



**Heart of Medway  
Housing Association**

**Annual Report  
Year ended 31 March  
2020**

Registered Community Benefit Society

Registration Number 31076R

# Heart of Medway Housing Association

Report and Financial Statements for the year ended 31 March 2020

---

## Contents

### Page:

1	Executives and advisors
2	Report of the board of management
13	Independent auditor's report
16	Heart of Medway statement of comprehensive income
17	Heart of Medway statement of financial position
18	Heart of Medway statement of changes in reserves
19-34	Notes forming part of the financial statements

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020

### Executives and advisors for the year ended 31 March 2020

---

#### Board of management

	Position	Changes in year
A Baker	Chair	
M Miles Lea	Trustee	Appointed 1 January 2020
E Barton	Trustee	
T Robertson	Trustee	
S Goad	Trustee	
I Alfon	Trustee	

#### Registered Office

Heart of Medway Housing Association Limited  
Broadside  
Leviathan Way  
Chatham  
Kent  
ME4 4LL

#### Auditors – External

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

#### Bankers

National Westminster Bank Plc

#### Legal Status

Registered Society no 31076R  
Registered with the Regulator of Social Housing

#### Ultimate Parent Undertaking

The Association is a subsidiary undertaking of **mhs homes limited**, a private company limited by guarantee and a charity registered in England and Wales from 16 March 2018. The accounts are available from the Association's registered office at Broadside, Leviathan Way, Chatham, Kent ME4 4LL.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

---

### Principal activities and review of the business

**Heart of Medway Limited (Heart of Medway)** is registered as a community benefit society under the Co-operative and Community Benefit Societies Act 2014 and with the Regulator of Social Housing. It was incorporated in October 2010 to enable **mhs homes group ("The Group")** to continue to access Social Housing Grant and therefore assist **the Group** in its objective to provide new social housing. It has charitable status for corporation tax purposes.

### Objectives

The objectives of **Heart of Medway** are to provide social housing, other housing, accommodation and assistance to help house people, along with any other charitable activities not prohibited for a community benefit society registered with the regulator as a non-profit registered provider.

### Overview

The completed year saw no new properties completed (2019: 37 properties) and brought into management. However, £3 million was spent on a site that will provide 54 new units in 2021/22 and in the early part of 2020/21 land was purchased that will provide a further 76 units over the next two years. **Heart of Medway** financed the capital spend during the year through a combination of surpluses and the loan raised at the end of 2018/19. These funds were also used to repay the intercompany loan with **mhs homes limited (mhs homes)**, who also provide a management service. This funding of £10 million is repayable in 2038 and is at a fixed rate of interest.

Before becoming a charity **mhs homes** made charitable donations over a number of years totalling £60 million to **Heart of Medway**. This significant subsidy has ensured that **Heart of Medway** was able to provide new social housing, as without this there would not have been sufficient capacity to develop new properties in any meaningful amount.

At the end of the financial year the impact of COVID 19 became apparent. With the potential for an economic downturn, and the subsequent financial pressures that this might bring, the decision was made to reduce development aspiration over the next three years from £65 million to £35 million. This was based on a modelling that included potential increases and a fall in future staircasing sales.

This meant that the loan requirements of £17 million to fund this programme can be all met from the existing intercompany facility in place with mhs homes, which in turn has the loan facilities in place to meet this requirement. All of the development programme is social rented units so there is no exposure to sales risk.

The Board team continue to monitor the outbreak, including UK Government advice, and acknowledge that the association faces a prolonged period of uncertainty. While the evolving nature of the situation means it is not possible to accurately quantify the financial impact, the association is in a good financial position to manage this risk.

**Heart of Medway** owns 17 market rented properties as investments. These were valued in February 2020, though with the ongoing situation it is not possible to say what the impact of property prices are. As this is the best information available, we have used these values in the accounts, and it should also be noted that there are no plans to sell these properties.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

---

When results are compared to last year there has been a reduction in the operating surplus for reasons noted below: -

- No new properties coming into management during the year.
- The rent reduction as required under the rent standard continued to reduce income.
- An investigation identified properties where rents had been overcharged. Customers were refunded approximately £200,000 further reducing income for the year.
- There were no new shared ownership properties sold, as was expected, due to **Heart of Medway** moving away from shared ownership to developing grant funded rented properties. This is consistent with **the Group** development strategy as new shared ownership properties are developed in **mhs homes**.

In common with many social landlords we are continuing to investigate our buildings to confirm that they are safe places to live. The Board are clear that cost will not stop this work progressing therefore there is a risk that future expenditure may increase to meet these potential obligations. However, as **Heart of Medway** is not constrained by covenants on its surplus, and is supported by **mhs homes**, these obligations will and can be met.

As part of the **mhs homes group** the full details of resident involvement, treasury, internal controls, impact on the environment and major risks can be found in the **mhs homes** accounts, along with the full group overview of the year. Compliance with the Governance and Financial Viability and Value for Money Standards is considered below.

During the year 31 young people were housed in the foyers. These provide a valuable service to young people in need of accommodation. Each young person gets a support pack and are key worked by a designated staff member. As part of that support they have weekly meetings to assess their progress, set structured targets, and are coached towards independent living.

### **Compliance with Governance and Financial Viability Standard**

**Heart of Medway** undertakes an annual review of compliance against this standard, which is certified by the Board. This confirms compliance against the standard for the year and to the date of signing of the accounts. **Heart of Medway** is the registered subsidiary of an unregistered parent, **mhs homes limited (mhs homes)**, which is fully committed to ensuring that **Heart of Medway** complies with the RSH Governance and Financial Viability Standard. **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**.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

### Value for Money Statement

**mhs homes** is one of the most financially efficient organisations in the sector as can be demonstrated when compared to other organisations through the sector scorecard, and **Heart of Medway** benefits from this as can be seen in the table below. Many indicators are top quartile when compared with organisations in the South East in the 2019 value for Money Metrics published by the regulators.

Metric	2020	2019	Median
Investment in properties - new and existing	3.7%	1.9%	6.5%
New Supply Delivered – Social Housing	0%	4.4%	2.2%
New Supply Delivered – Non Social Housing	0%	0%	0%
Gearing	-5%	-1%	49.8%
EBITDA Interest Rate Cover	768%	7,068%	191.3%
Social Housing Cost per Unit £	2,158	2,335	3,610
Operating Margin – (social housing lettings only)	40.7%	40.7%	38%
Operating Margin (overall)	40.5%	31.2%	34.9%
Return on Capital Employed	2.5%	2.8%	3.8%

Green shows top quartile

The figures above should be considered in context with the comments below: -

- Investment in properties increased, though no new units completed work started on a major project as against last year when schemes on sites had been mostly completed before the year started but units were added in the year.
- The figure for gearing is negative due to **Heart of Medway** holding more cash than loans due to new borrowing taking place at the end of the financial year.
- The fall in interest cover showed the impact of the having the external loan in place for a whole year as opposed to relying on the interest free loan from **mhs homes**. This has resulted in increased development capacity by **Heart of Medway** as it is no longer constrained by mhs homes borrowing capacity.
- Unit costs remain top quartile as does operating margin for social housing letting. The management charge is agreed with **mhs homes** on annual basis and is based on the cost of management as calculated in the previous year's **Group** accounts.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

### Performance against our own targets

During the budget and business planning process the value for money metrics are calculated so we can address areas of under performance during the year which are noted below.

Metric	Actual	Budget	Notes
Investment in properties - new and existing	3.7%	15.1%	Note 1
New Supply Delivered – Social Housing	0%	0%	
New Supply Delivered – Non Social Housing	0%	0%	
Gearing	-5%	10%	Note 2
EBITDA Interest Rate Cover	768%	774%	
Operating Margin (overall)	40.5%	43.9%	Note 3
Return on Capital Employed	2.5%	2.1%	

Note 1: A number of aspirational schemes anticipated during the year didn't come to site. Though it was always anticipated that no new schemes would come into management during the year.

Note 2 In line with the above as the aspirational schemes didn't come to site towards the end of the financial year there was more cash available at the end of the year than anticipated leading to a negative gearing.

Note 3: The overall operating margin was lower than anticipated as a unbudgeted refund of rent £200,000 noted on page 3 was made that, despite other underspends elsewhere in the year led to the final operating surplus being less than budget

---

	Target	As at 31 March 2020
<b>Other key indicators through the year</b>		
13 week average of gross rent arrears	3.0%	4.6%
The overall gross arrears have continued an upwards trend throughout the year and whilst the last 2 months have seen arrears fluctuate around the same point, there is a general upwards trend. At year end overall arrears had increased from 3.40% to 4.61% over the year. The number of general needs customers on Universal Credit is now at 123, 14.6% of our customer base the number of customers on Alternative Payment Arrangements (APA) is now 34, having doubled over the past year. Removing this outstanding amount would leave our core overall rent arrears at around 4.24%.		
Average turnaround time for voids	20	28

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

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 19 days. In March with disruption due to Covid-19 we have still let properties at an average of 21 days.

Average days to complete a repair	10	10
-----------------------------------	----	----

The impact of covid19 can be identified in the increase in the average days 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 Housing Associations within our stock size.

Repairs completed right first time	85%	86%
------------------------------------	-----	-----

This measure has achieved a sustained level of improvement during the year.

### How we ensure value for money

There are established policies and arrangements at **mhs homes group** ensuring that value for money is being obtained. These include:

- The Strategic Plan sets challenging targets on both cost reduction and operating margins. The Heart of Medway Board has a keen interest in seeing Value for Money delivered and reviews an annual report.
- The Board agree and monitor our annual budget, with detailed work taking place in the Group Finance Risk and Audit Committee.
- There is an annual programme of investment in the housing stock which is based on a 30 year stock investment plan for replacing building components such as windows, roofs, kitchens, bathrooms which maintains our stock at 100% decent Homes Standard.
- 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, ease of re-let and management considerations.
- There is a comprehensive and regularly reviewed Procurement Strategy that sets out the rules on quotes, tenders and approval of new contracts. Where possible supply chains are consolidated to provide greater scope for efficiency and reducing costs.
- The customer scrutiny panel have commission service reviews and based on these reports' recommendations are made to the Board.

### Corporate Governance

**Heart of Medway** has adopted the National Housing Federation's Excellence in Governance Code of Governance (2015) and complies with all principles and provisions. An intra group agreement (IGA) manages the relationship between **Heart of Medway** and **mhs homes**. Both parties record their intentions to be treated as a group and each covenant to carry on its business in accordance with the Group objectives. **Heart of Medway** does not employ any staff and the Group Chief Executive is appointed by and accountable to the Parent board and also owes a duty of care to all group board members. Housing management is delegated to the Parent, **mhs**



# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

---

**homes**, through a Management Agreement.

Board Members receive no salary or fee from this association, only the reimbursement of properly incurred business expenses. The Board has devised its own procedure 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.

Two members of the Board are also members of the mhs homes Board and receive a salary in respect of their role at mhs homes.

### **Role of the Board**

The Board Comprises of between five and twelve Directors. During the year there are at least 5 meetings, one of which is the Annual General Meeting. The role of the Board is to govern **Heart of Medway**; to fulfil its regulatory duty, to provide accountability, to resolve tensions between 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.

As a means of renewal and self-evaluation the Board holds Away Days to challenge its own performance and keep updated. The agenda covers strategy, board development, teambuilding, financial matters, and vision and business proposals. The Board, as part of the **mhs homes group**, is part of a structure that includes Customer Scrutiny panel, Group Finance, Risk and Audit Committee, Health and Safety Committee, Treasury Committee and Remuneration Committee. Full details are included in the **mhs homes** accounts.

### **Composition of the Board**

Details of membership during the course of the year are shown on page 2. During the year the Board held 5 meetings (2019:5) at which the average attendance rate was 100% (2019:100%).

### **Assessment of the effectiveness of internal control**

The Board acknowledges that it has ultimate responsibility for ensuring a system of controls appropriate to the various business environments in which it operates is in place. These controls exist to maintain the financial integrity and sustainability of the Group, giving reasonable assurance to stakeholders that there are robust systems of management and review processes in place across all operational and administrative areas. Full details are included in the **mhs homes** accounts.

### **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.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

---

### **Going Concern**

After reviewing the budget of **Heart of Medway** for 2020/21 and long term financial plans, based on normal business planning and control procedures, the Directors have a reasonable expectation that **Heart of Medway** 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 modelled a number of different possibilities. These include increases in rent arrears, delays in letting new and existing properties, staircasing of our shared ownership portfolio and the contingent liability crystallising. 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 board, therefore, consider it appropriate for the accounts to be prepared on a going concern basis.

### **Qualifying third part 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 officers liability insurance in respect of itself and its directors throughout the financial year.

### **Board member's responsibilities**

The board members are responsible for preparing the report of the board of management and the financial statements in accordance with applicable law and regulations. Co-operative and Community Benefit Society law and social housing legislation require the board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these financial statements, the board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. They are also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The board is responsible for ensuring that the report of the board of

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

management is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2018.

Financial statements are published on the association's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the association's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### **Auditor**

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Association's auditor for the purpose of their audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware. BDO LLP has 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.

### **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 Groups assets and interest.

Heart of Medway Housing Association is registered with the Regulator of Social Housing (RSH)

In accordance with the RSH regulatory framework, **Heart of Medway** must comply 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 control which is embedded within the normal management and governance processes. This approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed and is consistent with Turnbull principles.

**Heart of Medway** has adopted the National Housing Federations Code of Governance. We are compliant to the Code. 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, include 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

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

---

process of management review for all areas of **Heart of Medway'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 Group Board has adopted and disseminated to all employees a code of conduct for employees who provide services **to Heart of Medway**. This sets out the Group's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection, and fraud prevention and detection.

### **Information and financial reporting systems**

The Board approves a strategic plan in each financial year, which includes longer-term financial plans and limits on investment in its various activities. Financial reporting procedures include detailed budgets for the year ahead, management accounts produced monthly and forecasts for the remainder of the financial year. These are reviewed in various levels of detail by appropriate staff and in summary on a quarterly basis by the Board. The Board also regularly reviews progress towards the achievement of key business objectives, targets and outcomes.

### **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 its forms, is illegal and unacceptable. Our bribery policy statement has been integrated into our code of conduct and our gifts and hospitality policy, adopted by the Group Board for the whole organisation, and made available on our intranet.

### **Audit assurance**

A summary of all internal reports and the resultant actions are reported to the Group Finance, Risk and Audit Committee during the year. The Business Assurance Manager, who is a Chartered Auditor, has direct access to the 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 Q1 of 2020/21. Out of the 15 completed audits, three were issued with limited assurance with high priority recommendations to address the control environment. The Committee met 5 times during the financial year and considered internal control and risk at each of its meetings.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

---

BDO LLP provides external auditing services. The Board receives a memorandum from the external auditors identifying any internal control weaknesses that may have come to their attention in the course of their duties. This letter is considered by the Finance Risk and Audit Committee and the Board. The Committee met with the internal and external auditors during the year without the presence of paid staff 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 have reviewed the effectiveness of the system of internal control, which operate 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 staff 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 staff take responsibility for important business functions. Each service receives a Performance Review Board appraisal by the Executive Team every six months to review risk, performance and service delivery. Budgets and forecasts are prepared and reviewed on a systematic basis, which enables the Board and management to monitor the key business risks, financial performance and track progress against targets. All major new initiatives, commitments and investment projects are subject to formal authorisation procedures, through relevant committees comprising Board members and other suitably experienced and qualified executives.

### 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 & Hamlins, who are leading lawyers in the sector. Other expert professionals are engaged from time to time; for example, JLL advises on matters of stock valuation and Trowers & Hamlins on new loan facilities

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2020 (Continued)

---

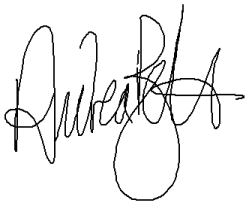
### **Performance Indicators**

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

**The Heart of Medway Board 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.**

### **Approval**

This report was approved by the Board on 9 July 2020



Andrea Baker  
9 July 2020

# Heart of Medway Housing Association

## Independent auditor's report

---

### Independent Auditor's Report to the members of Heart of Medway Housing Association

#### Opinion

We have audited the financial statements of Heart of Medway Housing Association ("the association") for the year ended 31 March 2020 which comprise the Association statement of comprehensive income, the Association statement of financial position, the Association statement of changes in equity 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 Association's affairs as at 31 March 2020 and of the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014.

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

#### Conclusions relating to going concern

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

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

#### Other information

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

# Heart of Medway Housing Association

## Independent auditor's report

---

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

We have nothing to report in this regard.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the Association; or
- a satisfactory system of control has not been maintained over transactions; or
- the Association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of the board**

As explained more fully in the board members responsibilities statement set out on pages 6, 7 and 8, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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



# Heart of Medway Housing Association

## Independent auditor's report

---

### Use of our report

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

*BDO LLP*

Paula Willock (Senior Statutory Auditor)  
For and on behalf of BDO LLP  
Statutory Auditor  
Gatwick, West Sussex  
United Kingdom

24 July 2020

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

# Heart of Medway Housing Association

## Statement of comprehensive income for the year ended 31 March 2020

	Note	Total 2020 £'000	Total 2019 £'000
Turnover	4	<b>5,024</b>	7,578
Cost of sales	4	-	(2,150)
Operating costs	4	<b>(2,989)</b>	(3,066)
Surplus on disposal on fixed assets	8	<b>426</b>	457
<b>Operating surplus</b>		<b>2,461</b>	2,819
Interest and financing costs	9	<b>(367)</b>	(16)
Movement in fair value of investment properties	11	<b>(232)</b>	(177)
<b>Surplus and total comprehensive income for the financial year</b>		<b>1,862</b>	2,626

All income and expenditure is derived from continuing operations.

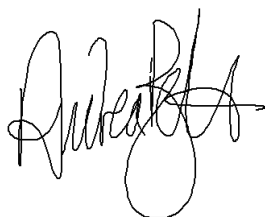
The notes on pages 19 to 34 form part of these financial statements

# Heart of Medway Housing Association

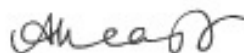
## Statement of Financial Position as at 31 March 2020

	Note	2020	2019
		£'000	£'000
<b>Fixed assets</b>			
Tangible fixed assets – housing properties	10	<b>85,338</b>	83,916
Investment properties	11	<b>3,145</b>	3,377
Other investments	12	<b>185</b>	185
		<b>88,668</b>	87,478
<b>Current assets</b>			
Debtors – receivable within one year	13	<b>154</b>	209
Cash and cash equivalents		<b>14,134</b>	14,696
		<b>14,288</b>	14,905
<b>Creditors: amounts falling due within one year</b>	14	<b>(1,152)</b>	(686)
<b>Net current assets</b>		<b>13,136</b>	14,219
<b>Total assets less current liabilities</b>		<b>101,804</b>	101,697
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(23,598)</b>	(25,353)
<b>Net assets</b>		<b>78,206</b>	76,344
<b>Capital and reserves</b>			
Non–Equity Share Capital	18	-	-
Income and expenditure reserve		<b>78,206</b>	76,344
		<b>78,206</b>	76,344

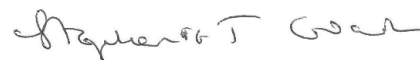
These financial statements were approved and authorised for issue by the Board on 9 July 2020 and were signed on its behalf by:



A Baker  
Chair



Anna Keast  
Company Secretary



S Goad  
Board Members

The notes on pages 19 to 34 form part of these financial statements.

# Heart of Medway Housing Association

## Statement of changes in reserves for the year ended 31 March 2020

---

	<b>Income and expenditure reserve £'000</b>
<b>Balance at April 2019</b>	<b>76,344</b>
Total comprehensive income for the year	1,862
<b>Balance at 31 March 2020</b>	<b>78,206</b>

---

	<b>Income and expenditure reserve £'000</b>
<b>Balance at April 2018</b>	<b>73,718</b>
Total comprehensive income for the year	2,626
<b>Balance at 31 March 2019</b>	<b>76,344</b>

---

# Heart of Medway Housing Association

## Notes forming part of the financial statements for the year ended 31 March 2020

---

### 1 Legal status

The association is registered with the Co-operative and Community Benefits Societies Act 2014 in the United Kingdom and is registered with the Regulator of Social Housing as a social housing provider.

### 2 Accounting policies

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Heart of Medway includes the Co-operative and Community Benefit Societies Act 2014, 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.

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. The following principal accounting policies have been applied:

#### ***Going Concern***

On the basis of their assessment of the association's financial position and resources, the Board believe that the association is well placed to manage its business risks. Therefore, the Board have a reasonable expectation that the association has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

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 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 Association's ability to continue as a going concern. The board, therefore, consider it appropriate for the accounts to be prepared on a going concern basis.

#### ***Cash Flow Statement***

Under FRS 102 the association is exempt from the requirement to prepare a cash flow statement on the grounds that its parent undertaking includes the association in its own published consolidated accounts.

#### ***Income***

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

- Rental income receivable (after deducting lost rent from void properties);
- Service charges receivable;
- Social Housing grants;
- Proceeds from the sale of land and property and

Rental income is recognised from the point when properties under development reach practical and are formally let, income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale, all other income is recognised on a receivable basis.

# Heart of Medway Housing Association

## Notes forming part of the financial statements for the year ended 31 March 2020 (Continued)

### 2 Accounting policies (continued)

#### **Supported housing schemes**

The association receives Supporting People grants from Medway Council. The grants receivable in the period as well as costs incurred in the provision of support services have been included in the Statement of Comprehensive Income.

#### **Service charges**

The association 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.

#### **Value Added Tax**

The association 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 association 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**

FRS 102 requires that financial instruments are measured at amortised cost using the effective interest method with finance costs that 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. The difference between this and transaction price is not material, so financial instruments have been measured at transaction price. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

#### **Tangible fixed assets**

##### **Social Housing Properties**

Social Housing properties constructed or acquired (including land) on the open market are stated at cost less depreciation and impairment (where applicable).

The cost of social housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development. Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Social Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in properties under construction and held at cost less any impairment, and are transferred to completed properties when ready for letting.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 2 Accounting policies (continued)

### **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:

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

The costs of replacement or restoration of these components are capitalised and depreciated over the same average useful economic life.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

### **Shared ownership properties and staircasing**

Under Shared Ownership arrangements, the association 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 association, 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.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

---

## 2 Accounting policies (continued)

### **Recycled Capital Grant Fund**

On the occurrence of certain relevant events, primarily the sale of dwellings, the HCA can direct Heart of Medway to recycle capital grants or to make repayments of the recoverable amount. The association adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the HCA with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under "creditors due after more than one year". The remainder is disclosed under "creditors due within one year".

### **Social Housing Grant**

Where developments have been financed wholly or partly by social housing grant the amount of grant received has been included as deferred income and recognised in turnover over the estimated useful life of the associated asset structure.

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. If there is no requirement to repay or recycle the grant on disposal of the asset any unamortised grant remaining within the creditors is released and recognised as income with the comprehensive statement of income.

### **Stock and Work in Progress**

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. Stock is held at the lower of cost and net realisable value.

### **Financial assets**

Financial assets are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

### **Financial instruments**

Financial assets and liabilities are recognised when the association becomes party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all its liabilities.

### **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 association 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, historic collection rates and the class of debt.



# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

---

## 2 Accounting policies (continued)

### ***Cash and cash equivalents***

Cash and cash equivalents in the association's balance sheet consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

### ***Leasehold Sinking Funds***

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

### ***Investment properties***

Investment properties consist of market rented properties and other properties not held for social benefit. Investment properties are measured at cost on initial recognition and subsequently carried at fair value determined by an uplifted value based on the Land Registry in the current year. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income.

## 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 association'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 Board have 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 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.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

---

## 3 Judgements in applying accounting policies and key sources of estimation uncertainty

### *Other key sources of estimation uncertainty*

- *Tangible fixed assets (see note 10)*

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. 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.

- *Rental and other trade receivables (debtors) (see note 13)*

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.

- *Contingent Liabilities (see note 21)*

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.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

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

	Turnover 2020 £'000	Operating costs 2020 £'000	Sale of fixed assets 2020 £'000	Operating surplus 2020 £'000
<b>Social housing lettings (Note 5)</b>	4,846	(2,926)	-	1,920
<b>Other Social Housing Activities:</b>				
First tranche shared ownership sales	-	-	-	-
<b>Activities Other than Social Housing:</b>				
Sale of fixed assets	-	-	426	426
Market rented properties	178	(63)	-	115
	<b>5,024</b>	<b>(2,989)</b>	<b>426</b>	<b>2,461</b>

	Turnover 2019 £'000	Cost of Sales 2019 £'000	Operating costs 2019 £'000	Sale of fixed assets 2019 £'000	Operating surplus 2019 £'000
<b>Social housing lettings (Note 5)</b>	5,112	-	(3,031)	-	2,081
<b>Other Social Housing Activities:</b>					
First tranche shared ownership sales	2,289	(2,150)	-	-	139
<b>Activities Other than Social Housing:</b>					
Sale of fixed assets	-	-	-	457	457
Market rented properties	177	-	(35)	-	142
	<b>7,578</b>	<b>(2,150)</b>	<b>(3,066)</b>	<b>457</b>	<b>2,819</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 5 Income and expenditure from social housing lettings

	General needs £'000	Affordable £'000	Foyers £'000	Shared Ownership £'000	Total 2020 £'000	Total 2019 £'000
<b>Income</b>						
Rents net of identifiable service charges	546	2,375	184	879	3,984	4,225
Service Charge income	56	120	103	234	513	556
Supporting people	-	-	200	-	200	200
Other Income	-	1	2	-	3	4
Amortised government grants	-	146	-	-	146	127
<b>Turnover from social housing lettings</b>	<b>602</b>	<b>2,642</b>	<b>489</b>	<b>1,113</b>	<b>4,846</b>	<b>5,112</b>
<b>Expenditure</b>						
Management	108	266	25	2	401	442
Service charge costs	57	136	102	215	510	490
Routine maintenance	57	124	52	3	236	105
Planned maintenance	47	106	8	-	161	174
Major repairs	46	43	29	-	118	311
Bad debts	12	28	5	-	45	29
Depreciation of housing properties	278	657	-	182	1,117	1,112
Depreciation on replaced components	-	20	-	-	20	12
Supporting people	-	-	318	-	318	288
Other costs	-	-	-	-	-	68
<b>Operating expenditure on social housing lettings</b>	<b>605</b>	<b>1,380</b>	<b>539</b>	<b>402</b>	<b>2,926</b>	<b>3,031</b>
<b>Operating surplus on social housing</b>	<b>(3)</b>	<b>1,262</b>	<b>(50)</b>	<b>711</b>	<b>1,920</b>	<b>2,081</b>
<b>Void losses</b>	<b>(1)</b>	<b>(21)</b>	<b>(15)</b>	<b>(1)</b>	<b>(38)</b>	<b>(30)</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 6 Units of housing stock

	Total 2019 No	Transfers	New builds	Disposals	Total 2020 No
<b>Social Housing:</b>					
General Needs housing	523	(1)	-	-	522
Shared Ownership	255	(5)	-	-	250
Social Leaseholders	9	6	-	(1)	14
<b>Managed on behalf of mhs</b>					
Foyers	36	-	-	-	36
<b>Non-Social Housing:</b>					
Managed Freeholders	2	-	-	-	2
Market Rented	17	-	-	-	17
<b>Total owned and managed accommodation</b>	<b>842</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>841</b>

	2020	2019
Units under construction: Commitments contracted	54	54
Units under development: Commitments approved but not contracted	64	-
	36	38
	-	46
	<b>154</b>	<b>138</b>

## 7 Operating surplus

	2020 £'000	2019 £'000
This is arrived at after charging/(crediting):		
Depreciation of housing properties:		
- annual charge	1,117	1,111
Accelerated depreciation on replaced components	20	5
Auditor's remuneration (excluding VAT):	8	8
Management fee to mhs homes limited	451	429

## 8 Surplus on disposal of fixed assets

	Right To Acquire	Shared ownershi p	Total	Total
	2020 £'000	2020 £'000	2020 £'000	2019 £'000
Housing properties:				
Disposal proceeds	215	821	1,036	1,069
Cost of disposals	(132)	(474)	(606)	(607)
Legal and other fees	-	(4)	(4)	(5)
<b>Surplus on sale of fixed assets</b>	<b>83</b>	<b>343</b>	<b>426</b>	<b>457</b>

## 9 Interest and financing costs

	2020 £'000	2019 £'000
RCGF interest	7	-
Interest on loans	370	47
Interest receivable	(6)	-
Capitalised interest	(13)	(31)
Amortisation of issue costs	9	-
<b>Total Interest Costs</b>	<b>367</b>	<b>16</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 10 Tangible fixed assets: Housing properties

	General Needs completed	Shared Ownership completed	General Needs under construction	Shared Ownership under construction	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation:</b>					
At 1 April 2019	67,258	21,156	1,203	-	89,617
Additions:					
- construction costs	-	-	3,114	-	3,114
- works to existing properties	46	3	-	-	49
Disposal under Right-to-Acquire	(143)	-	-	-	(143)
Disposal under Staircasing	-	(489)	-	-	(489)
Disposal of replaced components	(38)	-	-	-	(38)
<b>At 31 March 2020</b>	<b>67,123</b>	<b>20,670</b>	<b>4,317</b>	<b>-</b>	<b>92,110</b>
<b>Depreciation:</b>					
<b>At 1 April 2019</b>	<b>4,327</b>	<b>674</b>	<b>-</b>	<b>-</b>	<b>5,001</b>
Charge for the year	955	162	-	-	1,117
Eliminated under Right-to-Acquire	(11)	-	-	-	(11)
Eliminated under Staircasing	-	(15)	-	-	(15)
Disposal of replaced components	(20)	-	-	-	(20)
<b>At 31 March 2020</b>	<b>5,251</b>	<b>821</b>	<b>-</b>	<b>-</b>	<b>6,072</b>
<b>Impairment:</b>					
<b>At 1 April 2019</b>	<b>467</b>	<b>233</b>	<b>-</b>	<b>-</b>	<b>700</b>
Charge for the Year	-	-	-	-	-
<b>At 31 March 2020</b>	<b>467</b>	<b>233</b>	<b>-</b>	<b>-</b>	<b>700</b>
<b>Net book value at 31 March 2020</b>	<b>61,405</b>	<b>19,616</b>	<b>4,317</b>	<b>-</b>	<b>85,338</b>
Net book value at 31 March 2019	<b>62,464</b>	<b>20,249</b>	<b>1,203</b>	<b>-</b>	<b>83,916</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 10 Tangible fixed assets: Housing properties (continued)

### Impairment

The group considers schemes to represent separate cash generating units (CGU's) when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2018. No impairments were recognised in the year. The estimated value in use of the social housing stock is £56m (2019: £54m).

	2020 £'000	2019 £'000
The net book value of housing properties may be further analysed as:		
Freehold	83,640	82,191
Long leasehold	1,698	1,725
	<b>85,338</b>	<b>83,916</b>

### Interest capitalisation

Interest capitalised in the year	13	31
Cumulative interest capitalised	2,002	1,971
	<b>2,015</b>	<b>2,002</b>
Rate used for capitalisation %	<b>3.70</b>	<b>3.75</b>

### Works to properties

Improvements to existing properties capitalised	49	24
Major repairs expenditure to income and expenditure account	118	312
	<b>167</b>	<b>336</b>

## 11 Investment properties: Market Rent

	Completed £'000	Under Construction £'000	Total £'000
<b>At 1 April 2019</b>	<b>3,377</b>	-	<b>3,377</b>
Revaluation	(232)	-	(232)
<b>At 31 March 2020</b>	<b>3,145</b>	-	<b>3,145</b>

The 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 prices whilst these accounts were prepared for year end, the February 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.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 11 Investment properties: Market Rent (continued)

If investment property had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	2020 £'000	2019 £'000
Historic cost	3,407	3,407
Accumulated depreciation	(311)	(261)
	<b>3,096</b>	<b>3,146</b>

## Other Investments

	2020 £'000	2019 £'000
Other Investments	185	185
	<b>185</b>	<b>185</b>

## 13 Debtors

	2020 £'000	2019 £'000
<b>Due within one year</b>		
Rent and service charge arrears*	193	141
Less: Provision for doubtful debts	(39)	(18)
	<b>154</b>	<b>123</b>
Other debtors	-	86
	<b>154</b>	<b>209</b>

## 14 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Deferred capital grant	146	127
Rent and service charges received in advance*	240	34
Sinking funds	198	133
Accruals and Deferred income	568	392
	<b>1,152</b>	<b>686</b>

\*A rental prepayment adjustment of £34k has been made for prior year between debtors and creditors, this was previously netted off against rental debtors.



# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 15 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Loans	9,780	9,885
Amounts owed to group undertakings (Note 20)	232	3,548
Deferred capital grant	13,454	11,844
Recycled capital grant fund (Note 17)	132	76
	<b>23,598</b>	25,353

	2020 £'000	2019 £'000
Loans	10,000	10,000
Less issue costs	(220)	(115)
	<b>9,780</b>	9,885

## 16 Loans and Borrowings: Maturity of Debt

Maturity of Debt	2020 £'000	2019 £'000
In more than five years	10,232	13,433
	<b>10,232</b>	13,433

Heart of Medway has one private placement of £10 million repayable in 2038. The interest rate on the private placement is fixed at a rate of 3.6%.

Deferred capital grant	2020 £'000	2019 £'000
Opening balance	11,969	11,657
Less: Transfers to Recycled capital grant fund	(98)	(76)
Add: Transfers from Recycled capital grant fund	49	97
Grant amortised	(145)	(127)
Grant received	1,823	418
	<b>13,598</b>	11,969

## 17 Recycled capital grant fund

	£'000
At 1 April 2019	76
Input to fund: Transfers to DCG	98
Output to fund: Transfers from DCG	(49)
Interest	7
At 31 March 2020	<b>132</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 18 Share capital

	2020 £	2019 £
At 1 April	5	4
Shares issued in the year	1	2
Shares cancelled in the year	-	(1)
At 31 March 2020	6	5

The share capital of the association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled, and the amount paid thereon becomes the property of the association. Therefore, all shareholdings relate to non-equity interests.

## 19 Capital commitments

	2020 £'000	2019 £'000
Construction		
Commitments contracted but not provided for	6,864	9,095
Commitments approved by the Board but not contracted	27,486	16,257
	34,350	25,352

Capital commitments for the association will be funded as follows:

	2020 £'000	2019 £'000
Social housing grant	3,162	5,900
Loans	7,127	2,482
Sales of properties	-	-
Reserves	24,061	16,970
	34,350	25,352

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 20 Related party disclosures

The ultimate controlling party of the association is mhs homes limited a registered charity incorporated under CA2006 registered in England & Wales whose financial statements are available from the association's registered office at Broadside, Leviathan Way, Chatham, Kent ME4 4LL.

### Transactions with non-regulated entities

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

	Management charges		Interest charges	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
mhs homes	451	429	-	47

### Intra-group management charges

Intra-group management fees are payable to the parent organisation, mhs homes, as it provides the management service to properties owned by Heart of Medway Housing Association Limited. A fixed charge per unit is agreed on an annual basis.

### Intra-group interest charges

Interest is charged on the loan provided by mhs homes to Heart of Medway in accordance with the loan agreement. The loan agreement was revised and approved by both organisations in 2015.

### Intra-group loans

Entity granting loan	Entity receiving loan	Opening balance £'000	Movement £'000	Closing balance £'000
mhs homes	Heart of Medway *	3,548	(3,316)	232

#### Key Terms of repayment

\* Repayable by 2040. Interest rate 0%

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2020  
(Continued)

## 21 Contingent liabilities

Heart of Medway receives grant from Homes England, which is used to fund the acquisition and development of housing properties and their components. Heart of Medway 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 £14,448m (2019: 12,674m)

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:

	2020 £'000	2019 £'000
Recycled Capital Grant	132	76
Capital Grant	14,448	12,674
Total Grant	14,580	12,750

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 building where the completed blocks did not meet Building Regulations and as such additional work is required to achieve compliance. 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 improvement in working conditions.

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