	(10,541)
Movement in fair value of investment properties	18	(2,837)	(565)
Surplus before taxation		7,639	13,434
Taxation on surplus	15	-	(15)
Surplus for the year		7,639	13,419
Actuarial (loss)/gain on defined benefits pension scheme	26	(2,207)	2,708
Total comprehensive income for the financial year		5,432	16,127

All activities relate to continuing operations.

The notes on pages 44 to 74 form part of these financial statements.

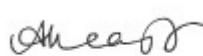
mhs homes limited
Consolidated Statement of Financial Position

		Group	Group	mhs homes	mhs homes
	Note	2020	2019	2020	2019
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed asset - housing properties	16	486,654	460,922	401,340	376,996
Tangible fixed assets - other	17	8,724	8,750	2,779	2,656
Investment properties	18	72,630	73,486	66,930	67,554
Investments	19	257	258	-	-
		568,265	543,416	471,049	447,206
Current assets					
Stock and work in progress	20	2,800	8,011	2,800	8,011
Debtors – receivable within one year	21	2,731	4,028	2,386	3,783
Debtors – receivable after one year	21	-	-	12,610	15,976
Short term deposits		1,630	1,443	1,432	1,443
Cash and cash equivalents		53,457	18,208	39,517	3,392
		60,618	31,690	58,745	32,605
Creditors: amounts falling due within one year	22	(21,144)	(17,632)	(20,190)	(16,912)
Net current assets		39,474	14,058	38,555	15,693
Total assets less current liabilities		607,739	557,474	509,604	462,899
Creditors: Amounts falling due after more than one year:					
Loans	23	(277,587)	(239,139)	(267,819)	(229,267)
Net assets excluding pension liability		330,152	318,335	241,785	233,632
Pension liability	26	(11,099)	(8,378)	(11,099)	(8,378)
Net assets		319,053	309,957	230,686	225,254
Capital and reserves					
Income and expenditure reserve		106,538	97,442	18,186	12,754
Revaluation reserve		212,515	212,515	212,500	212,500
		319,053	309,957	230,686	225,254

These financial statements were approved and authorised for issue by the Board on 23rd July 2020 and were signed on its behalf by:



A Hook
Chief Executive



A Keast
Company Secretary



R Cooper
Chair

The notes on pages 44 to 74 form part of these financial statements.

mhs homes limited
Consolidated Statement of Cash Flows

mhs homes group

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Surplus for the financial year		11,304	16,443
Adjustments for:			
Depreciation of fixed assets - housing properties	16	4,938	4,777
Loss on disposal of replaced components		139	183
Depreciation of fixed assets - other	17	494	484
Impairment of assets	16	94	119
Interest payable and finance costs		11,527	10,557
Cost element of housing property sales in operating surplus	12	652	1,924
Tax credit		-	15
Decrease in fair value of investment properties	18	3,069	742
Decrease /(increase) in fair value of investments	19	1	(5)
Decrease /(increase) in trade and other debtors		1,297	(1,933)
Difference between net pension expense and cash contribution		514	403
Decrease / (increase) in stocks		9,448	(2,575)
Increase in trade creditors		2,829	2,714
Interest received		(33)	(59)
Cash from operations		46,273	33,789
Taxation paid		-	(113)
Net cash generated from operating activities		46,273	33,676
Cash flows from investing activities			
Purchase of fixed assets - housing properties	16	(32,510)	(28,710)
Purchase of fixed assets - investment properties	18	(2,638)	(4,216)
Purchases of fixed assets - other	17	(468)	(472)
Purchase of investments	19	-	(185)
Major repairs capitalised as components	16	(2,439)	(3,335)
Interest received	13	33	59
Net cash from investing activities		(38,022)	(36,859)
Cash flows from financing activities			
Interest paid		(11,827)	(11,241)
New loans	23	45,000	29,815
Repayment of loans	23	(5,575)	(5,639)
Net cash used in financing activities		27,598	12,935
Net increase in cash and cash equivalents		35,849	9,752
Cash and cash equivalents at beginning of year		19,238	9,486
Cash and cash equivalents at end of year		55,087	19,238

The notes on page 44 to 74 form part of these 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 ME4 4LL. In the event of the charity being wound up the liability in respect of the guarantee is limited to £1 per member. There were nine members at 31 March 2020.

2 Accounting policies

The financial statements have been prepared in accordance with UK accounting standards, including FRS102 and the Charities SORP (FRS 102), the Housing and Regeneration Act 2008, FRS 102 2018, which includes the amendments as a result of the Triennial Review 2017. The Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

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 2018, "Accounting by registered social housing providers 2018" and the Accounting Direction for Private Registered Providers of Social Housing 2019 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 from the date of the accounts being signed 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.

The impact of the COVID-19 outbreak has led to considerable uncertainty, and we have therefore modelled a number of different possibilities. These include increases in rent arrears, delays in letting new and existing properties and first tranche and subsequent staircasing of our shared ownership portfolio. These results, along with the considerable liquidity (£55 million) available in the Group mean that the Board believe that, while uncertainty exists, this does not pose a material uncertainty that would cast doubt on the Associations ability to continue as a going concern. The Bboard, therefore, considers it appropriate for the accounts to be prepared on a going concern basis

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 is 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.

Management of units owned by others

Management fees receivable and reimbursed expenses are shown as income and included in other income. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

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.

Taxation (continued)

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.

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.

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.

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.

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.

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. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

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 colleagues costs and other costs of managing development. Directly attributable costs of acquisition include capitalised interest calculated, on a proportional basis. Where housing properties are under 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

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. Social housing properties are subsequently 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 under 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 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, Homes England can direct **the Group** 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 Homes England 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 fair value determined by external valuers in February 2020. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income. Investment properties under construction are carried at cost. As the accounts are prepared there is considerable uncertainty over the impact on house prices due to the economic fallout from COVID-19. However, in the absence of any reliable data to the contrary and that we see no indication of rents falling, we have taken the valuations from February 2020 as fair value. It should be also noted that these properties are held as a long term investment so that the annual surpluses from the rental stream can be invested into charitable activities not for capital gain.

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.

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.

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.

Cash and cash equivalents

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

Loans and short-term deposits

All loans and short term deposits held by **the Group** are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historic cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised 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 which are payable or receivable within one year are not discounted.

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.

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.

Leasehold sinking funds

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

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 the 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 February 2020. As the accounts are prepared there is considerable uncertainty over the impact on House prices due to the economic fallout from COVID 19. However, in the absence of any reliable data we have taken the valuations from February 2020 as fair value. It should be also noted that these properties are held as a long term investment so that the annual surpluses from the rental stream can be invested into charitable activities not for capital gain.

- *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.

- *Contingent liabilities (see note 29)*

In common with many social landlords we are continuing to investigate our buildings to confirm that they are safe places to live. We have identified two buildings in Heart of Medway where the completed blocks did not meet Building Regulations and as such additional work is required to achieve compliance. However, until the detailed inspections take place it is not possible to reliably estimate the final cost of these works, though we do not anticipate it being in excess of £6 million. At present it is not clear whether the obligation resides with the developer, warranty provider or Heart of Medway though the cost will not be passed across to the residents or leaseholders. In view of the uncertainties involved no provision has been made in respect of these costs.

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

mhs homes group	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
	2020	2020	2020	2020
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	49,869	-	(29,118)	20,751
Other social housing activities				
First tranche shared ownership sales	13,131	(10,905)	-	2,226
Development	-	-	(142)	(142)
Supporting people	388	-	(673)	(285)
Foyers	290	-	(221)	69
Managed properties	58	-	(64)	(6)
Charitable activities	63,736	(10,905)	(30,218)	22,613
Activities other than social housing activities				
Market rented properties	3,123	-	(1,058)	2,065
Other properties and commercial activities	1,012	-	(476)	536
Non Charitable activities	4,135	-	(1,534)	2,601
	67,871	(10,905)	(31,752)	25,214

mhs homes group	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
	2019	2019	2019	2019
	£'000	£'000	£'000	£'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
Charitable activities	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
Non charitable activities	3,868	-	(1,346)	2,522
	61,377	(5,998)	(29,011)	26,368

4 Particulars of turnover, cost of sales, operating costs and operating surplus (continued)

mhs homes limited	Turnover	Cost of Sales	Operating costs	Operating surplus/ (deficit)
	2020	2020	2020	2020
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	43,798	-	(27,138)	16,660
Other social housing activities				
First tranche shared ownership sales	13,131	(10,905)	-	2,226
Development	-	-	(142)	(142)
Supporting people	188	-	(356)	(168)
Managed properties	58	-	(64)	(6)
Charitable activities	57,175	(10,905)	(27,700)	18,570
Activities other than social housing				
Market rented properties	2,945	-	(997)	1,948
Other properties and commercial activities	792	-	(476)	316
Non charitable activities	3,737	-	(1,473)	2,264
	60,912	(10,905)	(29,173)	20,834

mhs homes limited	Turnover	Cost of Sales	Operating costs	Operating surplus/ (deficit)
	2019	2019	2019	2019
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	44,569	-	(24,475)	20,094
Other social housing activities				
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
Activities other than social housing				
Market rented properties	2,696	-	(687)	2,009
Other properties and commercial activities	730	-	(518)	212
Non charitable activities	3,426	-	(1,205)	2,221
	53,262	(3,848)	(26,233)	23,181

Qualifying charitable donations

A charitable donation was made from K1 Construction to mhs homes of nil (2019: £50,000).

5 Income and expenditure from social housing lettings

mhs homes group	Affordable rent £'000	General needs £'000	Supported housing £'000	Shared ownership £'000	Total 2020 £'000	Total 2019 £'000
Income						
Rents net of identifiable service charges*	3,810	39,465	2,706	1,575	47,522	46,644
Service charge income	-	143	-	234	411	455
Grant received	-	1,826	-	-	1,826	2,301
Other income	3	100	7	-	110	106
Turnover from social housing lettings	3,813	41,534	2,713	1,809	49,869	49,506
Expenditure						
Management	(372)	(4,398)	(648)	(95)	(5,513)	(5,574)
Service charge costs	(170)	(1,694)	(484)	(346)	(2,694)	(2,482)
Routine maintenance	(234)	(4,941)	(345)	(3)	(5,523)	(4,695)
Planned maintenance	(207)	(4,566)	(754)	-	(5,527)	(4,964)
Major repairs	(101)	(2,856)	(1,304)	-	(4,261)	(3,235)
Bad debts	(35)	(354)	(10)	(1)	(400)	(303)
Depreciation of housing properties:						
- annual charge	(736)	(3,751)	(119)	(361)	(4,967)	(4,777)
- impairment	-	-	(94)	-	(94)	(119)
- accelerated on disposal of components	(22)	(117)	-	-	(139)	(184)
Other costs	-	-	-	-	-	(13)
Operating expenditure on social housing lettings	(1,877)	(22,677)	(3,758)	(806)	(29,118)	(26,346)
Operating surplus on social housing lettings	1,936	18,857	(1,045)	1,003	20,751	23,160
Void losses	(28)	(280)	(71)	(1)	(380)	(275)

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

mhs homes limited
Notes forming part of the financial statements (*continued*)

mhs homes limited	Affordable rent £'000	General needs £'000	Supported housing £'000	Shared ownership £'000	Total 2020 £'000	Total 2019 £'000
Income						
Rents net of identifiable service charges*	1,315	38,972	2,706	696	43,689	42,581
Amortised grant	-	-	-	-	-	1,882
Other income	2	100	7	-	109	106
Turnover from social housing lettings	1,317	39,072	2,713	696	43,798	44,569
Expenditure						
Management	(105)	(4,703)	(648)	(93)	(5,549)	(5,618)
Service charge costs	(35)	(1,640)	(484)	(130)	(2,289)	(2,085)
Routine maintenance	(110)	(4,882)	(345)	-	(5,337)	(4,606)
Planned maintenance	(101)	(4,518)	(754)	-	(5,373)	(4,771)
Major repairs	(59)	(2,806)	(1,304)	-	(4,169)	(3,164)
Bad debts	(7)	(342)	(10)	(1)	(360)	(278)
Depreciation of housing properties:						-
- annual charge	(78)	(3,470)	(119)	(179)	(3,846)	(3,662)
- impairment	-	-	(94)	-	(94)	(119)
- accelerated on disposal of components	(4)	(117)	-	-	(121)	(172)
Other costs	-	-	-	-	-	-
Operating expenditure on social housing lettings	(499)	(22,478)	(3,758)	(403)	(27,138)	(24,475)
Operating surplus on social housing lettings	818	16,594	(1,045)	293	16,660	20,094
Void losses	(6)	(280)	(71)	-	(357)	(259)

*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		Direct activities		Support and governance costs		Total	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
General needs	(4,703)	(4,621)	(14,684)	(12,556)	(5,178)	(5,452)	(24,554)	(22,629)
Supported housing	(213)	(238)	(3,123)	(2,405)	(422)	(378)	(3,758)	(3,021)
Shared ownership	(361)	(221)	(235)	(316)	(210)	(159)	(806)	(696)
Social housing lettings	(5,277)	(5,080)	(18,042)	(15,277)	(5,799)	(5,989)	(29,118)	(26,346)
Supporting People	-	-	(673)	(646)	-	-	(673)	(646)
Other expenditure	-	-	(427)	(673)	-	-	(427)	(673)
Total charitable expenditure included in operating costs	(5,277)	(5,080)	(19,142)	(16,596)	(5,799)	(5,989)	(30,218)	(27,665)
First Tranche shared ownership sales	-	-	(10,905)	(5,998)	-	-	(10,905)	(5,998)
Operating surplus on social housing lettings	(5,277)	(5,080)	(30,047)	(22,594)	(5,799)	(5,989)	(41,123)	(33,663)

6 Expenditure on charitable activities (continued)

mhs homes limited	Depreciation and amortisation		Direct activities		Support and governance costs		Total	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
General needs	(3,746)	(3,669)	(14,030)	(12,752)	(5,201)	(4,877)	(22,977)	(21,298)
Supported housing	(213)	(238)	(3,123)	(2,427)	(422)	(356)	(3,758)	(3,021)
Shared ownership	(179)	(46)	(52)	(88)	(172)	(22)	(403)	(156)
Social housing lettings	(4,138)	(3,953)	(17,205)	(15,267)	(5,795)	(5,255)	(27,138)	(24,475)
Supporting people	-	-	(356)	(357)	-	-	(356)	(357)
Other expenditure	-	-	(206)	(196)	-	-	(206)	(196)
Total Charitable expenditure included in operating costs	(4,138)	(3,953)	(17,767)	(15,820)	(5,795)	(5,255)	(27,700)	(25,028)
First tranche shared ownership sales	-	-	(10,905)	(3,848)	-	-	(10,905)	(3,848)
Operating surplus on social housing lettings	(4,138)	(3,953)	(28,672)	(19,668)	(5,795)	(5,255)	(38,605)	(28,876)

7 Units of housing stock

mhs homes limited social housing	Group 2019 Number	Transfer s	New Build	Disposals	Group 2020 Number
General needs housing	6,442	4	74	(1)	6,519
Sheltered schemes	532	-	-	-	532
Shared ownership	101	2	108	(1)	210
Intermediate rent	4	(2)	-	-	2
Social leaseholders	480	(8)	-	-	472
Foyers (managed by Heart of Medway)	36	-	-	-	36
	7,595	(4)	182	(2)	7,771
Heart of Medway social housing					
General needs	523	(1)	-	-	522
Shared ownership	255	(5)	-	-	250
Social leaseholders	9	6	-	(1)	14
	787	-	-	(1)	786
Lord Kitchener social housing					
General needs	6	-	-	-	6
mhs homes limited non-social					
Managed freeholders	177	-	-	-	177
Market rent	306	5	41	-	352
Commercial lettings	47	(1)	-	-	46
Heart of Medway non-social housing					
Market rent	17	-	-	-	17
Residential leaseholders	-	-	-	-	-
Managed freeholders	2	-	-	-	2
Total owned	8,937	-	223	(3)	9,157
Accommodation managed for others	84	-	-	-	84
Total managed accommodation	9,021	-	223	(3)	9,241
Units managed by other associations	43	-	-	-	43
Total owned or managed accommodation	9,064	-	223	(3)	9,284
Garages	1,445	-	4	-	1,449
		2020	2019	2020	2009
Units under construction: commitments contracted					
Houses	70	113	70	113	
Flats	203	394	149	340	
Units under development: commitments approved but not contracted					
Houses	113	25	49	25	
Sheltered	75	46	75	-	
Flats	121	50	85	12	
	582	628	428	490	

8 Operating surplus

	Group	Group	mhs	mhs
	2020	2019	homes	homes
	£'000	£'000	2020	2019
			£'000	£'000
This is arrived at after charging:				
Depreciation of housing properties:				
- annual charge	4,959	4,777	3,838	3,662
Depreciation of other fixed assets:				
- annual charge	494	481	347	334
Accelerated depreciation on replaced components	374	184	354	172
Operating leases	667	461	667	461
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	34	30	34	30
- fees for audit of accounts of subsidiary entities	16	13	-	-
- fees for other audit services	-	4	-	4

9 Employees

	Group	Group	mhs	mhs
	2020	2019	homes	homes
			2020	2019
Number of employees	250	237	250	237
	£'000	£'000	£'000	£'000
Wages and salaries	8,830	8,355	8,830	8,355
Social security costs	855	759	855	759
Cost of defined contribution scheme	328	212	328	212
Cost of defined benefit scheme (see note 26)	307	340	307	340
	10,320	9,666	10,320	9,666

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 250 (2019:237).

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 19.

Trustee	Remuneration £'000	Expenses £'000	Remuneration Committee	Group Finance, Risk and Audit Committee	Group Board
R Cooper	21	1	✓		✓
N Hopkins	3	-		✓	✓
A Van der Veer	9	1		✓	✓
A Baker	8	-	✓		✓
K Franklin	8	-	✓		✓
M Miles Lea	2				✓
R Christopher	9	-	✓		✓
M Mulligan	6	-			✓
J Seager	8	-			✓

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 2020 £'000	Group 2019 £'000
Key Management personnel emoluments	521	520
Amounts paid to non-executive	76	61
Total expenses reimbursed to the directors not chargeable to income tax	2	1
	599	582

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments, was £158,875 (2019: £155,000). Pension contributions of £45,186 (2019: £43,098) 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 two directors (2019: two) in **the Group's** defined contribution pension scheme. Contributions were paid into the scheme on their behalf £26,070 (2019: £24,717).

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

	Group 2020 No.	Group 2019 No.
£60,000 - £69,999	1	4
£70,000 - £79,999	3	-
£110,000 - £119,999	-	1
£120,000 - £129,999	1	1
£130,000 - £139,999	1	-
£200,000 - £209,000	1	1

12 Surplus on disposal of fixed assets

	Right to Acquire	Shared ownership	Other housing properties	Total	Total
GROUP	2020 £'000	2020 £'000	2020 £'000	2020 £'000	2019 £'000
Housing properties:					
Disposal proceeds	215	866	230	1,311	3,262
Cost of disposals	(132)	(512)	(8)	(652)	(1,924)
Legal and other fees	-	(5)	(1)	(6)	(13)
	83	349	221	653	1,325

	Shared ownership	Other housing properties	Total	Total
mhs homes	2020 £'000	2020 £'000	2020 £'000	2019 £'000
Housing Properties:				
Disposal proceeds	45	230	275	2,193
Cost of disposals	(38)	(8)	(46)	(1,320)
Legal and other fees	(1)	(1)	(2)	(5)
	6	221	227	868

13 Interest receivable and income from investments

	Group	Group	mhs homes	mhs homes
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Interest receivable from group undertakings	-	-	541	547
Interest receivable and similar income	33	59	33	59
	33	59	574	606

14 Interest payable and similar charges

	Group	Group	mhs homes	mhs homes
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Bank loans and overdrafts	10,978	10,167	10,606	10,125
Other fees	453	401	453	396
	11,431	10,568	11,059	10,521
Amortisation of issue costs	153	133	144	133
	11,584	10,701	11,203	10,654
Net interest on defined pension liability (note 26)	362	268	362	268
Interest capitalised on construction of housing	(419)	(412)	(406)	(381)
	11,527	10,557	11,159	10,541

15 Taxation on surplus on ordinary activities

	Group 2020 £'000	Group 2019 £'000	mhs homes 2020 £'000	mhs homes 2019 £'000
<i>UK corporation tax</i>				
Current tax on surplus for the year	-	-	-	-
Adjustment in respect of previous periods	-	15	-	15
Total current tax	-	15	-	15
<i>Deferred tax</i>				
Origination and reversal of timing differences	-	-	-	-
Adjustments in respect of prior periods	-	-	-	-
Changes to tax rates	-	-	-	-
Taxation on surplus on ordinary activities	-	15	-	15

The tax assessed for the year differs from the standard rate of corporation tax in the UK applied to surplus before tax. The differences are explained below:

	Group 2020 £'000	Group 2019 £'000	mhs homes 2020 £'000	mhs homes 2019 £'000
Surplus on ordinary activities before tax	11,304	16,458	7,639	13,434
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 19% (2019 - 19%)	2,147	3,127	1,451	2,552
Effects of:				
Expenses not deductible for tax purposes	-	-	-	-
Fixed asset adjustments	-	-	-	-
Utilisation of tax losses	-	-	-	-
Income not taxable	-	-	-	-
Additional deduction for land remediation expenditure	-	-	-	-
Group relief surrendered	(1)	-	-	-
Reverse deferred tax on grant of charity status	-	-	-	-
Amount in respect of prior periods	-	15	-	15
Chargeable (losses)/gains	-	-	-	-
Amounts credited to equity or otherwise transferred	-	-	-	-
Net income subject to charitable exemptions	(2,096)	(3,085)	(1,451)	(2,552)
Adjustments in respect of prior years- deferred tax	14	(37)	-	-
Adjust closing deferred tax to average rate of 20%	(64)	(5)	-	-
Total tax credit for period	-	15	-	15

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a nil charge (2019: charge of £15k).

mhs homes limited
Notes forming part of the financial statements (*continued*)

16 Tangible fixed assets - housing properties	General needs completed	Shared ownership completed	General needs under construction	Shared ownership Under construction	Total
GROUP					
Cost or valuation:	£'000	£'000	£'000	£'000	£'000
At 1 April 2019	451,040	32,480	14,730	11,618	509,868
Additions:					
- construction costs	4	3	21,659	7,735	29,401
- replaced components	2,439	-	-	-	2,439
Completed schemes	14,040	14,923	(14,040)	(14,923)	-
Leasehold buyback	131	-	-	-	131
Transfer from investment properties	425	-	-	-	425
Transfer to current assets	-	(841)	-	-	(841)
Staircasing disposals	-	(527)	-	-	(527)
Property disposals	(153)	-	-	-	(153)
Disposal of replaced components	(513)	-	-	-	(513)
At 31 March 2020	467,413	46,038	22,349	4,430	540,230
Depreciation:					
At 1 April 2019	46,208	914	-	-	47,122
Charge for the year	4,618	341	-	-	4,959
Eliminated on transfer to current assets	-	(21)	-	-	(21)
Eliminated on staircasing disposals	-	(15)	-	-	(15)
Eliminated on property disposals	(13)	-	-	-	(13)
Disposal of replaced components	(374)	-	-	-	(374)
At 31 March 2020	50,439	1,219	-	-	51,658
Impairment:					
At 1 April 2019	1,591	233	-	-	1,824
Charge for the year	94	-	-	-	94
At 31 March 2020	1,685	233	-	-	1,918
Net book value at 31 March 2020	415,289	44,586	22,349	4,430	486,654
Net book value at 31 March 2019	403,241	31,333	14,730	11,618	460,922

mhs homes limited
Notes forming part of the financial statements (continued)

16 Tangible fixed assets - housing properties (continued)	General needs completed	Shared ownership completed	General needs under construction	Shared ownership Under construction	Total
mhs homes limited					
Cost or valuation:	£'000	£'000	£'000	£'000	£'000
At 1 April 2019	383,732	11,326	13,527	11,619	420,204
Additions:					
- construction costs	-	-	18,545	7,735	26,280
- replaced components	2,427	-	-	-	2,427
Completed schemes	14,040	14,923	(14,040)	(14,923)	-
Leasehold buyback	131	-	-	-	131
Transfer from investment properties	425	-	-	-	425
Transfer to current assets	-	(841)	-	-	(841)
Staircasing disposals	-	(38)	-	-	(38)
Property disposals	(10)	-	-	-	(10)
Disposal of replaced components	(475)	-	-	-	(475)
At 31 March 2020	400,270	25,370	18,032	4,431	448,103
Depreciation:					
At 1 April 2019	41,843	241	-	-	42,084
Charge for the year	3,659	179	-	-	3,838
Eliminated on transfer to current assets	-	(21)	-	-	(21)
Eliminated on staircasing disposals	-	-	-	-	-
Eliminated on property disposals	(2)	-	-	-	(2)
Disposal of replaced components	(354)	-	-	-	(354)
At 31 March 2020	45,146	399	-	-	45,545
Impairment:					
At 1 April 2019	1,124	-	-	-	1,124
Charge for the year	94	-	-	-	94
At 31 March 2020	1,218	-	-	-	1,218
Net book value at 31 March 2020	353,906	24,971	18,032	4,431	401,340
Net book value at 31 March 2019	340,765	11,085	13,527	11,619	376,996

16 Tangible fixed assets - Housing properties (continued)

Impairment

The Group considers schemes to represent separate cash generating units (CGUs) when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2018.

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 are subsequently 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	Group	mhs	mhs
	2020	2019	homes	homes
	£'million	£'million	2020	2019
			£'million	£'million
Estimated total EUV – SH	579	545	523	491
Estimated EUV- SH value of properties charged	497	439	480	439

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

	Group	Group	mhs	mhs
	2020	2019	homes	homes
	£'000	£'000	2020	2019
			£'000	£'000
Freehold	485,018	458,081	401,402	375,880
Long leasehold	2,794	2,841	1,096	1,116
	487,812	460,922	402,498	376,996

Interest capitalisation

Interest capitalised in the year	419	412	406	381
Cumulative interest capitalised	3,442	3,023	1,824	1,418
Rate used for capitalisation %	3.7	3.7	3.7	3.7

Works to properties

Improvements to existing properties capitalised	2,439	3,334	2,427	3,310
Major repairs expenditure to income and expenditure	4,261	3,235	4,169	3,164
	6,700	6,569	6,596	6,474

17 Other tangible fixed assets

Group	Other offices £'000	Freehold premises £'000	Fixtures & fittings £'000	Total £'000
<i>Cost or valuation</i>				
At 1 April 2019	7,982	2,658	6,276	16,916
Additions	-	224	244	468
At 31 March 2020	7,982	2,882	6,520	17,384
<i>Depreciation</i>				
At 1 April 2019	1,888	624	5,654	8,166
Charge for year	147	61	286	494
At 31 March 2020	2,035	685	5,940	8,660
<i>Net book value</i>				
At 31 March 2020	5,947	2,197	580	8,724
At 31 March 2019	6,094	2,034	622	8,750
mhs homes		Freehold premises £'000	Fixtures & fittings £'000	Total £'000
<i>Cost or valuation</i>				
At 1 April 2019		2,658	6,276	8,934
Additions		224	246	470
At 31 March 2020		2,882	6,522	9,404
<i>Depreciation</i>				
At 1 April 2019		624	5,654	6,278
Charge for year		61	286	347
At 31 March 2020		685	5,940	6,625
<i>Net book value</i>				
At 31 March 2020		2,197	582	2,779
At 31 March 2019		2,034	622	2,656

18 Investment Properties

Group	Head Office Buildings	Market Rent completed	Market Rent under construction	Total
	£'000	£'000	£'000	£'000
At 1 April 2019	2,554	63,789	7,143	73,486
Units converted to social housing	-	(425)	-	(425)
Property purchased	-	1,320	-	1,320
Construction costs	-	-	1,318	1,318
Completed schemes	-	8,315	(8,315)	-
Revaluations	-	(3,069)	-	(3,069)
At 31 March 2020	2,554	69,930	146	72,630

mhs homes	Market Rent completed	Market Rent under construction	Total
	£'000	£'000	£'000
At 1 April 2019	60,411	7,143	67,554
Units converted to social housing	(425)	-	(425)
Property purchased	1,320	-	1,320
Construction costs	-	1,318	1,318
Completed schemes	8,315	(8,315)	-
Revaluations	(2,837)	-	(2,837)
At 31 March 2020	66,784	146	66,930

The Group's market rented investment properties are measured at cost on initial recognition. In 2015 the fair value was determined by external valuers and updated based on the Land Registry in the subsequent years. In February 2020 the fair value was again determined by external valuers. As there is no evidence as to the impact of COVID-19 on property price at the time these accounts are prepared, these values have been used to determine the fair value. 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 £232,000 (2019 – a loss of £177,000) 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	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Historic cost	46,481	37,271	43,074	33,864
Accumulated depreciation	(5,048)	(4,353)	(4,737)	(4,092)
	41,433	32,918	38,337	29,772

19 Fixed asset investment

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Investments	185	185	-	-
Listed Investments	67	68	-	-
Other investments	5	5	-	-
	257	258	-	-

mhs homes Ltd	Total	Total
	2020	2019
	£	£
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
Nature of Entities: Company			
Proportion of ordinary share capital 100%			
Chatham Maritime K1 Developments Limited	Ownership of Head Office	03254705	
Chatham Maritime K1 Construction Limited	Development Activity	03254689	
mhs commercial services Limited	Not Active	02751669	
Nature of Entity: Community Benefit Society			
Proportion of voting rights 25%			
Heart of Medway Housing Association	Social Housing	-	31076R
Nature of Entity: Charity			
mhs community charity Limited ²	Charitable Works	03714658	1080067
Nature of Entity: Trust			
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

20 Stock and Work in Progress

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Materials	40	18	40	18
Shared ownership under construction	2,339	6,256	2,339	6,256
Shared ownership completed properties	421	1,737	421	1,737
	2,800	8,011	2,800	8,011

The amount taken to cost of sales in year was £9.5 million Group and £9.5 million mhs homes.

21 Debtors

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Due within one year				
Rent and service charge arrears	1,972	1,486	1,778	1,345
Less: provision for doubtful debts	(625)	(409)	(586)	(392)
	1,347	1,077	1,192	953
Prepayments	452	494	453	494
Taxes and social security	41	89	-	44
Other debtors	855	548	705	472
Social Housing Grant receivable	-	1,800	-	1,800
Loans to employees	36	20	36	20
	2,731	4,028	2,386	3,783
Due after one year				
Loan to Heart of Medway	-	-	232	3,547
Loan to Chatham Maritime K1 Development	-	-	12,378	12,416
Loan to Lord Kitchener	-	-	-	13
	-	-	12,610	15,976

22 Creditors: amounts falling due within one year

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Bank overdrafts (unsecured)	-	413	-	413
Loans and borrowings (note 24)	6,498	5,575	6,498	5,575
Trade creditors	1,760	1,298	1,281	1,066
Rent in advance	788	568	548	490
Taxation and social security	209	-	209	-
Other creditors	557	534	551	533
Amounts due to subsidiaries	-	-	550	162
Accruals	7,935	6,239	7,397	5,841
Loan interest and fees due	1,790	1,617	1,748	1,577
Sinking fund balances	1,607	1,388	1,408	1,255
	21,144	17,632	20,190	16,912

23 Creditors: amounts falling due after more than one year

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Loans (Note 24)	284,839	245,414	274,839	235,414
Less repayable within one year	(6,498)	(5,575)	(6,498)	(5,575)
Less issue costs	(754)	(700)	(522)	(572)
Loans and borrowings	277,587	239,139	267,819	229,267

24 Loans and borrowings: Maturity of Debt

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Less than one year	6,498	5,575	6,498	5,575
Between two and five years	45,791	30,789	45,791	30,789
In five years or more	232,550	209,050	222,550	199,050
Loans and borrowings	284,839	245,414	274,839	235,414

During the year, £45 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 four private placements. Three of the private placements are in mhs homes and are due as noted below.

- £40 million due 2051
- £30 million due 2044
- £30 million amortising from 2030 to 2056

One private placement of £10 million is in Heart of Medway (repayable in 2038). Interest rates are fixed for more than one year on 79% of our debt, with the amounts spread across different funders and periods of time. At 31 March 2020 **the Group** had unused facilities of £55 million all of which is charged and available to draw. In addition, we have also arranged a further private placement of £10m in February 2021 for which security is already in place. This covers all our funding requirements to a minimum of 2024.

25 Financial instruments

Information regarding the group's exposure to and management of credit risk liquidity risk, market risk, cashflow interest rate risk, and foreign exchange risk is included in the Directors' report.

The carrying values of **the Group** and Association's financial assets and liabilities measured at fair value through profit or loss are summarised by category below:

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

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets measured at fair value				
- Investments	257	258	-	-
Total financial assets	257	258	-	-
Financial liabilities				
Financial liabilities measured at amortised cost				
- Loans payable	277,587	239,139	267,819	229,267
Total financial liabilities	277,587	239,139	267,819	229,267

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 November 2019 with the next formal valuation due in 2022. The contribution rate for **the Group** was 25.7% (2019:25.7%) for employer contributions and 5.5% to 11.4% (2019:5.5% to 11.4%) for employee contributions. The most recent actuarial valuation confirmed that the employer contribution would stay at 25.7% till 2022. The pension contribution for the year for the Kent County Council Local Government Superannuation Scheme amounted to £399,437 (2019: £437,975). 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 valuation for the purposes of the accounts is provided annually by a qualified independent actuary.

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

	31 March 2020 £'000	31 March 2019 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	50,775	51,234
Current service cost	471	507
Interest cost	1,199	1,286
Change in financial assumptions	(3,882)	2,160
Change in demographic assumptions	(469)	(2,774)
Experience loss	2,428	-
Benefits paid net of transfers in	(1,676)	(1,694)
Past service costs, including curtailments	184	-
Contributions by scheme participants	97	96
Unfunded pension payments	(40)	(40)
At the end of the year	49,087	50,775

	31 March 2020	31 March 2019
Reconciliation of fair value of plan assets		
At the beginning of the year	42,397	40,551
Interest on assets	1,003	1,018
Return on assets less interest	(4,109)	2,094
Other actuarial gains/(losses)	(21)	-
Administration expenses	(25)	(20)
Contributions by employer excluding unfunded	362	392
Contributions by members	97	96
Benefits paid	(1,716)	(1,734)
At the end of the year	37,988	42,397

26 Pensions (continued)

	31 March 2020 £'000	31 March 2019 £'000
Fair value of plan assets	37,988	42,397
Present value of plan liabilities	48,492	50,139
Deficit	10,504	7,742
Present value of unfunded obligation	595	636
Net pension scheme liability	11,099	8,378

Amounts recognised in other comprehensive income are as follows:

	31 March 2020 £'000	31 March 2019 £'000
Included in administrative expenses:		
Service cost	655	507
Net interest on the defined liability	196	268
Administration expenses	25	20
	876	795

Analysis of actuarial gain recognised in other comprehensive income

	31 March 2020 £'000	31 March 2019 £'000
Actual return less expected return on fund assets	(4,109)	2,094
Experience gains on defined benefit obligation	(2,428)	-
Change in demographic assumptions	469	2,774
Other actuarial gains on assets	(21)	-
Changes in financial assumptions	3,882	(2,160)
	(2,207)	2,708

	31 March 2020		31 March 2019	
	£'000	%	£'000	%
<i>Composition of plan assets</i>				
Equities	23,371	61	29,071	68
Gilts	295	1	279	1
Other bonds	4,951	13	3,861	9
Property	5,169	14	5,092	12
Cash	994	3	740	2
Target return portfolio	3,208	8	3,354	8
Total plan assets	37,988	100	42,397	100

26 Pensions (continued)

Principal actuarial assumptions used at the balance sheet date

	31 March 2020 %	31 March 2019 %	31 March 2018 %	31 March 2017 %
Discount rates	2.35	2.40	2.55	2.7
Future salary increases	3.00	3.95	3.85	4.1
Future pension increases	2.00	2.45	2.35	2.6
Inflation assumption	2.00	2.45	2.35	3.5

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 £328,521 (2019:£212,000). At 31 March 2020 the number of staff participating in the scheme was 270 (2019:210). There were no contributions outstanding or prepaid as at 31 March 2020.

29 Contingent liabilities

mhs homes has guaranteed construction contracts for Heart of Medway and K1 Construction. At the year end the liabilities covered by these guarantees are £23,216,000 (2019: 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 2020, the value of grant received in respect of these properties that had not been disposed of was £30,723,000 (2019: £28,946,000).

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 2020 £'000	Group 2019 £'000	mhs homes 2020 £'000	mhs homes 2019 £'000
Recycled Capital Grant	183	128	51	51
Capital Grant	30,723	28,946	16,195	16,195
Total Grant	30,906	29,074	16,246	16,246

In common with many social landlords we are continuing to investigate our buildings to confirm that they are safe places to live. During these checks we have identified two buildings where the completed blocks did not meet Building Regulations and as such additional work is required. We have taken steps to reduce the risk to residents through the installations of fire detection systems whilst a more detailed investigation takes place to accurately quantify the work required. This investigation has been delayed by COVID -19 but at present is expected to be completed over the summer of 2020 subject to a continuing relaxation of lockdown restrictions.

Based on that timetable, the corrective work will take place over the following two years. Until the detailed inspections take place it is not possible to reliably estimate the final cost of these works, though we do not anticipate it being in excess of £6 million. At present, it is not clear whether the obligation resides with the developer, warranty provider or Heart of Medway, though the cost will not be passed across to the residents or leaseholders. In view of the uncertainties involved, no provision has been made in respect of these costs.

30 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	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Not later than one year	354	63	354	63
Later than one year and not later than five	256	398	256	398
Later than five years	-	-	-	-
Total	610	461	610	461

Amounts receivable under operating leases as lessor

	2020	2019
	£'000	£'000
Not later than one year	224	203
Later than one year not later than five years	617	847
	841	1,050

31 Capital commitments

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Commitments contracted				
New build	28,661	51,832	21,797	42,737
Commitments approved by the board but not contracted				
New build	62,020	22,243	34,534	5,986
	90,681	74,075	56,331	48,723

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

	Group	Group	mhs homes	mhs homes
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Social Housing Grant	3,351	7,490	190	1,590
New loans	17,127	8,930	10,000	6,448
Sales of properties	9,534	20,176	9,534	20,176
Existing reserves	60,668	37,479	36,607	20,509
	90,681	74,075	56,331	48,723

32 Related party disclosures

The Board includes two tenant members who hold a tenancy agreement on normal terms and cannot use their position to their advantage. The rent charged for the year was £10,487 (2019: £14,342) and the tenants had arrears balances of nil at the 31 March 2020 (31 March 2019: 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	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Heart of Medway	451	429	-	-
K1 Development	-	-	541	546
	451	429	541	546

Intra-group management fees are receivable by the Association from subsidiaries to cover the running costs that 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	Movement	Closing balance
			£'000	£'000	£'000
mhs homes	Heart of Medway*	-	3,547	(3,316)	231
mhs homes	Lord Kitchener	1.09%	13	(13)	-
mhs homes	K1 Development*	4.36%	12,716	(196)	12,520
			16,276	(3,525)	12,751

Key Terms of repayment

* Repayable by 2040

** Average rate charged across the year

mhs homes 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.

33 Capital and reserves

The revaluation reserve contains the unrealised gains of £212.5 million (2019: £212.5 million) in respect of fixed assets for which the deemed cost option was taken.

34 Net debt reconciliation

Group	At 1 April 2019	Cash flows	Non-cash movement	At 31 March 2020
	£'000	£'000	£'000	£'000
Bank overdraft	(413)	413	-	-
Short term deposits	1,443	187	-	1,630
Cash at bank	18,208	35,249	-	53,457
Cash and cash equivalents	19,238	35,849	-	55,087
Loans and borrowings	(245,414)	(39,425)	-	(284,839)
Net debt	(226,176)	(3,576)	-	(229,752)