

Year ended 31 March 2018

Financial Statements



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Administrative Details

Board Members

Independent Board Members: Nicola Evans (Chair)
John Chown (Deputy Chair)
David Lewis – resigned 1 June 2017
Stephanie Howarth
Carol James
Marc Fury
Elizabeth Lendering
Rachel Honey-Jones
Jonathan Tumelty – appointed 12 October 2017

Executive Officers: Michael Owen (Chief Executive)
Lorraine Oates (Director of Finance and Resources)
Victoria Slade (Director of Operations)
Paul Allen (Director of Asset Management)
– resigned 31st July 2017

Democratic Body

Tenant Members: Frances Bevan (Chair) – reappointed 21 September 2017
Kevin Eddy – resigned 15 May 2017
Tracey Powell – reappointed 21 September 2017
Marlene Burns – reappointed 21 September 2017
Kim Ford
Graham Walmsley – resigned 11 January 2018
Gaynor Bradley
Joan Marshall
Val Lloyd
Lyndon Humphries – resigned 13 July 2017
Nigel Phillips-Gunter
Annette Walters – appointed 21 September 2017,
resigned 11 January 2018
Vivian Evans – appointed 21 September 2017

Administrative Details (cont.)

Employee Members: Natalie Ryan (Deputy Chair)
Mansell Mason
Ceri Price
Stephen Puddy
Robert Davenport
Chris Cooksey – resigned 13 July 2017
Kevin Clifford
Lisa James – appointed 21 September 2017,
resigned 16 March 2018
Alex Barlett – appointed 21 September 2017

Council Members: Bill Smith – resigned 30 June 2017
Julian Pike
Tanya Skinner – appointed 30 June 2017

Registered Office: Ty Brychan
22 Lansbury Road
Gellideg
Merthyr Tydfil
CF48 1HA

Area Office: Johnny Owen Centre
Forsythia Close
Merthyr Tydfil
CF47 9DS

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

Administrative Details (cont.)

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

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 2018

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The Board presents its 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 2018.

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 4,131 rented homes, including 206 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil. MVH also owns or manages 627 garages, 39 retail units, a block of 12 co-operative housing flats which are leased to Taf Fechan Housing Co-operative Ltd and 283 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

- 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

- 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 2018

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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.

Financial Performance

The 2017/18 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 2018 was an operating surplus of £2.931m, a decrease of £0.298m. Our operating margin fell from 18% to 15%, with increased turnover of £0.585m to £19.022m (3%) and a 6% 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 2.5% guideline rent increase issued by the Welsh Government. Income from the sale of Right to Buy properties increased in the year, with 21 sales in 2017/18 compared to 14 in the previous year.

Bad Debts and Void Loss

Bad debts and voids as a percentage of gross rent receivable remained at 1.7% in 2017/18. We have continued to invest in void properties during the year and turned around 17 more properties than the previous year. Void losses in 2017/18 increased by £21,000 compared to 2016/17. The number of void properties at 31 March 2018 were 31.

Rent Arrears

The cumulative rent arrears (current and former) increased by £78,000, from £626,000 at 1st April 2017 to £704,000 at 31 March 2018. Current arrears increased by £73,000, from £423,000 at 1st April 2017 to £496,000 at 31 March 2018. Former tenant arrears increased by £5,000 from £203,000 at 1st April 2017 to £208,000 at 31 March 2018 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 £57.219m at 31 March 2018. We invested £5.321m in capital improvements during the year and this was offset by £3.355m of depreciation charges. A combination of internal cash balances and grant income from the Welsh Government has been used to fund the capital programme.

An impairment of fixed assets has been made at 31 March 2018 to write down the value of one property which will be demolished in 2018/19. An impairment of office furniture has also been made in relation to items of furniture at our satellite office site that will become obsolete following the move to our new head office.

Strategic Report

Year ended 31 March 2018

Total grant income was made up of Dowry Gap Funding of £2.9m and £0.349m Social Housing Grant funding for the development of 3 new properties at Haydn Terrace, which were completed in 2016/17 and 3 properties in Thomas Street. The remaining £0.125m is capital grant to be received for the Thomas Street development over the next 30 years under the Welsh Government's new Housing Finance Grant 2.

An independent valuation of the housing stock conducted by Savills based on Existing Use Value including 2 years' Dowry Gap Funding shows an increase in value to £89.940m as at 31 March 2018.

Our investment properties were valued at £0.897m at 31 March 2017. An independent valuation of these properties, conducted by Savills, shows a slight reduction in value to £0.878m at 31 March 2018.

Loans

No new loans were drawn during the year from our lenders (RBS and Principality). Our loan balance at 31 March 2018 was £24m. Of this, £20m was at fixed interest rates and £4m at variable rates. Interest payable on our loans increased marginally by 0.4% to £1.872m.

The balance of our loan provided by Merthyr Tydfil County Borough Council in 2014/15 to fund the renovations of Taf Fechan House and to create a new Housing Co-operative was £0.449m at 31 March 2018.

Pension Fund Asset

The pension fund asset is based on the Actuary's valuation as at 31 March 2018. The Statement of Financial Position shows a decrease in the value of the pension fund asset of £0.22m to £3.545m. 2017/18's employer's pension contribution rate was 6.4% and the latest triennial valuation as

at 31 March 2016 has determined that our contribution rates will increase to 8.5% in 2018/19, and 10.7% in 2019/20.

Net Assets

The overall net assets position at 31 March 2018 is £15.754m, compared to £12.979m at 31 March 2017. This is mainly due to the increase in the value of housing properties as a result of the major investment programme and the construction of our new head office. 2017/18 also saw the completion of our new Customer Relationship Management system, which means we can be more customer focused.

MVH: Future developments

2018/19 will see the completion of our new head office, bringing all employees into one location. A number of other new developments will be completed in 2018/19 including the 2 modular homes designed for housing tenants under 35 years of age and 3 properties in Thomas Street. We also have plans for the development of a further 10 properties in the Borough during 2018/19.

Value for Money (VfM)

Statement

MVH publishes a Value for Money Statement annually. The Democratic Body is leading on our Value for Money Strategy (Yfory Cryf) and designed a Balanced Scorecard to evaluate the VfM generated in 2017/18. Our Democratic Body in tandem with our Members, also decided upon 7 Golden Rules which ensures accountability to our Members and provides them with the information on activities that they value. The Democratic Body has approved the 2017/18 VfM Statement on behalf of the Members, concluding that MVH has provided Value for Money during 2017/18.

Strategic Report

Year ended 31 March 2018

Key Performance Indicators (KPIs) 2017/18

MVH reported the following Key Performance Indicators for 2017/18.

KPI	17/18 Target	17/18 Actual	16/17 Actual
Current Tenant Arrears	2.50%	2.78%	2.45%
Empty Home Rent Loss %	1.50%	0.98%	0.89%
Average Time Taken to Complete Emergency Repairs in days	0.5	0.17	0.18
Average Time Taken to Complete Urgent Repairs in days	3	2.02	2.21
Average Time Taken to Complete Routine Repairs in days	28	30.98	51.24
% of Properties with a Valid Landlord Gas Safety Record	100%	100%	100%

Rent Arrears for 2017/18

The changes in welfare reform have continued to impact on the ability of tenants to pay their rent. Whilst we have invested in providing support to tenants, our rent collection performance has reduced compared to the previous year. Arrears relating to Universal Credit claimants accounted for approximately 16% of the increase in current rent arrears. As the pace

of the roll out of Universal Credit increases, we will come under further pressure to collect rents.

Empty Home Rent Loss Percentage

Rent loss from empty properties has increased slightly from 0.89% to 0.98% year on year but was within the target for the year. Year end empty property numbers were just 31, less than 1% of our properties. Average turnaround times also improved year on year from 42.52 days to 41.59 days.

Average Time Taken to Complete Emergency Repairs

We completed 99.86% of all emergency repairs within the target timescale and our average time taken was just 0.17 days. This is marginally better than the previous year and represents our best performance to date.

Average Time Taken to Complete Urgent Repairs

We achieved 99.85% of jobs carried out within target time at an average of 2.02 days in 2017/18, compared to 99.16% of jobs at an average of 2.21 days in 2016/17. This result is pleasing and shows improving performance year on year.

Average Time Taken to Complete Routine Repairs

This KPI was adversely affected by the inclusion of planned work in 2016/17. This was adjusted in 2017/18 and performance shows an improvement with 99.41% of jobs completed within the target time at an average time taken of 30.98 days. 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 have once again achieved a 100% record on this indicator.

Strategic Report

Year ended 31 March 2018

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	2017/18 Actual	2016/17 Actual	2016/17 Sector Average
Operating costs for lettings per social housing unit	£2,969	£2,795	£3,211
Management costs per social housing unit	£869	£785	£1,350
Reactive repair costs per social housing unit	£1,433	£1,340	£1,091
Major repairs and component costs per social housing unit	£1,288	£1,622	£1,084
Total rent per social housing unit	£4,496	£4,309	£5,314
Bad debts per social housing unit	£31	£30	£29
Gross arrears as a percentage of turnover	5.2%	4.5%	4.6%
Rental void loss per social housing unit	£41	£36	£79
Weighted average cost of capital	7.7%	7.69%	4.87%
Free cash flow (before draw down or repayment of loans)	-£926,000	-£373,000	£969,697

Strategic Report

Year ended 31 March 2018

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. This should reduce from 2018/19 onwards as the backlog is cleared.

Management costs per social housing unit – although our costs have increased slightly compared to last year, they are far below the sector average. In May 2018 we will vacate our current leased office and moving into a purpose built head office. The 2017/18 costs include the costs for dilapidations and the outstanding lease payments on the old office which are one off costs.

Reactive repair 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 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 £4,496 which was below the 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 largely in line with the previous year and the sector average. 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 reduction in performance compared to the previous year and against the sector average. The disproportionate effect of other welfare benefit reforms in the local area has adversely affected our tenants ability to pay their rent.

Rental void loss per social housing unit – we have experienced an increase in void loss due to an increased tenancy turnover compared to the previous year.

Weighted average cost of capital – our percentage is high compared to the sector average because we are locked into a fixed rate interest agreement, entered into on transfer, the interest rates and margins were driven by the financial crisis of 2007-2008.

Free cash flow – 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). Other housing associations are at different points in their investment programmes and we are still drawing on our loan finance, therefore meaningful comparison with the sector average is difficult. Our performance is reduced compared to the previous year but our costs include one-off construction costs for our new head office. We expect to see our performance improve in future years.

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.

Strategic Report

Year ended 31 March 2018

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. 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. Quality of our steel framed (BISF) properties.

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 in 2019/20. At 31 March 2018, our borrowing remained at £24m with no loans drawn down during the year. This was mainly due to additional 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 2031.

Strategic Report

Year ended 31 March 2018

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

Peak debt of £24.447m is expected to occur in 2019/20 which means that we have spare capacity of over £15m in our loan facility. This will be a useful way to fund future new build, with lenders' approval.

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 £449,000 at 31 March 2018. This loan will be repaid via a long term lease agreement with Taf Fechan Housing Co-operative Ltd.

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 2018 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 2018 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 2018. The proportion of fixed rate debt is projected to be between 60% and 80% until 2023.

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 – Board
Date: 6 September 2018

Board Report

Year ended 31 March 2018

The Board are pleased to present their report and audited financial statements for Merthyr Valleys Homes Limited (MVH) for the year ended 31 March 2018.

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 £1.966m. During the year MVH spent £13.94m 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 2018 were £15.754m. As at 31 March 2018, the Pension Fund Asset restricted reserve was £3.545m.

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 2017/18 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) Representation from local community organisations – these would be co-opted positions as and when required;
 - e) 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 were three Democratic Body vacancies at 31 March 2018.

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 2018

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 2017/18 and held 2 joint sessions 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 2017/18 it made the following critical decisions;

- Appointment of 1 Non-Executive Director.
- Development of the Value for Money Strategy "Yfory Cryf".
- Joint decision with the Board to move to living rent for 2018/19.
- Helped to set the budget for 2018/19.
- Monitored the Membership Strategy
- Influenced the Procurement Strategy.

A full list of the functions of the Democratic Body are detailed within the MVH Rules available at 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.

Members	No.	%
Tenants	1005	85.8%
Employees	167	14.2%

Employees

The number of employees at 31 March 2018 was 190. 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 2018

Charitable Donations

MVH made £41,297 in charitable donations during the year which were approved by the Grants and Sponsorship Panel. This included the following donations:-

	£
Merthyr Aloud	660
Canolfan Soar	1,000
Quakers Yard Community Association	320
Dowlais Amateur Boxing Club	2,304
Stephens & George Charitable Trust	1,317
Merthyr Tydfil Global Village	1,350
Bridging The Gap Youth	2,213
Merthyr & The Valleys Mind	1,369
Cyfarthfa Community Group	488
@Play Ysgol Y Graig	383
Ad-Lib Productions	4,744
*Merthyr Cynon Foodbank	10,801
Night Shelter	3,197
Merthyr Tydfil Association Football League	654
Central Beacons Mountain Rescue Team	5,000
Dowlais Chrysanthemum Society	497
Twyn Action Group Youth Club	5,000

*This was part-funded from other budgets

In addition to the above donations from the Grants and Sponsorship Panel the Board approved a donation of £49,500 to the Gellideg Foundation Group.

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 (Yfory).

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.
- A range of anti-fraud policies, including

Board Report

Year ended 31 March 2018

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 2018 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.

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.

Board Report

Year ended 31 March 2018

Disclosure of information to the Auditor

Each of the Board Members, as at the date of this report, have 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 6 September 2018 at our new Head Office, Ty Brychan. At this meeting, MVH's 2017/18 Financial Statements will be presented for adoption.

Auditor

The External Audit service was subject to a tendering process during 2017/18. The Democratic Body appointed Mazars LLP on behalf of the Members on 22nd February 2018.



By order of the Board
Nicola Evans
Chair – Board
Date: 6 September 2018

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

Year ended 31 March 2018

Opinion

We have audited the financial statements of Merthyr Valleys Homes Limited (the 'association') for the year ended 31 March 2018 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 2018 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.

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.

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

Year ended 31 March 2018

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
- 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.

Independent auditor's report to the members of Merthyr Valleys Homes Limited Year ended 31 March 2018

Responsibilities of the Board

As explained more fully in the Statement of the Board Members' 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. 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

Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT
Date:

Statement of Comprehensive Income

Year Ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Turnover	4	19,022	18,437
Operating expenditure	4	<u>(16,091)</u>	<u>(15,208)</u>
Operating Surplus	5	2,931	3,229
Surplus on disposal of property, plant and equipment	6	814	418
Interest receivable	7	112	193
Interest and financing costs	8	(1,872)	(1,865)
Change in fair value of investment properties	15	<u>(19)</u>	<u>-</u>
Surplus before tax		1,966	1,975
Taxation	2(n)	-	-
Surplus for the year		<u>1,966</u>	<u>1,975</u>
Other Comprehensive Income			
Actuarial gain / (loss) in respect of pension schemes	31	809	(516)
Total comprehensive income for the year		<u>2,775</u>	<u>1,459</u>

Continuing Operations

All transactions during the period are derived from continuing activities.

Statement of Financial Position

At 31 March 2018

	Notes	2018 £'000	2017 £'000
Fixed Assets			
Intangible assets	11	828	744
Property, Plant and Equipment			
– Housing properties	12	57,219	55,598
– Other property plant and equipment	14	5,051	1,709
Investment properties	15	878	897
		<u>63,976</u>	<u>58,948</u>
Current Assets			
Inventories	16	12	15
Debtors			
– Amounts falling due within one year	17	1,346	995
– Amounts falling due after one year	18	61,281	64,976
Cash and cash equivalents	27	1,654	2,061
		<u>64,293</u>	<u>68,047</u>
Creditors: amounts falling due within one year	19	(3,517)	(3,340)
Dowry funding and other government grants: amounts falling due within one year	22	(1,537)	(1,513)
Net current assets excluding pension asset		59,239	63,194
Pension asset	31	3,545	3,765
Net current assets including pension asset		<u>62,784</u>	<u>66,959</u>
Total assets less current liabilities		126,760	125,907
Creditors: amounts falling due after more than one year	20	(24,473)	(24,727)
Dowry funding and other government grants: amounts falling due after more than one year	22	(25,084)	(23,225)
Provisions for liabilities	29	(61,449)	(64,976)
Net Assets		<u>15,754</u>	<u>12,979</u>
Capital and Reserves			
Share capital	23	-	-
Revenue reserves		12,209	9,213
Restricted reserves	24	3,545	3,766
		<u>15,754</u>	<u>12,979</u>

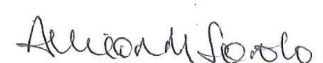
The Financial Statements on pages 22 to 55 were approved and authorised for issue by Board of Management on 6 September 2018 and were signed on its behalf:



Nicola Evans
(Chair – Board)



John Chown
(Vice Chair – Board)



Allison Soroko
(Company Secretary)

Statement of Changes in Reserves

Year ended 31 March 2018

	Notes	Revenue reserves £'000	Restricted reserves £'000	Total £'000
At 1 April 2016		6,658	4,862	11,520
Surplus for the year		1,975	-	1,975
<u>Other comprehensive income</u>				
Actuarial loss in respect of pension schemes	31	-	(516)	(516)
Total comprehensive income		8,633	4,346	12,979
Transfer between reserves	24	580	(580)	-
At 31 March 2017		9,213	3,766	12,979
		£'000	£'000	£'000
At 1 April 2017		9,213	3,766	12,979
Surplus for the year		1,966	-	1,966
<u>Other comprehensive income</u>				
Actuarial gain in respect of pension schemes	31	-	809	809
Total comprehensive income		11,179	4,575	15,754
Transfer between reserves	24	1,030	(1,030)	-
At 31 March 2018		12,209	3,545	15,754

Revenue Reserve

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

Restricted Reserves

The Restricted reserve relates to the Pension Fund Asset and the Big Lottery Community Voice grant for the Perthyn: Belonging project.

Statement of Cash Flows

Year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Net cash generated from operating activities	27	6,188	5,948
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,055)	(6,425)
Purchase of other fixed assets		(3,865)	(1,138)
Proceeds from sale of property, plant and equipment		814	418
Grants received		3,374	2,953
Interest received		10	16
Net cash flows from investing activities		<u>(4,722)</u>	<u>(4,176)</u>
Cash flows from financing activities			
Interest paid		(1,759)	(1,849)
Interest element of finance lease rental payments		(34)	(14)
Repayment of borrowings		(20)	(21)
Capital element of finance lease rental payments		(94)	(75)
Revenue loan arrangement		34	34
Net cash flows from financing activities		<u>(1,873)</u>	<u>(1,925)</u>
Net decrease in cash and cash equivalents		(407)	(153)
Cash and cash equivalents at beginning of year		2,061	2,214
Cash and cash equivalents at end of year		<u>1,654</u>	<u>2,061</u>

Free cash flow for the year end 31 March

	2018 £'000	2017 £'000
Net cash generated from operating activities	6,188	5,948
Interest paid	(1,725)	(1,815)
Interest received	10	16
Adjustments for reinvestment in existing properties:		
Component replacements	(4,908)	(6,336)
Purchase of other replacement fixed assets	(3,865)	(1,138)
Component replacement grant received	3,374	2,952
Free cash consumed before loan repayments	<u>(926)</u>	<u>(373)</u>
Loans repaid (excluding revolving credit and overdrafts)	(20)	(21)
Free cash consumed after loan repayments	<u>(946)</u>	<u>(394)</u>

Notes to the Financial Statements

Year ended 31 March 2018

1) a) General information

The financial statements of Merthyr Valleys Homes Limited (MVH) for the year ended 31st March 2018 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 4,131 rented homes, including 206 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil. MVH also owns or manages 627 garages, 39 retail units, a block of 12 co-operative housing flats which are leased to Taf Fechan Housing Co-operative Ltd and 283 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

Notes to the Financial Statements

Year ended 31 March 2018

Valleys Homes' in-house 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 2018

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 Improvements	10
Furniture, Fixtures and Fittings	10
Telephone System	8
Office Equipment	5
Computer Implementation Hardware	5-8
Computer Hardware – Other	3
Scheme Equipment and Furniture	10-25

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 exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is

Notes to the Financial Statements

Year ended 31 March 2018

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 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

Notes to the Financial Statements

Year ended 31 March 2018

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 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.

Notes to the Financial Statements

Year ended 31 March 2018

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.

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

Notes to the Financial Statements

Year ended 31 March 2018

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 £1,175,000 (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.

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.

Notes to the Financial Statements

Year ended 31 March 2018

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 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.

Notes to the Financial Statements

Year ended 31 March 2018

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 2018

4) Turnover, Operating Costs and Operating Surplus

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

Note A

	2018 Turnover £'000	2018 Operating Costs £'000	2018 Operating Surplus £'000	2017 Turnover £'000	2017 Operating Costs £'000	2017 Operating Surplus £'000
Social Housing lettings (Note B)	18,573	15,976	2,597	17,925	15,100	2,825
Other social housing activities						
Supporting People	128	115	13	92	108	(16)
Other grant income	8	-	8	25	-	25
Other income	313	-	313	395	-	395
Total	<u>19,022</u>	<u>16,091</u>	<u>2,931</u>	<u>18,437</u>	<u>15,208</u>	<u>3,229</u>

Notes to the Financial Statements

Year ended 31 March 2018

Particulars of income and expenditure from social housing lettings

Note B	General Needs £'000	Sheltered Housing £'000	2018 £'000	2017 £'000
Income				
Rents receivable	16,113	802	16,915	16,246
Service charges income	49	119	168	208
Amortised government grants	1,490	-	1,490	1,471
Turnover from social housing lettings	17,652	921	18,573	17,925
Expenditure				
Service charge costs	1	58	59	64
Management	3,152	436	3,588	3,266
Tenant support	139	-	139	188
Routine maintenance	5,920	-	5,920	5,575
Major repairs expenditure	2,698	-	2,698	2,721
Bad debts from rent	94	-	94	78
Bad debts from other income	32	-	32	45
Depreciation of housing properties	3,446	-	3,446	3,163
Operational costs	15,482	494	15,976	15,100
Operating surplus	2,170	427	2,597	2,825
social housing lettings				
Void losses	160	9	169	148

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

	2018 £'000	2017 £'000
Grants from SPRG	128	92
Other grant income	8	25
Shop rents	140	137
Leaseholders	96	76
Other income	<u>78</u>	<u>182</u>

Notes to the Financial Statements

Year ended 31 March 2018

5) Operating Surplus

Operating surplus for the year is after charging:

	2018 £'000	2017 £'000
Amortisation – intangible assets	146	150
Depreciation – housing properties	3,355	3,125
Impairment – housing properties	88	38
Depreciation – other fixed assets	291	247
Impairment – other fixed assets	6	-
Auditor's remuneration in respect of audit services	18	23
Operating lease rentals (premises)	-	171
Operating lease rentals (other)	4	9
Rent losses from voids	169	148
Bad debt costs	126	123

6) Surplus on Disposals of Property, Plant and Equipment

	2018 £'000	2017 £'000
Sales proceeds	1,086	773
Less costs of sale	(193)	(202)
Surplus on sale of housing properties	893	571
Loss on the disposal of other fixed assets	(79)	(153)
Surplus on disposal	814	418

Sales proceeds include the sale of 21 Right to Buy properties (2017: 14 properties)

7) Interest Receivable

	2018 £'000	2017 £'000
Bank interest receivable	10	16
Pension finance income	102	177
Total	112	193

8) Interest and Financing Costs

	2018 £'000	2017 £'000
Bank loans and overdrafts	1,838	1,851
Finance lease charges	34	14
Total	1,872	1,865

Notes to the Financial Statements

Year ended 31 March 2018

9) Directors' Emoluments

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

	2018 £'000	2017 £'000
Wages and salaries	380	357
Social security costs	39	45
Other pension costs	17	17
Total Staff Costs	436	419
Emoluments of the highest paid Director, excluding pension contributions	122	121

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 (2017: £Nil).

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

	2018 No.	2017 No.
£90,001 - £100,000	1	3
£100,001 - £110,000	2	-
£110,001 - £120,000	-	-
£120,001 - £130,000	1	1

Notes to the Financial Statements

Year ended 31 March 2018

10) Staff Costs

	2018 £'000	2017 £'000
Staff costs during the year:		
Wages and salaries	4,997	5,013
Social security costs	681	597
Other pension costs	1,437	1,044
Total staff costs	7,115	6,654

The average monthly number of staff – full time equivalent

	2018 No:	2017 No:
This comprises:		
Central Support Services, encompassing:		
Finance, HR, Corporate Services and Administration	38	35
Asset Management	8	9
Property Services Team	90	93
Housing	53	56
Total	189	193

Staff employed at year end – full time equivalent	190	191
The calculations are based on a 37 hour working week		

11) Intangible Assets

Cost	Computer software £'000
At 1 April 2017	1,472
Additions during the year	240
Disposals during the year	(49)
At 31 March 2018	<u>1,663</u>
Amortisation	
At 1 April 2017	728
Charge for the year	143
Disposals during the year	(36)
At 31 March 2018	<u>835</u>
Net book value	
At 31 March 2018	<u>828</u>
At 1 April 2017	<u>744</u>

The cost includes £985,835 of externally purchased computer software and £677,138 of internally generated computer software.

Notes to the Financial Statements

Year ended 31 March 2018

12) Tangible Fixed Assets – Housing and Other Properties

Cost	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Total £'000
At 1 April 2017	70,327	12	70,339
Transferred on completion	1	(1)	-
Additions during the year	4,907	414	5,321
Disposals during the year	(386)	-	(386)
At 31 March 2018	74,849	425	75,274
Depreciation			
At 1 April 2017	14,741	-	14,741
Charge for the year	3,355	-	3,355
Disposals during the year	(129)	-	(129)
Impairments during the year	88	-	88
At 31 March 2018	18,055	-	18,055
Net book value			
At 31 March 2018	56,794	425	57,219
At 1 April 2017	55,586	12	55,598

Costs capitalised during the year related to components. Total expenditure on properties during the year was £13.94m. Of this £5.32m was capitalised and £8.62m was expensed through the Statement of Comprehensive Income.

An impairment of housing properties has been made in 2017/18 to write down the value of one property which will be demolished in 2018/19 to land value. An impairment charge of £88,000 has been recognised at the year end in respect of this property.

Notes to the Financial Statements

Year ended 31 March 2018

13) Housing Stock

	2018 No	2017 No
General Needs	3,925	3,954
Sheltered	206	206
Garages	414	414
Retail Premises	32	33
Co-operative Housing	12	12
Leasehold Houses	170	170
Leasehold Flats	113	113
Leasehold Garages	213	214
Leasehold Retail Premises	7	7
Total	5,092	5,123

14) Tangible Fixed Assets – Other

Cost	Office Furniture £'000	Office Equipment £'000	Scheme Equipment £'000	Motor vehicles £'000	Office premises in the course of construction £'000	Total £'000
At 1 April 2017	572	630	132	333	896	2,563
Additions during the year	99	6	13	161	3,362	3,641
Disposals during the year	(1)	(49)	-	-	-	(50)
At 31 March 2018	670	587	145	494	4,258	6,154

Depreciation

At 1 April 2017	348	364	33	109	-	854
Charge for the year	82	101	9	99	-	291
Disposals during the year	-	(48)	-	-	-	(48)
Impairments during the year	6	-	-	-	-	6
At 31 March 2018	436	417	42	208	-	1,103

Net Book Value

At 31 March 2018	234	170	103	286	4,258	5,051
At 1 April 2017	224	266	99	224	896	1,709

Office equipment includes finance leases with a cost of £10,000 (2017: £20,000), accumulated depreciation of £8,000 (2017: £17,000) and a net book value of £2,000 (2017: £3,000). Motor vehicles includes finance leases with a cost of £494,000 (2017: £333,000), accumulated depreciation of £208,000 (2017: £109,000) and a net book value of £286,000 (2017: £224,000).

An impairment of office furniture has been made in 2017/18 relating to items of furniture at our satellite office site that will become obsolete following the move to our new head office. An impairment charge of £6,000 has been recognised at the year end in respect of these items.

Notes to the Financial Statements

Year ended 31 March 2018

15) Investment Properties

	2018 £'000	2017 £'000
At 1 April	897	897
Changes on revaluation of investment properties	(19)	-
At 31 March	878	897

Had the investment properties been measured at historical cost, the carrying value would be £Nil (2017: £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:

	2018 £'000	2017 £'000
Materials and consumables	12	15

17) Debtors: Amounts Falling Due Within One Year

	2018 £'000	2017 £'000
Rent arrears	973	802
Less: Provision for bad debts	(295)	(295)
	678	507
Sales Debtors	342	234
Less: Provision for bad debts	(186)	(168)
	156	66
VAT	50	89
Other Debtors	462	333
Total	1,346	995

Notes to the Financial Statements

Year ended 31 March 2018

18) Debtors: Amounts falling due after one year

	2018 £'000	2017 £'000
WHQS Works		
At beginning of year	64,976	71,592
Released during the year	(3,816)	(6,616)
At the end of the year	61,160	64,976
HFG2		
At beginning of year	-	-
Recognised during the year	121	-
At the end of the year	121	-
	61,281	64,976

See note 29 Provisions for Liabilities for information.

19) Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	445	366
Obligations under finance leases	91	66
Accruals	923	1,068
Deferred income	112	36
Rents received in advance	134	158
Salary and other employee costs	407	291
Other taxation and social security	177	170
Capital expenditure on housing properties	898	1,018
Other capital creditors	16	167
Environmental Warranty due to MTCBC	314	-
Total	3,517	3,340

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 2039. Under the terms of the Transfer, this would be limited to £500,000. This cost was included in full in the set up costs in the 2009 Financial Statements. MTCBC currently has insurance up to 29 March 2019. The balance still owed to MTCBC under this agreement is £313,901.

See note 20 for details of security provided

Notes to the Financial Statements

Year ended 31 March 2018

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

	2018 £'000	2017 £'000
Bank loans - basic	24,000	24,000
Bank loan issuing costs	(544)	(578)
Other loans	449	469
Obligations under finance leases	218	170
Taf Fechan sinking fund	14	5
Leaseholder sinking fund	336	347
	<u>24,473</u>	<u>24,413</u>
Environmental Warranty due to MTCBC	-	314
	<u>24,473</u>	<u>24,727</u>

Borrowings

	2018 £'000	2017 £'000
Bank loans		
On demand or within one year	445	366
between one and two years	-	-
between two and five years	-	-
After five years	24,449	24,469
	<u>24,894</u>	<u>24,835</u>

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 2018 MVH had undrawn loan facilities of £16 million.

£20m of our current loans outstanding are on fixed rates (£10m at 7.475% and £10m at 6.85%). 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.

Notes to the Financial Statements

Year ended 31 March 2018

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Finance Leases

	2018 £'000	2017 £'000
Finance Leases	91	66
On demand or within one year	98	65
between one and two years	120	105
between two and five years	-	-
After five years	<u>309</u>	<u>236</u>

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

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.

Notes to the Financial Statements

Year ended 31 March 2018

21) Financial Instruments

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

	2018 £'000	2017 £'000
Financial Assets		
Measured at amortised cost:	973	802
Rent arrears (see note 17)	342	234
Sales debtors (see note 17)	<u>1,315</u>	<u>1,036</u>
Financial liabilities		
Measured at amortised cost:		
Loans payable (see note 20)	24,449	24,469
Bank loans and overdrafts (see note 19)	445	366
Capital creditors (see note 19)	914	1,185
Leaseholder sinking fund (see note 20)	336	347
Taf Fechan sinking fund (see note 20)	14	5
Environmental Warranty (see note 19)	314	314
	<u>26,472</u>	<u>26,686</u>

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

	2018 £'000	2017 £'000
Interest income and expense		
Total interest income for financial instruments at amortised cost	34	16
Total interest expense for financial instruments at amortised cost	1,838	1,865
Fair value gains and losses		
On financial liabilities measured at fair value through Statement of Comprehensive Income	(19)	-

Notes to the Financial Statements

Year ended 31 March 2018

22) Dowry funding and other government grants

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Total £'000
Dowry funding and other grants			
At 1 April 2017	(32,290)	-	(32,290)
Transferred on Completion	(164)	164	-
Additions during the year	(2,900)	(474)	(3,374)
Disposals during the year	217	-	217
Recycled grant during the year	(217)	-	(217)
At 31 March 2018	(35,354)	(310)	(35,664)
Amortisation of Grants			
At 1 April 2017	7,552	-	7,552
Charge for the year	1,537	-	1,537
Disposals during the year	(46)	-	(46)
At 31 March 2018	9,043	-	9,043
Net Book Value			
At 31 March 2018	(26,311)	(310)	(26,621)
At 1 April 2017	(24,738)	-	(24,738)
Amounts falling due:			
Within one year or less	1,537	-	1,537
In more than one year	24,774	(310)	25,084
Total grant creditor	26,311	(310)	26,621

Cumulative total capital grants received are £35.66m. This relates to £29.68m of dowry funding, £3.79m of energy efficiency grants, £2.07m of social housing grant and £124k of HFG2.

Dowry funding relates to the dowry grant received from the Welsh Government. In addition to the £2.9m received, £217k relating to the disposal of components was re-used during the year.

Notes to the Financial Statements

Year ended 31 March 2018

23) Share Capital

	2018 No	2017 No
Shares at beginning of year	1,065	36
Issued during the year	147	1,065
Cancelled during the year	(40)	(36)
At the end of the year	<u>1,172</u>	<u>1,065</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

	2018 £'000	2017 £'000
Pension Reserve		
At beginning of year	3,765	4,860
Actuarial movement	809	(516)
Transfer to Revenue reserve	(1,029)	(579)
At the end of the year	<u>3,545</u>	<u>3,765</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.

	£'000	£'000
Big Lottery Fund		
At beginning of year	1	2
Utilised during the year	-	-
Transfer to Revenue reserve	(1)	(1)
At the end of the year	<u>-</u>	<u>1</u>

Funding was received from the Big Lottery Community Voice grant for Perthyn: Belonging project which concluded this year. This was a project between younger and older people living in three areas of Merthyr Tydfil looking at social housing tenants experience over time. It was restricted in line with the terms of the grant. Total grants received during the year was £8,260.

Notes to the Financial Statements

Year ended 31 March 2018

25) Operating Leases

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

	Land & Buildings		Other	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Operating Leases costs due:				
Within one year	-	171	4	9
Between two and five years		190	-	4
In more than five years	-	-	-	-
	<u>-</u>	<u>361</u>	<u>4</u>	<u>13</u>

The lease relating to Martin Evans House has been classified as an onerous lease. See note 29 provisions for liabilities.

26) Financial Commitments

Financial commitments are as follows:

	2018 Total £'000	2017 Total £'000
Contracted for but not provided for		
within one year	619	3,524
between one and five years	1,600	50
after five years	-	-
Approved by the directors but not contracted for	-	-

Notes to the Financial Statements

Year ended 31 March 2018

27) Notes to the Statement of Cash flows

	2018 £'000	2017 £'000
Net cash generated from operating activities		
Operating Surplus for the year	1,966	1,975
Adjustment for non cash items:		
Amortisation of intangible assets	143	150
Depreciation of property, plant and equipment	3,646	3,372
Amortisation of government grants	(1,537)	(1,513)
Working capital movements:		
Decrease/(increase) in inventories	3	(3)
(Increase) / decrease in debtors < 1 year	(351)	72
Decrease in debtors > 1 year	3,695	6,616
Increase in creditors < 1 year	344	94
(Decrease) in creditors > 1 year	(316)	(24)
(Decrease) in provisions	(3,527)	(6,836)
Pensions costs less contributions payable	1,131	756
Carrying amount of property, plant and equipment disposals	(68)	(3)
Impairment loss on property, plant and equipment disposals	94	38
Adjustment for investing and financing items:		
Surplus on disposal of property, plant and equipment	(814)	(418)
Interest receivable	(112)	(193)
Interest and financing costs	1,872	1,865
Change in fair value of financial instruments	-	-
Change in fair value of Investments	19	-
Net cash generated from operating activities	6,188	5,948
 Cash and cash equivalents	 £'000	 £'000
Cash at bank and in hand	1,654	2,061
Cash equivalents included in current asset investments	-	-
Cash and cash equivalents	1,654	2,061

Notes to the Financial Statements

Year ended 31 March 2018

28) Related Parties

As at 31 March 2018 we had 8 independent Board Members, none of which are our tenants or related parties.

The Democratic Body includes 11 tenant members of which 9 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 2018 there were no cumulative rent arrears for the tenant members and cumulative receipts paid during appointment totalled £49,976.

The Democratic Body includes 8 employee members of which 7 were in post at the year end. As at 31 March 2018 cumulative salary payments for the employee members totalled £216,302.

The Democratic Body includes 2 Council Representatives. 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 £4.1m 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 £31,948 which relates to unreceived Supporting People Grant. Included in creditors is £331,074 relating to payroll costs and Service Level Agreements and £313,901 relating to the environmental warranty; all due to MTCBC.

29) Provisions for liabilities

	Office	WHQS	2018	2017
	£'000	Works £'000	£'000	£'000
At beginning of year	-	64,976	64,976	71,812
Provided for during the year	289	-	289	-
Used during the year	-	-	-	(220)
Released during the year	-	(3,816)	(3,816)	(6,616)
At the end of the year	289	61,160	61,449	64,976

Office

In May 2018 we will be vacating our current leased office and moving into a purpose built head office. We have commissioned an external report on the dilapidations required in the lease covenants and have provided £100,000 for this. The lease payment previously reported under operating leases has now been classed as an onerous lease and we have provided for £189,000 in outstanding lease payments.

Notes to the Financial Statements

Year ended 31 March 2018

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 2018 £61.160m (2017: £64.976m) 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.

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 2017 and 31 March 2018.

The LGPS is a funded defined benefit scheme, with assets held in a separate trustee administered fund. Contributions in the year totalled £628,948 of which employers contributions totalled £311,258 and employees totalled £317,690.

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 2019

Regular employer contributions to the fund for the year ended 31 March 2019 are estimated to be £417,000.

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 2018 (% p.a.)	31 March 2017 (% p.a.)
Discount rate	2.60%	2.60%
RPI inflation	3.10%	3.10%
CPI inflation	2.00%	2.00%
Increase to pensions in payment	2.00%	2.00%
Pension accounts revaluation rate	2.00%	2.00%
Salary increases	3.25%	3.25%

Notes to the Financial Statements

Year ended 31 March 2018

Mortality assumption at 31 March 2018 and 31 March 2017

Males	31 March 2018	31 March 2017
Member aged 65 at accounting date	22.9	22.8
Member aged 45 at accounting date	25.1	25.0
Females	31 March 2018	31 March 2017
Member aged 65 at accounting date	25.0	24.9
Member aged 45 at accounting date	27.3	27.2

Asset allocation

Asset class	Value at 31 March 2018	Value at 31 March 2017
Equities	74.8%	72.6%
Property	5.4%	5.9%
Government bonds	8.5%	9.4%
Corporate bonds	9.4%	10.0%
Cash	1.9%	2.1%
Other	0.0%	0.0%

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

Active members	69.0%
Deferred pensioners	8.0%
Pensioners	23.0%

Amounts recognised in other comprehensive income

	31 March 2018 £M's	31 March 2017 £M's
Assets gains / (losses) arising during the period	0.897	4.921
Liability gains / (losses) arising during the period	(0.088)	(5.437)
Total amount recognised in other comprehensive income	0.809	(0.516)

Notes to the Financial Statements

Year ended 31 March 2018

Reconciliation of funded status to Financial Position

	31 March 2018 £M's	31 March 2017 £M's
Fair value of assets	38.283	36.226
Present value of present defined benefit obligation	34.738	32.461
Net pension asset	3.545	3.765

Changes to fair value of assets

	31 March 2018 £M's	31 March 2017 £M's
Opening fair value of assets	36.226	29.934
Interest income on assets	0.945	1.054
Remeasurement gains / (losses) in assets	0.897	4.921
Contributions by the employer	0.311	0.381
Contributions by participants	0.318	0.301
Net benefits paid out	(0.414)	(0.365)
Net increase in liabilities from disposals / acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing fair value of assets	38.283	36.226

Changes to present value of the defined benefit obligation

	31 March 2018 £M's	31 March 2017 £M's
Opening present value of liabilities	32.461	25.074
Current service costs	1.435	1.043
Interest expense	0.843	0.877
Contributions by participants	0.318	0.301
Actuarial losses / (gains) on liabilities	0.088	5.437
Net benefits paid out	(0.414)	(0.365)
Past service costs	0.007	0.094
Curtailments	0.000	0.000
Net increase in liabilities from disposals / acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing defined benefit obligation	34.738	32.461

Notes to the Financial Statements

Year ended 31 March 2018

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Actual return on assets		
	31 March 2018 £M's	31 March 2017 £M's
Interest income on assets	0.945	1.054
Gain / (losses) on assets	0.897	4.921
Actual return on assets	1.842	5.975

