

Year ended 31 March 2019

# Financial Statements



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# Administrative Details

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## Board Members

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**Independent Board Members:** Nicola Evans (Chair)  
John Chown (Deputy Chair) – resigned 06 September 2018  
Elizabeth Lendering (Deputy Chair from 20 November 2018)  
Stephanie Howarth  
Carol James  
Marc Fury – resigned 14 March 2019  
Rachel Honey-Jones  
Jonathan Tumelty  
Chris Bolton – appointed 21 March 2019  
Professor Calvin Jones – appointed 21 March 2019

**Executive Officers:** Michael Owen (Chief Executive)  
Lorraine Oates (Director of Finance and Resources)  
Victoria Slade (Director of Operations)

## Democratic Body

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**Tenant Members:** Frances Bevan (Chair until 10 May 2018)  
Tracey Powell  
Marlene Burns  
Kim Ford – resigned 06 September 2018  
Gaynor Bradley  
Joan Marshall  
Val Lloyd – resigned 06 September 2018  
Nigel Phillips-Gunter (Deputy Chair from 13 September 2018)  
Vivian Evans  
Olga Thomas – appointed 10 May 2018  
Paul Franklin – appointed 06 September 2018  
Paula Hamer – appointed 06 September 2018 – resigned  
21 February 2019  
Annette Longbottom – appointed 08 November 2018

**Employee Members:** Natalie Warner (Deputy Chair until 9 May 2018)  
(Chair from 10 May 2018)  
Mansell Mason – resigned 06 September 2018  
Ceri Price  
Stephen Puddy  
Robert Davenport – resigned 06 September 2018  
Kevin Clifford – resigned 06 September 2018  
Alex Barlett

# Administrative Details (cont.)

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## Employee Members

*(continued):*

Mark Davies – appointed 10 May 2018  
Julie McCarthy – appointed 06 September 2018  
Kris Cole – appointed 06 September 2018  
Kirsty Beattie – appointed 06 September 2018

## Council Members:

Julian Pike – resigned 09 November 2018  
Tanya Skinner – resigned 17 July 2018  
Chris Davies – appointed 17 July 2018 – resigned 18 October 2018  
Steve Peters – appointed 10 January 2019 – resigned 31 March 2019  
Jeremy Davies – appointed 10 January 2019

## Registered Office:

Ty Brychan  
22 Lansbury Road  
Gellideg  
Merthyr Tydfil  
CF48 1HA

## Independent Auditor:

Mazars LLP  
Chartered Accountants  
45 Church Street  
Birmingham  
B3 2RT

## Internal Auditors:

Barcud Shared Services  
Valleys to Coast Ltd  
Tremains Business Park  
Tremains Road  
Bridgend  
CF31 1TZ

## Solicitors:

Trowers and Hamblins LLP  
Sceptre Court  
40 Tower Hill  
London  
EC3N 4DX

## Bankers:

National Westminster Bank Plc  
Heads of the Valleys Branch  
122 High Street  
Merthyr Tydfil  
CF47 8BN

# Administrative Details (cont.)

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**Funders:**

The Royal Bank of Scotland plc  
Global Banking and Markets  
Housing Finance  
9th Floor 250 Bishopsgate  
London  
EC2M 4AA

Principality Building Society  
PO Box 89  
Principality Buildings  
Queen Street  
Cardiff  
CF10 1UA

Merthyr Valleys Homes Limited is a registered society under the Co-operative and Community Benefit Societies Act 2014. Registration number 30532 R. Registered with the Welsh Government as a Registered Social Landlord. Registration number L150

# Strategic Report

## Year ended 31 March 2019

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**The Board present their Strategic Report on the affairs of Merthyr Valleys Homes Limited (MVH), together with the Financial Statements and Auditor's Report, for the year ended 31 March 2019.**

### Legal Status

MVH is established and registered under the Co-operative and Community Benefit Societies Act 2014 and is a Registered Social Landlord, registered with the Welsh Government. MVH has adopted charitable rules. MVH is a not-for-profit mutual organisation administered by a voluntary Board of Management.

### Principal activities and objectives

MVH owns, manages and maintains 4,103 rented homes, including 206 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil. MVH also owns or manages 607 garages, 39 retail units, a block of 12 co-operative housing flats which are leased to Taf Fechan Housing Co-operative Ltd and 278 leasehold properties.

Our Corporate Strategy 'Yfory' was adopted in 2016/17. For us, Yfory will bring:

- Pride in the communities we live in
- Pride in the organisation that we own and work for
- Greater opportunities for each of us to take responsibility

To ensure that Yfory can be achieved, we need to remain financially strong.

Our key objectives are:

### Communities

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- We want to improve all the open plan green areas.
- We want all our homes to be safe, energy efficient and look good from the inside and out.
- We will remain the anchor investor and in all areas we will encourage inward investment.
- We want to provide the greatest opportunities for our community.
- We want all members of our community to feel valued, safe and supported.
- We want to provide a housing solution for young people.
- We want to build the type of houses our community needs.

### Organisation

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- We are a mutual and we will work together to achieve our aims.
- We will live the mutual principles in the way we operate.
- We will act democratically and be accountable to our members.
- We will have a skilled and well trained workforce to deliver the services our members need.
- We will use technology to build better services and stronger relations.
- We will remain a major employer in the Borough setting and encouraging others to adopt the highest standards.

# Strategic Report

## Year ended 31 March 2019

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### Responsibility

- We want to be the best.
- We want to provide support and information to our members to empower them.
- We want to share skills and learning between members.
- We will take responsibility to communicate effectively and always seek positive outcomes for our tenants.
- We will support others to reach their full potential through grants and support.

Our Corporate Strategy Yfory has now come to an end and will be reviewed during 2019/20.

### Financial Performance

The 2018/19 financial statements have been prepared under FRS102, the Financial Reporting Standard applicable in the United Kingdom and Ireland ('FRS102'), the Housing Statement of Recommended Practice – Housing SORP 2014, Statement of Recommended Practice for Registered Social Housing Providers ('SORP 2014') and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

### Statement of Comprehensive Income

The financial result for the year ended 31 March 2019 was an operating surplus of £3.227m, an increase of £0.296m. Our operating margin increased from 15% to 16%, with increased turnover of £1.181m to £20.203m (6%) and a 5% increase in operating expenditure compared to the previous year. Rental income is the largest income stream, representing 90% of turnover and the increase in rental income reflects the agreed 4.5% guideline rent increase issued by

the Welsh Government. Income from the sale of Right to Buy properties increased in the year, with 35 sales in 2018/19 compared to 21 in the previous year.

### Bad Debts and Void Loss

Bad debts and void loss as a percentage of gross rent receivable remained at 1.7% in 2018/19. We have continued to invest in void properties during the year. Void losses in 2018/19 increased by £28,000 compared to 2017/18. The number of void properties at 31 March 2019 was 29.

### Rent Arrears

The cumulative rent arrears adjusted for the receipt of Housing Benefit fell by £10,000, from £704,000 at 1st April 2018 to £694,000 at 31 March 2019. Current arrears fell by £40,000, from £496,000 at 1st April 2018 to £456,000 at 31 March 2019. Former tenant arrears increased by £30,000 from £208,000 at 1st April 2018 to £238,000 at 31 March 2019 however the bad debt provision provides for 100% of this debt as soon as it arises.

### Fixed Assets

The net book value of our housing stock was £58.401m at 31 March 2019. We invested £5.176m in capital improvements during the year and this was offset by £3.590m of depreciation charges. A combination of internal cash balances and grant income from the Welsh Government has been used to fund the capital programme. No impairments to fixed assets were made during the year.

Total grant income was made up of Dowry Gap Funding of £2.9m and £0.334m Social Housing Grant and Housing Finance Grant 2 funding for the development of 3 new properties at Canonbie Crescent which will be completed in 2019/20 and 4 redeveloped flats in Forsythia Close.

# Strategic Report

## Year ended 31 March 2019

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An independent valuation of the housing stock conducted by Cushman & Wakefield based on Existing Use Value including Dowry Gap Funding shows an increase in value to £93.296m as at 31 March 2019.

An independent valuation of our investment properties is conducted every three years. The last valuation was conducted by Savills at 31 March 2018. Our investment properties were valued at £0.878m at 31 March 2019. This is a key estimate (see Note 3 to the Financial Statements).

### Loans

No new loans were drawn during the year from our lenders (RBS and Principality). Our loan balance at 31 March 2019 was £24m. Of this, £20m was at fixed interest rates and £4m at variable rates. Interest payable on our loans increased marginally by 0.3% to £1.878m.

The balance of our loan provided by Merthyr Tydfil CBC in 2014/15 to fund the renovations of Taf Fechan House and to create a new Housing Co-operative was £0.428m at 31 March 2019.

### Pension Fund Asset

The pension fund asset is based on the Actuary's valuation as at 31 March 2019. The Statement of Financial Position shows an increase in the value of the pension fund asset of £1.074m to £4.619m. 2018/19's employer's pension contribution rate was 8.5% compared to 6.4% in 2017/18, rising to 10.7% in 2019/20.

### Net Assets

The overall net assets position at 31 March 2019 is £21.599m, compared to £15.754m at 31 March 2018. This is due to the increase in the value of housing properties as a

result of the major investment programme in existing and new homes, an increase in cash balances held at the year end and the increased value of the Pension Fund asset.

### MVH: Future developments

2018/19 saw the completion of our new Head Office, bringing all employees into one location in May 2018. We said goodbye to our Chief Executive, Michael Owen in April 2019, welcoming Michelle Reid as our new Chief Executive. A key task for 2019/20 will be the review of our Corporate Strategy for the next three years. We will also be concentrating on plans to increase our development of new homes during 2019/20.

### Value for Money (VFM) Statement

MVH publishes an annual Value for Money Statement. The Democratic Body lead on delivering our Value for Money Strategy (Yfory Cryf). Following a consultation with Members the Democratic Body agreed our 7 Golden Rules for Value for Money which ensures that we measure our impact on activities they value. The Democratic Body has approved the 2018/19 VfM Statement on behalf of the Members, concluding that MVH has provided Value for Money during 2018/19.



# Strategic Report

## Year ended 31 March 2019

### Key Performance Indicators (KPIs) 2018/19

Merthyr Valleys Homes reported the following Key Performance Indicators for 2018/19.

KPI	18/19 Target	18/19 Actual	17/18 Actual
Current Tenant Arrears	2.50%	2.41%	2.78%
Empty Home Rent Loss Percentage	1.50%	1.07%	0.98%
Average Time Taken to Complete Emergency Repairs in Working Days	0.5	0.14	0.19
Average Time Taken to Complete Urgent Repairs in Working Days	3	1.79	1.77
Average Time Taken to Complete Routine Repairs in Working Days	28	20.76	22.72
Percentage of Properties with a Valid Landlord Gas Safety Record	100%	99.98%	100%

#### Rent arrears for 2018/19

The changes in welfare reform have continued to impact on the ability of tenants to pay their rent. Our income team have continued to support our tenants to negotiate the welfare benefits system, putting some in a better financial position to meet their rent

liability. Our rent collection performance has improved compared to the previous year and we achieved the target for the year.

#### Empty Home Rent Loss Percentage

Rent loss from empty properties has increased slightly from 0.98% to 1.07% year on year but was within the target for the year. Year end empty property numbers were just 29, less than 1% of our properties. Average turnaround times also improved year on year from 41.59 days to 39.21 days.

#### Average Time Taken to Complete Emergency Repairs

We completed 99.81% of all emergency repairs within the target timescale and our average time taken was just 0.14 working days. This is marginally lower than the previous year.

#### Average Time Taken to Complete Urgent Repairs

We achieved 99.51% of jobs carried out within target time at an average of 1.79 working days in 2018/19, compared to 99.03% of jobs at an average of 1.76 working days in 2017/18. The average time taken has improved year on year and is within the target set.

#### Average Time Taken to Complete Routine Repairs

We completed 86.34% of routine repairs within target time at an average time taken of 20.76 working days, compared to 89.63% of jobs at an average of 22.72 days in 2017/18. We are now more in line with the sector average and our target of 28 days.

#### Percentage of properties with a valid landlord gas safety record

We achieved 100% performance for the first 11 months of the year. There was one property at year end without a valid CP12 certificate where we were unable to gain access which has subsequently been rectified.

# Strategic Report

## Year ended 31 March 2019

### Housing Sector Value for Money Indicators

Ten financial Value for Money indicators have been identified from the Global Accounts which can be viewed at an all Wales level and allows individual organisations to compare themselves to other housing associations. Our performance against these indicators are as follows:

VFM indicator	2018/19 Actual	2017/18 Actual	2017/18 Sector Average
Operating costs for lettings per social housing unit	£3,186	£3,003	£3,186
Management costs per social housing unit	£964	£869	£1,217
Reactive repair costs per social housing unit	£1,550	£1,433	£1,113
Major repairs and component costs per social housing unit	£1,262	£1,288	£970
Total rent per social housing unit	£4,802	£4,496	£5,294
Bad debts per social housing unit	£25	£31	£32
Gross Arrears/Social Housing turnover	5%	5.2%	4.5%
Rental void loss per social housing unit	£48	£41	£79
Weighted average cost of capital	7.7%	7.7%	4.6%
Free cash flow (before draw down or repayment of loans) per social housing unit	£729,000	£-224,000	£383,000

# Strategic Report

## Year ended 31 March 2019

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**Operating costs for lettings per social housing unit** – this shows increased costs compared to the previous year but this is mainly due to the backlog of repair jobs that we have had.

**Management costs per social housing unit** – although our costs have increased slightly compared to last year, they are still below the sector average. These should reduce in future years following a reduction in our overheads as a result of the move to our new Head Office during 2018/19.

**Reactive repairs costs per social housing unit** – our reactive repair costs have increased and are above the sector average due to the backlog of repairs from prior years as noted above.

**Major repairs and component costs per social housing unit** – although we are above the sector average, our cost per unit has reduced marginally year on year, in line with our investment programme. The age of our stock means that we expect to have a higher than average cost for this measure.

**Total rent per social housing unit** was £4,802 which was below last year's sector average; this is not surprising because the recommended rent for Merthyr Tydfil is one of the lowest in Wales but it is an improvement compared to the previous year.

**Bad debts per social housing unit** – our performance is improved compared with the previous year. This is pleasing given the pressures faced by our tenants following the welfare benefit changes.

**Gross arrears as a percentage of turnover** – this shows a slight improvement in performance compared to the previous year, demonstrating that our decision to increase the number of employees in the Income

Collection Team has been beneficial. The pressures on our tenants will continue over the next few years as Housing Benefit claimants transfer to Universal Credit.

**Rental void loss per social housing unit** – we have experienced an increase in void loss however our performance is still better than last year's sector average.

**Weighted average cost of capital** – our percentage is high compared to the sector average because we are locked into a higher priced fixed rate interest agreement entered into on transfer, driven by the financial crisis of 2007/08.

**Free cash** – this identifies whether a business is generating sufficient cash to pay for its day to day management and maintenance expenditure, interest payments and component replacements (such as kitchens and bathrooms). This is the first year since transfer where our free cash is positive because we have not needed to draw any loan finance during the year.

### Risk Management

MVH faces a wide range of business risks. We manage and mitigate these risks using our Risk Management Policy and Strategy. The Board has overall responsibility for risk management and receives a bi-annual report on risk. The Board has delegated the task of monitoring risk to the Audit Committee.

The Risk Management Policy and Strategy is the framework for managing strategic risks which could affect the delivery of our Corporate objectives. The Welsh Government's Sector-Wide Risks have been considered and included, where appropriate.

# Strategic Report

## Year ended 31 March 2019

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Risk is reviewed every quarter by the Senior and Executive Management Teams. The Audit Committee monitors how well risk is managed at each of their meetings, they also determine the risk appetite for each strategic risk. Where a strategic risk is reviewed and is found not to be within our risk appetite, action will be taken to either put further controls and mitigations in place, or to seek further assurance that the identified controls are operating effectively. Our internal auditors perform an annual review of our risk management processes.

Our top 6 risks are:-

1. Welfare Benefit reforms.
2. Community decline/Low demand for housing.
3. Potential insurance liability claims.
4. Differential in costs and income.
5. Data Protection.
6. Brexit.

The direct impact on our business from Brexit is lower than many other sectors, and for the majority of issues, such as direct employment and supply chain risk, are manageable. It is however, the wider economic events that will almost certainly impact on our already fragile economy in Merthyr Tydfil. As an organisation that invests and sustains our community it is difficult to accurately predict but any downward movement in the economy or further rounds of austerity will have significant implications for our community and for Merthyr Valleys Homes.

### Treasury Management

MVH operates a Treasury Management Policy which underpins the annual Treasury Management Strategy and is based around four key principles:-

- Compliance with statute, regulation & best practice.

- Security of financial assets.
- Liquidity.
- Effectiveness & Efficiency in the use of financial resources and achieving value for money.

The Treasury Management Strategy is reviewed and updated annually by our external advisors – Link Asset Services. This is approved annually by the Board. The Board receives a bi-annual report on treasury management performance.

### Financial risk management

MVH's activities expose it to a number of financial risks i.e. liquidity, cash flow and credit risk:

#### **Liquidity risk**

MVH uses a combination of long term and short term debt finance to maintain liquidity, ensuring that sufficient funds are available for ongoing operations and future developments. MVH holds cash, short term investments and has access to grants and a £40m loan facility.

MVH has two main sources of capital funding:-

1. £40m loan facility from the Royal Bank of Scotland (RBS) and Principality Building Society. This comprises £32m from RBS and £8m from Principality BS and is divided into two Tranches, A and B. Tranche A provides £24m and is fully drawn and Tranche B £16m. Tranche B is a revolving facility provided solely by RBS, meaning that it can be drawn and repaid. Tranche B will convert to a "term" loan from 31 March 2023. All borrowings to date have been drawn from Tranche A and therefore cannot be repaid until after we have reached peak debt. At 31 March 2019, our borrowing remained at £24m with no loans drawn down during the year. This was mainly due to additional

# Strategic Report

## Year ended 31 March 2019

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income received from Right to Buy sales during the year and savings from the Capital programme. The repayment of the loan facility is due by 31 March 2034 however our latest forecast indicates that we will repay by 31 March 2030. Peak debt is expected to occur in 2021/22.

2. £2.9m Dowry Gap Funding from the WG which is received on an annual basis and there is an expectation that it will continue to be received until 2036/37.

In 2014 we took out a 25 year loan from Merthyr Tydfil County Borough Council for £510,000 at an all-in interest rate of 2.92%. The outstanding balance on this loan is £428,000 at 31 March 2019. This loan will be repaid via a long term lease agreement with Taf Fechan Housing Co-operative.

### **Cash flow risk**

Three forward fixed rate agreements were put in place on transfer to hedge against adverse movements in interest rates. Two of these have been executed and the final forward fixed rate agreement is in place from 1 April 2020. The loans drawn at 31 March 2019 of £24m consist of £20m at fixed interest rates and £4m at variable rates.

Our Treasury Management Policy and Strategy sets out parameters for the ratio of fixed to variable rate borrowing of between 60-80% at fixed rates to give us certainty over our costs. At 31 March 2019 the ratio of fixed to variable rate borrowing was 84% of total loans outstanding. Board has approved the deviation from policy at the end of March 2019.

### **Credit risk**

MVH's principal financial assets are bank balances and cash, rent arrears and other receivables and investments.

Our credit risk is primarily attributable to rent arrears. The amounts presented in the Statement of Financial Position are net of allowances for bad debts. The credit risk on our investments is limited because the counterparties are banks with credit ratings that fall in line with our Treasury Management Policy.

### **Key Accounting Policies**

The key accounting policies are set out in Note 2 of the Financial Statements on pages 26-33.

### **Going Concern**

The Board has a reasonable expectation that MVH has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### **Reserves Strategy**

MVH has a Use of Capital Receipts Policy which sets out how and when capital receipts can be used. The priority for the use of capital receipts is to:

- Manage cash flow
- Increase capital spending on stock reinvestment
- Purchase properties through a targeted buy back scheme
- Finance development schemes, with Funders approval.

Any cash reserves at year end will be retained and carried forward into the following year. It is not until we reach peak debt that we are able to repay our loans.



Nicola Evans – Chair  
Date: 12 September 2019

# Board Report

## Year ended 31 March 2019

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**The Board are pleased to present their report and audited financial statements for Merthyr Valleys Homes Limited (MVH) for the year ended 31 March 2019.**

### Principal Activities

Merthyr Valleys Homes (MVH) is registered under the Co-operative and Community Benefit Societies Act 2014 and is a not-for-profit mutual organisation administered by a voluntary Board. MVH operates in the Merthyr Tydfil County Borough Council local authority area. MVH's principal activities are the management and improvement of social housing.

### Performance for the Year

The Board reports a surplus of £3.178m. During the year MVH spent £14.049m on reactive, void and cyclical repairs and the capital programme. This was financed from internal financing i.e. rental income; income from the sale of assets; Dowry Gap Funding and other grants.

Net Assets at 31 March 2019 were £21.599m. As at 31 March 2019, the Pension Fund Asset restricted reserve was £4.619m.

### Governance

The Board is responsible for managing the affairs of MVH. Board Members and Senior Officers are listed on page 3 under Administrative Details. The Board Members have held office during 2018/19 unless otherwise stated.

On 1 May 2016, our legal structure changed and MVH became Wales' first tenant and employee mutual housing association, allowing tenants and employees to become members. The mutual has two tiers of governance:

- A Democratic Body made up of 21 member representatives:
  - a) Tenant representatives elected by tenant members;
  - b) Employee representatives elected by employee members;
  - c) Representation from Merthyr Tydfil County Borough Council;
  - d) The Rules also allow for the Democratic Body to appoint an independent Chair if required.
- A Board of 8 Non Executive Directors with the relevant skills and experience who have been appointed by the Democratic Body to run the mutual on their behalf.

There was one Democratic Body vacancy at 31 March 2019.

Each of the two parts of the governance structure has key areas of responsibility set out in the Rules and Governance Framework.

The Board has a legal responsibility for the overall control of the affairs of the mutual. The Democratic Body is responsible for representing members and the wider interests of the community through agreeing a strategic framework for the Board to operate within and by holding the Non-Executive Directors to account. MVH also has an Audit Committee, with membership drawn from the Board and Democratic Body.



# Board Report

## Year ended 31 March 2019

The Senior Executives have no legal status as directors, although they act as executives within the authority delegated by the Board. MVH has insurance policies indemnifying its Board Members and Senior Executives against liability when acting on behalf of the mutual.

### Democratic Body

The Democratic Body forms part of MVH's governance structure along with the Board and is the elected body which represents members and the wider community in MVH's decision making process.

The Democratic Body met 6 times during 2018/19 and held 1 joint session with the Board. The Democratic Body's responsibilities include;

- Appointing and removing the Chair of the Board of Directors and other Non-Executive Directors
- To work with and support the Board of Directors and Chief Executive in developing the mutual's Business Plan
- To approve the mutual's corporate plan, policy framework and programme of internal audit
- To monitor the performance of the mutual and the Board of Directors against the corporate strategy

During 2018/19 the Democratic Body:

- Took a key role in the appointment of the Chief Executive and 2 Non-Executive Directors.
- Elected representatives to the Working Group to oversee changing the mutual's Rules.
- Agreed our 7 Golden Rules for Value for Money.
- Took part in focus groups to help achieve the Quality in Equality and Diversity (QED) accreditation which we received in May 2019.

- Participated in budget setting for 2019/20.
- Approved the Internal Audit plan for 2019/20.
- Assisted with the development of the Communications Strategy.

A full list of the functions of the Democratic Body are detailed within the MVH rules available at [www.mvhomes.org.uk](http://www.mvhomes.org.uk)

### MVH Membership

Members are separated into two constituencies: tenants and employees. Members have access to information, a voice in the mutual and an opportunity to play a representative role in its governance.

	No.	%
Tenants	1144	86.6%
Employees	177	13.4%

### Employees

The number of employees at 31 March 2019 was 197. The ability to meet our objectives and commitments to tenants in an efficient and effective manner depends on the contribution of all our employees. We recognise and value diversity and we are committed to strengthening community cohesion and to providing equal opportunities in employment by adhering to our Equal Opportunities Policy.

# Board Report

## Year ended 31 March 2019

### Charitable Donations

MVH made £44,441 in charitable donations during the year which were approved by the Grants and Sponsorship Panel. This included the following grants:-

	£
Pontsticill Community Group	3,440
Forsythia Youth Club	1,816
Merthyr Tydfil Phab Club	665
Royal Crescent Allotment Society	1,411
Gurnos Mens Project	4,388
Ty Hafan	750
MS Society RCT	500
Genetic Alliance UK	250
Cancer Aid Merthyr Tydfil	1,000
Noahs Ark Childrens Hospital	625
Shelter Cymru	500
Dowlais Ladies Hockey	500
Gellideg Foundation	12,080
Alzheimers Society Cymru	1,000
St Tydfils Residents Street Pastors	500
Heolgerrig Red Lion Community FC	2,224
Willows Youth Club	3,420
Taff Bargoed Wellbeing Association	652
Merthyr And The Valleys Mind	5,000
Valleys Steps	500
Llamau	860
Downs Syndrome Association	500
Merthyr Cynon Foodbank	1,500
Barnardos Young Carers Service	360

### Statement of Internal Control

In accordance with the Welsh Government Circular RSL 02/10 Internal Controls and Reporting, the Board acknowledges its responsibilities for the systems of internal control and reviewing their effectiveness. The Board also acknowledges its

responsibility for the wider aspects of risk. The Audit Committee reviews the effectiveness of MVH's internal controls on an on-going basis and ensures that all necessary actions are taken to remedy any significant failings or weaknesses which may be identified.

The mutual's systems are designed to provide reasonable but not absolute assurance regarding:-

- The safeguarding of assets.
- The maintenance of proper accounting records.
- The reliability of financial information.
- The management of risks which could adversely affect the mutual's ability to achieve its corporate objectives (Y Fory).

The following mechanisms constitute the key elements of the framework designed and implemented by management to provide effective internal control:-

- Standing Orders and Financial Regulations which sets out the Scheme of Delegation.
- Contract Standing Orders setting out the framework for the procurement of goods and services.
- Clearly defined corporate and divisional management responsibilities and reporting structures.
- Suitably experienced and qualified staff members.
- Formal policies and procedures adopted by the Board and Democratic Body and understood by staff.
- Comprehensive systems of financial reporting including annual budgets and quarterly management accounts reported to the Board, detailing actual performance against budget.
- Regular monitoring of loan covenants.
- A Risk Management Framework that is regularly reviewed and evaluated by the Board and Audit Committee.



# Board Report

## Year ended 31 March 2019

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- A range of anti-fraud policies, including anti-bribery and anti money-laundering which are understood by staff. A Fraud Register is maintained and reviewed by the Audit Committee at each meeting.
- Board authorisation of major contracts which could pose a risk to the organisation.
- A robust internal audit service which reports to Audit Committee regularly.
- A thirty year financial business plan that is updated and approved annually and is also used for medium term financial planning.
- A Procurement Strategy setting out how MVH will conduct procurement activities.
- Annual Declarations of Interest returns from all Board members, Democratic Body representatives and staff.
- A Gifts and Hospitality Register which is reviewed by the Audit Committee at each meeting.
- A Schedule 1 Register is maintained and all entries are reported to the Board by the Company Secretary.

The Audit Committee has reviewed the effectiveness of MVH's internal controls during the year. No weaknesses were found that resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the Auditor's Report and the Board are not aware of any such weaknesses from 1 April 2019 to date.

### Statement of Board Members' Responsibilities

The Board is responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations. The Co-operative and Community Benefit Societies Act 2014 and Housing Association legislation requires the

Board to prepare financial statements for each financial year. Under that legislation the Board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) - FRS102, the Financial Reporting Standard applicable in the United Kingdom and Ireland.

Under Housing Association legislation the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of MVH and of the surplus or deficit of MVH for that period. In preparing these financial statements the Board is required to:

- Select suitable accounting policies, and apply them consistently.
- Make judgments 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 MVH will continue in business.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain MVH's transactions and disclose with reasonable accuracy at any time the financial position of MVH and ensure that the financial statements comply with Housing Association legislation. Board Members are also responsible for safeguarding the assets of MVH and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Board Report

## Year ended 31 March 2019

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

### **Disclosure of information to the Auditor**

Each of the Board Members at the date of approval of this report has confirmed that:

- As far as the Board members are aware, there is no relevant audit information of which the mutual's auditor is unaware.
- The Board Members have taken all the steps that they ought to have taken as Board Members in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### **Annual Members Meeting**

The Annual Members Meeting will be held on 12 September 2019 at the Merthyr Town Football Club. At this meeting, MVH's 2018/19 Financial Statements will be presented for adoption.

### **Auditor**

The Democratic Body passed a resolution to reappoint Mazars LLP on 5th September 2019.



By order of the Board  
Nicola Evans – Chair  
Date: 12 September 2019

# Independent auditor's report to the members of Merthyr Valleys Homes Limited

## Year ended 31 March 2019

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### Opinion

We have audited the financial statements of Merthyr Valleys Homes Limited (the 'association') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Reserves 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2019 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards

are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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.

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

The Directors' view on the impact of Brexit is disclosed on page 12.

The terms on which the United Kingdom may withdraw from the European Union are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

# Independent auditor's report to the members of Merthyr Valleys Homes Limited

## Year ended 31 March 2019

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### Conclusions relating to going concern

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

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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 is responsible for the other information. The other information comprises the information included in the Strategic Report and Board Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

We have reviewed the Board's statement on the association's compliance with the Welsh Government circular RSL 02/10 'Internal controls and reporting'. We are not required to express an opinion on the effectiveness of the association's system of internal control.

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.

### Opinion on other matters prescribed by the Welsh Government circular RSL 02/10 'Internal controls and reporting'

In our opinion, based on the work undertaken in the course of the audit with respect to the Board's statement on internal control:

- the Board has provided the disclosures required by the Welsh Government circular RSL 02/10 'Internal controls and reporting'; and
- the statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

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

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

- the association has not kept proper books of account; or

# Independent auditor's report to the members of Merthyr Valleys Homes Limited

## Year ended 31 March 2019

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

### Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on page 17, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the 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 intends 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.

### Use of the audit report

This report is made solely to the association's members as a body in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body for our audit work, for this report, or for the opinions we have formed.

Mazars LLP

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

Date: 12 September 2019

# Statement of Comprehensive Income

## Year Ended 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Turnover</b>	4	20,203	19,022
Operating expenditure	4	<u>(16,976)</u>	<u>(16,091)</u>
<b>Operating Surplus</b>	5	3,227	2,931
Surplus on disposal of property, plant and equipment	6	1,694	814
Interest receivable	7	135	112
Interest and financing costs	8	(1,878)	(1,872)
Change in fair value of investment properties	15	<u>-</u>	<u>(19)</u>
<b>Surplus before tax</b>		3,178	1,966
Taxation	2(n)	-	-
<b>Surplus for the year</b>		<u>3,178</u>	<u>1,966</u>
<b>Other Comprehensive Income</b>			
Actuarial gain in respect of pension schemes	31	2,667	809
<b>Total comprehensive income for the year</b>		<u>5,845</u>	<u>2,775</u>

### Continuing Operations

All transactions during the period are derived from continuing activities.

# Statement of Financial Position

## At 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Fixed Assets</b>			
Intangible assets	11	738	828
Property, Plant and Equipment			
– Housing properties	12	58,401	57,219
– Other property plant and equipment	14	5,199	5,051
Investment properties	15	878	878
		<u>65,216</u>	<u>63,976</u>
<b>Current Assets</b>			
Inventories	16	19	12
Debtors			
– Amounts falling due within one year	17	1,588	1,346
– Amounts falling due after one year	18	55,616	61,281
Cash and cash equivalents	27	6,168	1,654
		<u>63,391</u>	<u>64,293</u>
Creditors: amounts falling due within one year	19	(3,300)	(3,517)
Dowry funding and other government grants: amounts falling due within one year	22	(1,730)	(1,537)
Net current assets excluding pension asset		58,361	59,239
Pension asset	31	4,619	3,545
Net current assets including pension asset		<u>62,980</u>	<u>62,784</u>
<b>Total assets less current liabilities</b>		<b>128,196</b>	<b>126,760</b>
Creditors: amounts falling due after more than one year	20	(24,477)	(24,473)
Dowry funding and other government grants: amounts falling due after more than one year	22	(26,459)	(25,084)
Provisions for liabilities	29	(55,661)	(61,449)
<b>Net Assets</b>		<b><u>21,599</u></b>	<b><u>15,754</u></b>
<b>Capital and Reserves</b>			
Share capital	23	-	-
Revenue reserves		16,980	12,209
Restricted reserves	24	4,619	3,545
		<u>21,599</u>	<u>15,754</u>

The Financial Statements on pages 22 to 57 were approved and authorised for issue by the Board of Management on 12 September 2019 and were signed on its behalf by:



Chair of the Board  
(Nicola Evans)



Deputy Chair  
(Elizabeth Lendering)



Company Secretary  
(Allison Soroko)



# Statement of Changes in Reserves

## Year ended 31 March 2019

	Notes	Revenue reserves £'000	Restricted reserves £'000	Total £'000
At 1 April 2017		9,213	3,766	12,979
Surplus for the year		1,966	-	1,966
<u>Other comprehensive income</u>	31			
Actuarial gain in respect of pension schemes		-	809	809
Total comprehensive income		11,179	4,575	15,754
Transfer between reserves	24	1,030	(1,030)	-
<b>At 31 March 2018</b>		<b>12,209</b>	<b>3,545</b>	<b>15,754</b>

  

	Notes	Revenue reserves £'000	Restricted reserves £'000	Total £'000
At 1 April 2018		12,209	3,545	15,754
Surplus for the year		3,178	-	3,178
<u>Other comprehensive income</u>				
Actuarial gain in respect of pension schemes	31	-	2,667	2,667
Total comprehensive income		15,387	6,212	21,599
Transfer between reserves	24	1,593	(1,593)	-
<b>At 31 March 2019</b>		<b>16,980</b>	<b>4,619</b>	<b>21,599</b>

### Revenue Reserve

The Revenue reserve represents cumulative surpluses and deficits of the Association.

### Restricted Reserves

The Restricted reserve relates to the Pension Fund Asset.



# Statement of Cash Flows

## Year ended 31 March 2019

	Note	2019 £'000	2018 £'000
<b>Net cash generated from operating activities</b>	27	7,504	6,188
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(5,699)	(5,055)
Purchase of other fixed assets		(338)	(3,865)
Proceeds from sale of property, plant and equipment		1,694	814
Grants received		3,234	3,374
Interest received		38	10
<b>Net cash flows from investing activities</b>		<u>(1,071)</u>	<u>(4,722)</u>
<b>Cash flows from financing activities</b>			
Interest paid		(1,783)	(1,759)
Interest element of finance lease rental payments		(37)	(34)
Repayment of borrowings		(20)	(20)
Capital element of finance lease rental payments		(113)	(94)
Revenue loan arrangement		34	34
<b>Net cash flows from financing activities</b>		<u>(1,919)</u>	<u>(1,873)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		4,514	(407)
<b>Cash and cash equivalents at beginning of year</b>		1,654	2,061
<b>Cash and cash equivalents at end of year</b>		<u><b>6,168</b></u>	<u><b>1,654</b></u>

### Free cash flow for the year end 31 March 2019

	2019 £'000	2016 £'000
<b>Net cash generated from operating activities</b>	7,504	6,188
Interest paid	(1,749)	(1,725)
Interest received	38	10
Adjustments for reinvestment in existing properties:		
Component replacements	(5,699)	(4,908)
Purchase of other replacement fixed assets	(338)	(3,865)
Component replacement grant received	3,234	3,374
Free cash generated/(consumed) before loan repayments	<u>2,990</u>	<u>(926)</u>
Loans repaid (excluding revolving credit and overdrafts)	(20)	(20)
<b>Free cash generated/(consumed) after loan repayments</b>	<u><b>2,970</b></u>	<u><b>(946)</b></u>

# Notes to the Financial Statements

## Year ended 31 March 2019

### 1) a) General information

The financial statements of Merthyr Valleys Homes Limited (MVH) for the year ended 31st March 2019 comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and the related notes. The financial statements are presented in sterling (£).

### b) Company information

MVH is registered under the Co-operative and Community Benefit Societies Act 2014 and is a Registered Social Landlord, registered with the Welsh Government. MVH has adopted charitable rules. MVH is incorporated in the United Kingdom. Its registered office is Ty Brychan, 22 Lansbury Road, Gellideg, Merthyr Tydfil, CF48 1HA.

MVH owns, manages and maintains 4,103 rented homes, including 206 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil. MVH also owns or manages 607 garages, 39 retail units, a block of 12 co-operative housing flats which are leased to Taf Fechan Housing Co-operative Ltd and 278 leasehold properties.

### 2) Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### a) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with

Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and comply with the Statement of Recommended Practice for Registered Social Housing Providers 2014 (SORP), the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015. Merthyr Valleys Homes Limited is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

#### b) Intangible assets

Intangible assets are stated at historic cost, less accumulated amortisation. Amortisation is provided on all intangible assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

Component	Projected Economic Life (years)
Computer software	5-8

#### c) Property, plant and equipment - housing properties

Following the stock transfer on 30 March 2009 the properties were valued at £nil. Housing properties are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings, directly attributable development costs and borrowing costs directly attributable to the construction of new housing properties during the development. Directly attributable costs can include the labour costs of Merthyr Valleys Homes in-house Homes and

# Notes to the Financial Statements

## Year ended 31 March 2019

Property Services Team, materials and overhead costs.

Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives. Freehold land is not depreciated. Properties in the course of construction are not depreciated.

Traditionally built properties are depreciated over 100 years. Non-traditionally built properties are depreciated over 50 years.

### Major components

Major components of housing properties, which have significantly different patterns of consumption of economic benefits, are treated as separate assets and depreciated over their expected useful economic lives at the following annual rates:

Component	Projected Economic Life (years)
Roofs	50
Windows and Doors	30
Kitchens	15
Bathrooms	25
Heating Systems	15
Rewires	25
Building Structure (walls, retaining walls, paths etc)	50
Other	10-15

Properties held on long leases are depreciated over their estimated useful economic lives or the duration of the lease, if shorter.

### Improvements

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in surplus or deficit in the Statement of Comprehensive Income. To increase an asset's performance, expenditure must result in one or more of the following:-

- Increased rental income.
- A reduction in future maintenance costs.
- A significant extension to the useful life of the property.

### Leaseholders

Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by MVH is recharged to the leaseholder and recognised in surplus or deficit in the Statement of Comprehensive Income along with the corresponding income from the leaseholder or tenant.

### Timing of depreciation on housing properties

The commencement of depreciation charged to the Statement of Comprehensive Income in respect of an asset is in the month of recognition of the completed asset.

# Notes to the Financial Statements

## Year ended 31 March 2019

### d) Non-housing property, plant and equipment

Non-housing property, plant and equipment is stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all non-housing property, plant and equipment, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Component	Projected Economic Life (years)
Office Premises	100
Office Improvements	10
Furniture, fixtures and fittings	10-15
Telephone System	8
Office Equipment	5-10
Computer Implementation Hardware	5-8
Computer Hardware – Other	3
Scheme Equipment and Furniture	10-25
Motor Vehicles	Lease term

The re-life of an asset will only occur in exceptional circumstances where the asset's useful economic life is known in advance to be reduced.

#### Timing of depreciation on non-housing property, plant and equipment

The commencement of depreciation charged to the Statement of Comprehensive Income in respect of

an asset is in the month following the acquisition of that asset.

### e) Investment properties

The classification of properties as investment property or property plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation, or both, are classified as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property plant and equipment. Mixed use property is separated between investment property and property, plant and equipment.

Land is accounted for based on its intended use. Where land is acquired speculatively with the intention of generating a capital gain and/or a commercial rental return it is accounted for as investment property. Where land is acquired for use in the provision of social housing or for a social benefit it is accounted for as property, plant and equipment.

Investment properties are measured at fair value annually with any change recognised as a surplus or deficit in the Statement of Comprehensive Income.

### f) Impairment of social housing properties

Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential.

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator

# Notes to the Financial Statements

## Year ended 31 March 2019

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exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised as a surplus or deficit in the Statement of Comprehensive Income. The recoverable amount of an asset is the higher of its value in use or fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model.

Merthyr Valleys Homes check annually for any indication of impairment by reference to:-

- A contamination or other similar issue that was not identified as part of the planning of a development which results in a material increase in development costs.
- A change in government policy, regulation or legislation which has a material detrimental impact on the development programme or scheme.
- A change in demand for a property that is considered irreversible.
- A material reduction in the market value of properties in those circumstances where assets are intended or expected to be sold.
- Obsolescence of a property, or part of a property.
- Significant changes with an adverse effect on the social landlord have taken place during the period, or are expected to take place in the near future, in the

extent to which, or manner in which, an asset is used or is expected to be used.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply. This surplus or deficit will be shown in the Statement of Comprehensive Income.

### **g) Social Housing Grant and other Government grants**

Where grants are received from government agencies such as the Welsh Government, local authorities, devolved government agencies, health authorities and the European Commission and meet the definition of government grants, they are recognised when there is reasonable assurance that the conditions attached to them will be complied with and that the grant will be received. Dowry gap funding is received from the Welsh Government and it is not repayable.

Government grants are recognised using the accrual model and are classified either as a grant relating to revenue or a grant relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants relating to assets are recognised in income on a systematic basis over the

# Notes to the Financial Statements

## Year ended 31 March 2019

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expected useful life of the asset. Grants received for housing properties are recognised in income over the expected useful life of the housing property structure. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

Grants received from non-government sources are recognised as revenue using the performance model.

### **h) Donation or acquisition of land or other asset at below market value**

Where a donation of land and/or other assets is received or MVH acquires land and/or other assets at below their market value from a third party that does not meet the definition of a government source; the transaction is recognised as an asset in the Statement of Financial Position at fair value, taking account of any restrictions on the use of the asset. Income equivalent to the difference between any amounts paid or payable for the asset and the fair value of the asset is recognised as a surplus or deficit in the Statement of Comprehensive Income as a donation when future performance-related conditions are met.

### **i) Agreements to improve existing properties**

MVH has a 15 year VAT Shelter in place, approved by HMRC. The VAT Shelter transfers the VAT cost of the works required to meet the Welsh Housing Quality Standard (WHQS) to Merthyr Tydfil County Borough Council. The

transactions are as follows:

- Under the transfer agreement the Council transferred the properties to MVH together with an obligation to undertake the WHQS works at the Council's expense. The price paid for the properties was £133,023,642; this price reflects the Tenanted Market Value of the stock which is nil and the estimated value of the works of £133,023,642.
- The Council discharged its obligation to carry out the works under the Transfer Agreement by entering into a 15 year Development Agreement with Merthyr Valleys Homes. This is a fixed price contract for £133,023,642 plus VAT of £19,953,546.

Over the life of the Development Agreement, MVH is entitled to reclaim VAT on the costs it incurs from third parties for carrying out the WHQS works, as detailed in the Development Agreement.

The commercial effect of these transactions is that MVH has both an asset (the Council's obligation to have the refurbishment work carried out) and a legally binding obligation to a third party (under the Development Agreement) and these assets and liabilities are recognised in the financial statements.

### **j) Inventories**

Inventories are stated at the lower of cost and net realisable value.

### **k) Restricted reserves**

Where reserves are subject to an external restriction they are separately recognised



# Notes to the Financial Statements

## Year ended 31 March 2019

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within reserves as a restricted reserve. Revenue and expenditure is included in surplus or deficit in the Statement of Comprehensive Income and a transfer is made from the general reserve to the restricted reserve. A description of each restricted reserve is included in Note 24.

### **l) Leased assets**

At inception MVH assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

#### Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Each lease payment is apportioned between the finance charge and the reduction of the outstanding lease liability. The finance charge is recognised on a basis that reflects a constant periodic rate of interest on the finance lease liability.

#### Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Payments under operating leases are charged to surplus or deficit in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

### **m) Interest payable**

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. For new loans, these costs are allocated to the Statement of Comprehensive Income over the term of the loan. Where loans are redeemed, the full cost of any redemption penalty is recognised in the Statement of Comprehensive Income in the year redemption takes place.

### **n) Taxation**

#### **(a) VAT**

Merthyr Valleys Homes is registered for VAT. The financial statements include VAT to the extent that it is suffered by Merthyr Valleys Homes and not recoverable from HM Revenue and Customs (HMRC). The balance of the VAT payable or recoverable at the year end is included as a current liability or asset.

#### **(b) Corporation Tax**

MVH is treated as charitable for taxation purposes. This was confirmed by HM Revenue and Customs (HMRC) on 3 September 2008.

# Notes to the Financial Statements

## Year ended 31 March 2019

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Consequently, the surpluses derived from primary charitable activities are exempt from taxation.

### **o) Pensions**

#### Local Government Pension Scheme

MVH participates in the Rhondda Cynon Taf County Borough Council (RCTCBC) Local Government Pension Scheme. The Fund is administered by Rhondda Cynon Taf County Borough Council. Many of the staff who transferred to Merthyr Valleys Homes at the time of transfer were members of the fund and any pension liabilities on transfer were fully funded by the Council, with subsequent costs to be incurred by the mutual. A Pension Bond is in place for the sum of £1,228,000 (the Bond amount).

All existing employees have the option of joining the pension scheme however all new employees are automatically enrolled. It is a defined benefit scheme and since 2014 the scheme provides benefits based on career average pensionable pay.

The Local Government Pension Scheme is a multi-employer scheme where it is possible for individual employers, as admitted bodies, to identify their share of the assets and liabilities of the pension scheme. For this scheme the amounts charged to operating surplus are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to revenue

and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of MVH, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each Statement of Financial Position date.

### **p) Turnover**

Turnover represents rent and service charges receivable (net of rent and service charge losses from voids and the Direct Debit discount) and disposal proceeds of current assets together with revenue grants from local authorities; the Welsh Government and charitable fees and donations.

### **q) Leaseholder sinking fund**

Where leaseholders pay in advance for identified future planned or major works, any unutilised contributions are recognised as a liability in the Statement of Financial Position.

### **r) Financial instruments**

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



# Notes to the Financial Statements

## Year ended 31 March 2019

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### Financial Assets

Financial assets comprise rent arrears, trade and other receivables and cash and cash equivalents. Financial assets are initially recognised at transaction value plus directly attributable transaction costs.

Provision is made against rent arrears of current and former tenants as well as other debts, to the extent that they are considered potentially irrecoverable.

A financial asset is derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred.

If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

### Financial Liabilities

These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Non-current debt instruments which meet the necessary conditions in FRS 102 are initially recognised at transaction value and adjusted for any directly attributable transaction cost, with interest-related charges recognised as an expense in Financing Costs in the Statement of Comprehensive Income. Where a non-current debt instrument has a non basic element, this is measured at fair value annually, with any change recognised in the Statement of Comprehensive Income.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

### **s) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

### **3. Significant Management Judgements and Key Sources of Estimation Uncertainty**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### **Significant management judgements**

The following are management judgements in applying the accounting policies of MVH that have the most

# Notes to the Financial Statements

## Year ended 31 March 2019

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significant effect on the amounts recognised in the financial statements.

### Impairment of social housing properties

MVH have to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP.

### **Estimation uncertainty**

MVH make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### Fair value measurement

Management uses valuation techniques to determine the fair value of assets. Details of MVH's financial instruments measured at fair value are set out in note 21. Treasury management specialists are engaged to provide MVH with the valuation. Investment properties are measured at fair value, using market values prepared by a firm of property valuation experts.

### Provisions

Using information available at the year end date, management estimate the level of provision required to account for potentially uncollectible debts. Provision is made for dilapidations and onerous leases on vacation of our leased office. These provisions require management's best estimate of the costs that will be incurred based on contractual requirements.

### Defined benefit pension scheme

MVH has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate of corporate bonds. Management estimates these factors in determining the net pension asset in the Statement of Financial Position. The assumptions reflect historical experience and current trends. A firm of actuaries are engaged to provide MVH with expert advice about the assumptions to be applied.

# Notes to the Financial Statements

## Year ended 31 March 2019

### 4) Turnover, Operating Costs and Operating Surplus

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

##### Note A

	2019 Turnover £'000	2019 Operating Costs £'000	2019 Operating Surplus £'000	2018 Turnover £'000	2018 Operating Costs £'000	2018 Operating Surplus £'000
Social Housing lettings (Note B)	19,704	16,764	2,940	18,573	15,976	2,597
Other social housing activities						
Supporting People	149	212	(63)	128	115	13
Other grant income	7	-	7	8	-	8
Other income	343	-	343	313	-	313
<b>Total</b>	<b>20,203</b>	<b>16,976</b>	<b>3,227</b>	<b>19,022</b>	<b>16,091</b>	<b>2,931</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

### Particulars of income and expenditure from social housing lettings

Note B	General Needs £'000	Sheltered Housing £'000	2019 £'000	2018 £'000
<b>Income</b>				
Rents receivable	17,023	835	17,858	16,915
Service charges income	46	134	180	168
Amortised government grants	1,666	-	1,666	1,490
<b>Turnover from social housing lettings</b>	<b>18,735</b>	<b>969</b>	<b>19,704</b>	<b>18,573</b>
<b>Expenditure</b>				
Service charge costs	1	72	73	59
Management	3,577	380	3,957	3,588
Tenant support	169	-	169	139
Routine maintenance	6,361	-	6,361	5,920
Major repairs expenditure	2,512	-	2,512	2,698
Bad debts from rent	63	-	63	94
Bad debts from other income	39	-	39	32
Depreciation of housing properties	3,590	-	3,590	3,446
<b>Operational costs</b>	<b>16,312</b>	<b>452</b>	<b>16,764</b>	<b>15,976</b>
<b>Operating surplus social housing lettings</b>	<b>2,423</b>	<b>517</b>	<b>2,940</b>	<b>2,597</b>
Void losses	188	9	197	169

### Within grant and other income in Note A is income received from the following:

	2019 £'000	2018 £'000
Grants from Supporting People Revenue Grant (SPRG)	149	128
Other grant income	7	8
Shop rents	187	140
Leaseholders	55	96
Other income	<u>101</u>	<u>78</u>

# Notes to the Financial Statements

## Year ended 31 March 2019

### 5) Operating Surplus

Operating surplus for the year is after charging:	2019 £'000	2018 £'000
Amortisation – intangible assets	143	143
Depreciation – housing properties	3,590	3,355
Impairment – housing properties	-	88
Depreciation – other fixed assets	310	291
Impairment - other fixed assets	-	6
Auditor's remuneration in respect of audit services	19	18
Operating lease rentals (other)	10	4
Rent losses from voids	197	169
Bad debt costs	102	126

### 6) Surplus on Disposals of Property, Plant and Equipment

	2019 £'000	2018 £'000
Sales proceeds	2,139	1,086
Less costs of sale	(377)	(193)
Surplus on sale of housing properties	1,762	893
Loss on the disposal of other fixed assets	(68)	(79)
Surplus on disposal	<b>1,694</b>	<b>814</b>

Sales proceeds include the sale of 35 Right to Buy properties (2018: 21 properties).

### 7) Interest Receivable

	2019 £'000	2018 £'000
Bank interest receivable	26	10
HFG2 interest receivable	12	-
Pension finance income	97	102
<b>Total</b>	<b>135</b>	<b>112</b>

### 8) Interest and Financing Costs

	2019 £'000	2018 £'000
Bank loans and overdrafts	1,841	1,838
Finance lease charges	37	34
<b>Total</b>	<b>1,878</b>	<b>1,872</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

### 9) Directors' Emoluments

The key management personnel are the Executive Officers listed on page 3.

	2019 £'000	2018 £'000
Wages and salaries	287	380
Social security costs	36	39
Other pension costs	24	17
<b>Total Staff Costs</b>	<b>347</b>	<b>436</b>
Emoluments of the highest paid Director, excluding pension contributions	125	122

The highest paid Director (Chief Executive) is an ordinary member of the Merthyr Valleys Homes defined benefit pension scheme with no enhanced or special terms applied to their membership. MVH makes no contribution to any individual pension arrangement in respect of the highest paid Director other than LGPS contributions.

No remuneration was paid to the Members of the Board during the year (2018: £Nil).

The full time equivalent number of key personnel including the Chief Executive whose remuneration payable in the period fell within the following bands:

	2019 No.	2018 No.
£90,001- £100,000	-	1
£100,001 - £110,000	2	2
£110,001 - £120,000	-	-
£120,001 - £130,000	-	1
£130,001 - £140,000	1	-

# Notes to the Financial Statements

## Year ended 31 March 2019

### 10) Staff Costs

	2019 £'000	2018 £'000
Staff costs during the year:		
Wages and salaries	5,220	4,997
Social security costs	678	681
Other pension costs	2,126	1,437
<b>Total staff costs</b>	<b>8,024</b>	<b>7,115</b>

### The average monthly number of staff – full time equivalent

	2019 No:	2018 No:
This comprises:		
Central Support Services, encompassing:		
Finance, HR, Corporate Services and Administration	36	38
Homes and Property Services	98	98
Housing	59	53
<b>Total</b>	<b>193</b>	<b>189</b>

Staff employed at year end – full time equivalent	<b>197</b>	<b>190</b>
The calculations are based on a 37 hour working week		

### 11) Intangible Assets

Cost	Computer software £'000
At 1 April 2018	1,663
Additions during the year	53
Disposals during the year	(297)
At 31 March 2019	1,419
<b>Amortisation</b>	
At 1 April 2018	835
Charge for the year	143
Disposals during the year	(297)
At 31 March 2019	681
<b>Net book value</b>	
<b>At 31 March 2019</b>	<b>738</b>
At 1 April 2018	828

The cost includes £721,904 of externally purchased computer software and £697,218 of computer software developed in-house.

# Notes to the Financial Statements

## Year ended 31 March 2019

### 12) Tangible Fixed Assets – Housing and Other Properties

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	2019 Total £'000
<b>Cost</b>			
At 1 April 2018	74,849	425	75,274
Transferred on completion	425	(425)	-
Additions during the year	5,143	33	5,176
Disposals during the year	(534)	-	(534)
At 31 March 2019	79,883	33	79,916
<b>Depreciation</b>			
At 1 April 2018	18,055	-	18,055
Charge for the year	3,590	-	3,590
Disposals during the year	(130)	-	(130)
At 31 March 2019	21,515	-	21,515
<b>Net book value</b>			
<b>At 31 March 2019</b>	<b>58,368</b>	<b>33</b>	<b>58,401</b>
At 1 April 2018	56,794	425	57,219

Costs capitalised during the year related to components. Total expenditure on properties during the year was £13.66m. Of this £5.18m was capitalised and £8.48m was expensed through the Statement of Comprehensive Income.



# Notes to the Financial Statements

## Year ended 31 March 2019

### 13) Housing Stock

	2019 No	2018 No
General Needs	3,897	3,925
Sheltered	206	206
Garages	394	414
Retail Premises	32	32
Co-operative Housing	12	12
Leasehold Houses	166	170
Leasehold Flats	112	113
Leasehold Garages	213	213
Leasehold Retail Premises	7	7
<b>Total</b>	<b>5,039</b>	<b>5,092</b>

### 14) Tangible Fixed Assets - Other

Cost	Office Furniture £'000	Office Equipment £'000	Scheme Equipment £'000	Motor vehicles £'000	Office premises £'000	Total £'000
At 1 April 2018	670	587	145	494	4,258	6,154
Additions during the year	28	153	72	72	173	498
Disposals during the year	(443)	(140)	(3)	(22)	-	(608)
At 31 March 2019	255	600	214	544	4,431	6,044

#### Depreciation

At 1 April 2018	436	417	42	208	-	1,103
Charge for the year	50	104	11	109	36	310
Disposals during the year	(408)	(137)	(1)	(22)	-	(568)
At 31 March 2019	78	384	52	295	36	845

#### Net Book Value

<b>At 31 March 2019</b>	<b>177</b>	<b>216</b>	<b>162</b>	<b>249</b>	<b>4,395</b>	<b>5,199</b>
At 1 April 2018	234	170	103	286	4,258	5,051

Office equipment includes finance leases with a cost of £41,000 (2018: £10,000), accumulated depreciation of £16,000 (2018: £8,000) and a net book value of £25,000 (2018: £2,000). Motor vehicles includes finance leases with a cost of £544,000 (2018: £494,000), accumulated depreciation of £295,000 (2018: £208,000) and a net book value of £249,000 (2018: £286,000).

# Notes to the Financial Statements

## Year ended 31 March 2019

### 15) Investment Properties

	2019 £'000	2018 £'000
At 1 April	878	897
Changes on revaluation of investment properties	-	(19)
<b>At 31 March</b>	<b>878</b>	<b>878</b>

Had the investment properties been measured at historical cost, the carrying value would be £Nil (2018: £Nil).

The fair value of the investment properties was undertaken by Savills, a global real estate services provider who specialise in loan valuations for security and accounts for Housing Associations and Local Authorities and hold a professional qualification with the Royal Institute of Chartered Surveyors (RICS). The method of determining fair value was by reference to market value for comparable property. Other factors taken into account include the tenure of the property, tenancy details, the condition of the building, the environmental risks associated with the property and the floor areas of the properties. The valuation is obtained triennially. A valuation of the investment properties was undertaken at 31 March 2018.

### 16) Inventories

Analysis of stock held:	2019 £'000	2018 £'000
Materials and consumables	19	12

### 17) Debtors: Amounts Falling Due Within One Year

	2019 £'000	2018 £'000
Rent arrears	977	973
Less: Provision for bad debts	(312)	(295)
	665	678
Sales Debtors	429	342
Less: Provision for bad debts	(222)	(186)
	207	156
VAT	142	50
Other Debtors	574	462
<b>Total</b>	<b>1,588</b>	<b>1,346</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

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### 18) Debtors: Amounts falling due after one year

	2019	2018
	£'000	£'000
<b>WHQS Works</b>		
At beginning of year	61,160	64,976
Released during the year	(5,938)	(3,816)
<b>At the end of the year</b>	<b>55,222</b>	<b>61,160</b>
<b>HFG2</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	121	-
Recognised during the year	136	121
Released during the year	(4)	-
<b>At the end of the year</b>	<b>253</b>	<b>121</b>
<b>Environmental Warranty</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	-	-
Recognised during the year	141	-
Released during the year	-	-
<b>At the end of the year</b>	<b>141</b>	<b>-</b>
	<b>55,616</b>	<b>61,281</b>

See Note 29 - Provisions for Liabilities for information on WHQS works.

# Notes to the Financial Statements

## Year ended 31 March 2019

### 19) Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loans and overdrafts	503	445
Obligations under finance leases	123	91
Accruals	1,096	923
Deferred income	118	112
Rents received in advance	184	134
Salary and other employee costs	420	407
Other taxation and social security	204	177
Capital expenditure on housing properties	375	898
Other capital creditors	120	16
Environmental Warranty due to MTCBC	157	314
<b>Total</b>	<b>3,300</b>	<b>3,517</b>

As part of the Transfer Agreement with MTCBC, MVH is required to pay the Council an amount equivalent to the costs which MTCBC incurs in securing environmental insurance in relation to MVH's properties until 2029. The final balance still owed to MTCBC for cover to 29 March 2029 under this agreement is £157,133.

See Note 20 for details of security provided.

### 20) Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Bank loans - basic	24,000	24,000
Bank loan issuing costs	(510)	(544)
Other loans	428	449
Obligations under finance leases	182	218
Taf Fechan sinking fund	19	14
Leaseholder sinking fund	358	336
	<b>24,477</b>	<b>24,473</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

### Borrowings

	2019 £'000	2018 £'000
<b>Bank loans</b>		
On demand or within one year	503	445
between one and two years	-	-
between two and five years	-	-
After five years	24,428	24,449
	<b>24,931</b>	<b>24,894</b>

Housing loans are secured (via Prudential Security Trustee) by a charge on the total property stock owned by MVH. To fund the WHQS works MVH has arranged a loan facility of £40m to be drawn down over several years. The issuing costs relate to the arrangement fee of the loan facility.

At 31 March 2019 MVH had undrawn loan facilities of £16 million.

£20m of our current loans outstanding are on fixed rates (£10m at 7.475%, £8m at 6.85% and £2m at 6.825%). A further fixed rate agreement is in place for £10m from 1 April 2020. £4m of our current loans outstanding are on variable rates.

During 2014/15 MVH received a 25 year loan of £510,000 on a PWLB interest rate of 2.92% from MTCBC to fund the refurbishment of Taf Fechan House as part of MTCBC's Vibrant and Viable Places project.

### Finance Leases

	2019 £'000	2018 £'000
<b>Finance Leases</b>		
On demand or within one year	123	91
between one and two years	104	98
between two and five years	78	120
After five years	-	-
	<b>305</b>	<b>309</b>

FRS102 has resulted in the reclassification of a number of motor vehicle and office equipment leases from operating leases to finance leases.

# Notes to the Financial Statements

## Year ended 31 March 2019

### Taf Fechan sinking fund

The members of Taf Fechan Housing Co-operative pay in advance for future planned or major works. Any unutilised contributions are recognised as a liability in the Statement of Financial Position. This liability will reduce in line with completed planned or major works on the property.

### Leaseholder sinking fund

Under SORP 2014, where leaseholders pay in advance for identified future planned or major works, any unutilised contributions are recognised as a liability in the Statement of Financial Position. This liability will reduce annually in line with completed planned or major works on leasehold properties.

## 21) Financial Instruments

The carrying values of MVH's financial assets and liabilities are summarised by category below:

	2019 £'000	2018 £'000
<b>Finance assets</b>		
Measured at amortised cost:		
Rent arrears (see note 17)	977	973
Sales debtors (see note 17)	429	342
	<b>1,406</b>	<b>1,315</b>
 <b>Financial liabilities</b>		
Measured at amortised cost:		
Loans payable (see note 20)	24,428	24,449
Bank loans and overdrafts (see note 19)	503	445
Capital creditors (see note 19)	495	914
Leaseholder sinking fund (see note 20)	358	336
Taf Fechan sinking fund (see note 20)	19	14
Environmental Warranty (see note 19)	157	314
	<b>25,960</b>	<b>26,472</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

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MVH's income, expense, gains and losses in respect of financial instruments are summarised below:

	2019 £'000	2018 £'000
<b>Interest income and expense</b>		
Total interest income for financial instruments at amortised cost	37	34
Total interest expense for financial instruments at amortised cost	1,841	1,838
<b>Fair value gains and losses</b>		
On financial liabilities measured at fair value through Statement of Comprehensive Income	-	(19)



# Notes to the Financial Statements

## Year ended 31 March 2019

### 22) Dowry funding and other government grants

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	2019 Total £'000
<b>Dowry funding and other grants</b>			
At 1 April 2018	(35,354)	(310)	(35,664)
Transferred on Completion	(310)	310	-
Additions during the year	(2,900)	(334)	(3,234)
Disposals during the year	239	-	239
Recycled grant during the year	(239)	-	(239)
At 31 March 2019	(38,564)	(334)	(38,898)
<b>Amortisation of Grants</b>			
At 1 April 2018	9,043	-	9,043
Charge for the year	1,730	-	1,730
Disposals during the year	(64)	-	(64)
At 31 March 2019	10,709	-	10,709
<b>Net Book Value</b>			
<b>At 31 March 2019</b>	<b>(27,855)</b>	<b>(334)</b>	<b>(28,189)</b>
At 1 April 2018	(26,311)	(310)	(26,621)

Cumulative total capital grants received are £38.9m. This relates to £32.58m of dowry funding, £3.79m of energy efficiency grants, £2.27m of social housing grant and £258k of HFG2.

Dowry funding relates to the dowry grant received from the Welsh Government. In addition to the £2.9m received, £239k relating to the disposal of components was re-used during the year.

# Notes to the Financial Statements

## Year ended 31 March 2019

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### 23) Share Capital

	2019	2018
	No	No
Shares at beginning of year	1,172	1,065
Issued during the year	171	147
Cancelled during the year	(22)	(40)
At the end of the year	<u>1,321</u>	<u>1,172</u>

Members have the right to vote at Members Meetings but membership does not carry the right to dividend payments or distribution on winding up.

### 24) Restricted Reserves

	2019	2018
	£'000	£'000
<b>Pension Reserve</b>		
At beginning of year	3,545	3,766
Actuarial movement	2,667	809
Transfer to Revenue Reserve	(1,593)	(1,030)
<b>At the end of the year</b>	<u>4,619</u>	<u>3,545</u>

This reserve matches the value of the Pension Fund Asset. It is therefore restricted and not available to be spent for any general purpose of MVH.

# Notes to the Financial Statements

## Year ended 31 March 2019

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### 25) Operating Leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Other	
	2019 £'000	2018 £'000
Operating Leases costs due:		
Within one year	10	4
Between two and five years	23	-
In more than five years	-	-
	<u>33</u>	<u>4</u>

### 26) Financial Commitments

Financial commitments are as follows:	2019 Total £'000	2018 Total £'000
Contracted for but not provided for		
within one year	638	619
between one and five years	1,200	1,600
after five years	-	-
Approved by the directors but not contracted for	-	-

# Notes to the Financial Statements

## Year ended 31 March 2019

### 27) Notes to the Statement of Cash flows

	2019	2018
	£'000	£'000
<b>Net cash generated from operating activities</b>		
Operating Surplus for the year	3,178	1,966
Adjustment for non cash items:		
Amortisation of intangible assets	143	143
Depreciation of property, plant and equipment	3,900	3,646
Amortisation of government grants	(1,730)	(1,537)
Working capital movements:		
(Increase) / decrease in inventories	(7)	3
(Increase) in debtors < 1 year	(243)	(351)
Decrease in debtors > 1 year	5,665	3,695
Increase in creditors < 1 year	112	344
Increase / (decrease) in creditors > 1 year	27	(316)
(Decrease) in provisions	(5,788)	(3,527)
Pensions costs less contributions payable	1,690	1,131
Carrying amount of property, plant and equipment disposals	508	(68)
Impairment loss on property, plant and equipment disposals	-	94
Adjusting for investing and financing items:		
Surplus on disposal of property, plant and equipment	(1,694)	(814)
Interest receivable	(135)	(112)
Interest and financing costs	1,878	1,872
Change in fair value of financial instruments	-	-
Change in fair value of Investments	-	19
<b>Net cash generated from operating activities</b>	<b>7,504</b>	<b>6,188</b>
<b>Cash and cash equivalents</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	6,168	1,654
Cash equivalents included in current asset investments	-	-
<b>Cash and cash equivalents</b>	<b>6,168</b>	<b>1,654</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

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### **28) Related Parties**

As at 31 March 2019 we had 8 independent Board Members, none of which are our tenants or related parties.

The Democratic Body includes 11 tenant members of which 10 were in post at the year end. Tenancies provided to Democratic Body members are based on the MVH standard terms and members cannot use their position to their advantage. As at 31 March 2019 there was no cumulative rent arrears for the tenant members (2018: £nil) and cumulative receipts paid during appointment totalled £46,145 (2018: £49,976).

The Democratic Body includes 8 employee members of which all were in post at the year end. As at 31 March 2019 cumulative salary payments for the employee members totalled £247,235 (2018: £216,302).

The Democratic Body includes 2 Council Representatives of which only 1 was in post at the year end. Any transactions with the Council are at arm's length, on normal commercial terms and Council Representatives cannot use their position to their advantage. During the year MVH made payments totalling £4.2m (2018: £4.1m) to MTCBC primarily in relation to the payroll and Service Level Agreements; the remainder being in relation to business rates and other costs. Included in debtors is £78,667 of which £73,489 relates to unreceived Supporting People Grant. Included in creditors is £351,506 relating to payroll costs and Service Level Agreements and £157,133 relating to the environmental warranty; all due to MTCBC.

# Notes to the Financial Statements

## Year ended 31 March 2019

### 29) Provisions for liabilities

	Office	WHQS Works	2019	2018
	£'000	£'000	£'000	£'000
At beginning of year	289	61,160	61,449	64,976
Provided for during the year	325	-	325	289
Used during the year	(175)	-	(175)	-
Released during the year	-	(5,938)	(5,938)	(3,816)
<b>At the end of the year</b>	<b>439</b>	<b>55,222</b>	<b>55,661</b>	<b>61,449</b>

#### Office

In May 2018 we moved into a purpose built head office. The provision at 31 March 2019 represents the estimated outstanding contractual obligation arising from the former lease of Martin Evans House in respect of lease payments and dilapidation costs.

#### WHQS Works

Under the transfer agreement the Council transferred the properties to MVH together with an obligation to undertake the WHQS works at the Council's expense. The price paid for the properties was £133,023,642; this price reflects the Tenanted Market Value of the stock which is nil and the estimated value of the works of £133,023,642. At 31 March 2019 £55.222m (2018: £61.160m) is shown in Debtors: amounts falling due after one year and in provisions for liabilities.

### 30) Events after the Reporting Date

There are no events after the reporting date.

# Notes to the Financial Statements

## Year ended 31 March 2019

### 31) Pension Costs

Merthyr Valleys Homes' employees are eligible to join the RCTCBC Pension Fund, which is a local government pension scheme (LGPS). MVH was admitted to the scheme on 30 March 2009. This disclosure relates to the period between 1 April 2018 and 31 March 2019.

The LGPS is a funded defined benefit scheme, with assets held in a separate trustee administered fund. Contributions in the year totalled £782,284 of which employers contributions totalled £435,351 and employees totalled £346,933.

In accordance with the requirements of FRS102 the pension fund is valued by a qualified independent actuary in order to ascertain the value of the scheme and the previous year has been restated accordingly.

#### Contributions for the year ended 31 March 2020

Regular employer contributions to the fund for the year ended 31 March 2020 are estimated to be £566,000.

#### Assumptions

The latest actuarial valuation of the fund liabilities took place as at 31 March 2016. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principle assumptions used were:

Financial assumptions for valuing the funded LGPS Liabilities		
Assumption	31 March 2019 (% p.a.)	31 March 2018 (% p.a.)
Discount rate	2.50%	2.60%
RPI inflation	3.20%	3.10%
CPI inflation	2.10%	2.00%
Increase to pensions in payment	2.10%	2.00%
Pension accounts revaluation rate	2.10%	2.00%
Salary increases	3.35%	3.25%



# Notes to the Financial Statements

## Year ended 31 March 2019

### Mortality assumption at 31 March 2019 and 31 March 2018

Males	31 March 2019	31 March 2018
Member aged 65 at accounting date	22.2	22.9
Member aged 45 at accounting date	23.9	25.1
Females	31 March 2019	31 March 2018
Member aged 65 at accounting date	24.1	25.0
Member aged 45 at accounting date	25.9	27.3

### Asset allocation

Asset class	Value at 31 March 2019	Value at 31 March 2018
Equities	64.5%	74.8%
Property	6.9%	5.4%
Government bonds	13.5%	8.5%
Corporate bonds	11.6%	9.4%
Cash	3.5%	1.9%
Other	0.0%	0.0%

The split of the liabilities at the last valuation between the various categories of members is:

Active members	69.0%
Deferred pensioners	8.0%
Pensioners	23.0%

### Amounts recognised in other comprehensive income

	31 March 2019 £M's	31 March 2018 £M's
Assets gains / (losses) arising during the period	2.832	0.897
Liability gains / (losses) arising during the period	(0.165)	(0.088)
<b>Total amount recognised in other comprehensive income</b>	<b>2.667</b>	<b>0.809</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

### Reconciliation of funded status to Financial Position

	31 March 2019 (% p.a.)	31 March 2018 (% p.a.)
Fair value of assets	42.636	38.283
Present value of present defined benefit obligation	38.017	34.738
<b>Net pension asset</b>	<b>4.619</b>	<b>3.545</b>

### Changes to fair value of assets

	31 March 2019 £M's	31 March 2018 £M's
<b>Opening fair value of assets</b>	<b>38.283</b>	<b>36.226</b>
Interest income on assets	1.002	0.945
Remeasurement gains / (losses) in assets	2.832	0.897
Contributions by the employer	0.435	0.311
Contributions by participants	0.347	0.318
Net benefits paid out	(0.263)	(0.414)
Net increase in assets from disposals / acquisitions	0.000	0.000
Settlements	0.000	0.000
<b>Closing fair value of assets</b>	<b>42.636</b>	<b>38.283</b>

### Changes to present value of the defined benefit obligation

	31 March 2019 £M's	31 March 2018 £M's
<b>Opening present value of liabilities</b>	<b>34.738</b>	<b>32.461</b>
Current service costs	1.543	1.435
Interest expense	0.905	0.843
Contributions by participants	0.347	0.318
Actuarial losses / (gains) on liabilities	0.165	0.088
Net benefits paid out	(0.263)	(0.414)
Past service costs	0.582	0.007
Curtailments	0.000	0.000
Net increase in liabilities from disposals / acquisitions	0.000	0.000
Settlements	0.000	0.000
<b>Closing defined benefit obligation</b>	<b>38.017</b>	<b>34.738</b>

# Notes to the Financial Statements

## Year ended 31 March 2019

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Actual return on assets		
	31 March 2019 £M's	31 March 2018 £M's
Interest income on assets	1.002	0.945
Gain / (losses) on assets	2.832	0.897
<b>Actual return on assets</b>	<b>3.834</b>	<b>1.842</b>

