



# Report of the Board and Financial Statements 2012/13

A large, hand-drawn style red heart shape. Inside the heart, the text "Our customers at the heart of all that we do." is written in a blue cursive font.

Our customers  
at the heart of  
all that we do.

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## Foreword by Chairman and Chief Executive

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**As an organisation, we are striving to be true to our beliefs of providing excellent services and high quality homes as well as securing maximum value for money.**

**During the past year, we increased our property portfolio as a result of three separate acquisitions. We have continued to invest in the improvements of our existing properties which together support our vision to provide:**

**“Quality homes, excellent services and strong communities with our customers at the heart of all that we do”**

Our mission is to meet housing needs and contribute to the development of sustainable communities. We want our customers to be proud of their homes, communities and the services they receive. We also want our staff to be proud to work for us and our stakeholders to be proud to work with us.

In May 2012, we took ownership of 33 properties from Magna Housing Group, marking our first expansion outside of South Gloucestershire. The £2 million deal to acquire the homes means we now have new customers in Bristol and Bath. In August 2012, we completed a £7.6 million deal to buy 121 properties from Home Group. In February 2013, we opened a new older people's development in Bradley Stoke, acquired from developers McCarthy & Stone at a cost of £2.7 million, providing 24 purpose-built older people's flats, built and fitted out to a high standard.

We have developed programmes of work to improve the sustainability of our properties and to ensure that our housing for older people is fit for purpose and aspires to a standard that we consider our customers deserve. Our work goes beyond the homes we provide, extending into our communities and also in supporting the wellbeing of our customers. We are committed to continuing to develop quality homes for our customers; investing in the ongoing improvements to existing homes, replacing homes which we consider have reached the end of their useful life and to working with our residents to improve the communities they live in and the quality of their lives.

We have achieved a lot in the year, but we recognise that there is still much that needs to be done to meet the standards of excellent service that we aspire to. In this respect, we have a significant number of customers, over 1,100 in the last two years, who get involved in our activities – from service standards to financial performance – and their input is extremely valued and helps drive the improvements we need to achieve. The commitment and dedication of our staff is also recognised as a key element of our successes in the year. This commitment goes beyond the job that they do and extends to working in the community and also raising over £6,000 for a number of different charities, including over £2,000 to our chosen charity, the Tom Hunt Trust, which supports teenage cancer.

## Foreword by Chairman and Chief Executive

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We, like all other housing associations, are facing significant challenges, particularly in relation to the planned introduction of Welfare Reform, starting with the "Bedroom Tax" from April 2013 which reduces the level of housing benefits paid to customers of working age who are deemed by the Government to be under-occupying their home. We have worked hard to communicate directly with all of our customers who are affected by these changes, together with running a number of road shows to raise awareness of the changes taking place.

Our organisation is now in its seventh year of operation and maintaining a strong financial position is key to our continued success. Our surplus for the year of £4.8 million represents 12.8% of our turnover of £37.3 million, an improvement of 0.5% on last year. Our retained reserves are now £37.1 million and we remain in a strong financial position. The surplus achieved, together with additional borrowing of £7 million, was invested in improving and adding to our portfolio of properties.

During the year, we have brought more of our services in house and our internal workforce now deliver the majority of property improvements – from installing kitchens, bathrooms, windows and doors to replacing roofs. They also deliver nearly all of our day to day repairs to properties and have been driving down the average cost of repairs through introducing new initiatives to improve efficiency and effectiveness, providing customers with appointments for repairs whenever possible.

Value for money is a key focus – considering both cost and quality. We continue to identify ways of delivering better value for money, while recognising the social value of the work we do – from installing wet rooms to enable our customers to remain more independent for longer to the social benefits from the work that we do in the communities we serve.

This year has seen the appointment of a new Chief Executive, Roy Irwin, and the reshaping of the Board's governance arrangements, strengthening their involvement in determining the strategic direction of the organisation. In previous years, the Board met quarterly and this has now increased to ten times per year, with additional workshops and review meetings arranged to enhance the level of input on all areas of strategic importance.

We would like to pay tribute to our outgoing Chief Executive, Ian Matthews, who left the business on 30 November 2012. Ian had been with the organisation from its creation in 2007 and his commitment and dedication to the organisation has contributed to our past successes. In addition, we would like to record our appreciation of the commitment shown by the two outgoing Board members, Simon Jones and Judith Ritchie.

Going forward, all Board members will have portfolio roles and will work closely with the Senior Leadership Team to ensure we continue to progress and develop the organisation. Together, we believe that we have the required commitment, skills, expertise and motivation to deliver the outstanding performance in all areas that we aspire to.

Andrew Frayling, Chairman

18 July 2013



Roy Irwin, Chief Executive

18 July 2013



## Board

Andrew Frayling, Chairman

Mike Drew

John O'Neill

John Moloney

Guy Reid-Bailey

Paul Richards

Pat Rooney

Sian Walker-McAllister

Sylvia Young

Janet Biggin

Loretta O'Driscoll (appointed 12 March 2013)

Vivienne Horton\* (appointed 21 March 2013)

Richard Penska\* (appointed 21 March 2013)

Ian Hanstead (Co-optee)

Simon Jones (resigned 21 March 2013)

Judith Ritchie (resigned 21 March 2013)

\* To be ratified at the AGM 2013

## Executive Directors

Roy Irwin, Chief Executive (appointed 1 March 2013, previously interim from 6 September 2012)

Ian Matthews, Chief Executive (resigned 30 November 2012)

Sue O'Neill, Finance & Resources Director

Amanda Meanwell, Operations Director

Winston Williams, Managing Director of Merlin Works

## Company Secretary

Andrew Ledger

## Bankers

Lloyds TSB Bank Plc

PO Box 72

Bailey Drive

Gillingham Business Park

Gillingham

Kent

ME8 0LS

## Solicitors

The HALA Framework

Kennedy Cater

3<sup>rd</sup> Floor

6 Braham Street

London

E1 8EE

## Registered Office

Riverside Court

Bowling Hill

Chipping Sodbury

Bristol

BS37 6JX

## Auditors

KPMG LLP

100 Temple Street

Bristol

BS1 6AG

## Registered Numbers

Industrial & Provident Society No 30012R

Homes & Communities Agency No L4485

## Report of the Board

The Board is pleased to present its annual report and Merlin Housing Society's audited financial statements for the year ended 31 March 2013.

Merlin Housing Society is a not-for-profit organisation registered under the Industrial and Provident Societies Act, with charitable status and is a registered social landlord, administered by a voluntary Board.

An overview of Merlin Housing Society's performance for the year and future plans are set out in the Operating and Financial Review included in this Report of the Board.

## Our Vision, Mission and Values

**Our Vision remains unchanged:**

**“Quality homes, excellent services and strong communities, with our customers at the heart of all that we do”.**

Our mission is to meet housing needs and contribute to the development of sustainable communities. We want our customers to be proud of the services they receive, our staff to be proud that they work for us and our stakeholders to be proud to work with us.

Our Values guide and influence our work:

**Promote** We will recognise and respond to the rights, interests and values of everyone we work with.

**Respond** We will listen to our customers, our colleagues and the communities we serve and ensure they have real influence over what we do and how we do it.

**Include** We will work to ensure everyone who needs them have the opportunity to use our services.

**Deliver** We will constantly look for ways to improve things for our customers, our colleagues and the communities we serve.

**Empower** We will encourage a culture where our customers, our colleagues and the communities we serve can achieve their full potential.

## Our Challenges

The key challenges we are facing include:

- Anticipated additional financing requirements from 2015 to fund our planned improvements and development of new homes and the potential costs associated with this
- Properties deemed no longer fit for purpose or reaching the end of their useful lives requiring either significant investment to extend their useful life, remodelling to ensure fit for purpose or requiring full re-development
- Increased arrears and bad debts due to the introduction of the Universal Credit system and other changes to welfare benefits including the direct payment to customers
- The anticipated changes around future rent setting

We are managing these challenges in the following ways.

### Additional Financing

Based on our current business plans, we have sufficient funding to cover our anticipated expenditure until April 2015. We have ambitious plans for the future which will require additional financing beyond our current funding facility. As a result, we intend to look at additional funding routes in 2014 and have every confidence that our strong financial position will support this.

We have developed our long term financial plan, taking account of the risks and uncertainties that we are facing and have considered the contingency arrangements which could be put in place should there be any unexpected adverse financial impacts. We have also undertaken extensive sensitivity analysis on the financial plan assumptions to ensure that we fully understand the potential impact of changes on our operating environment.

### Property Reviews

We have undertaken a full review of our non-traditional properties and our sheltered accommodation and are now finalising our plans to re-develop, refurbish or remodel these properties to ensure they meet the standard we have set and are fit for the future. In addition to the non-traditional and sheltered properties, we will be embarking on a programme of property condition surveys in order to better inform our future programmes of work. We are looking to introduce more preventative property maintenance on a cyclical basis in order to reduce the level of day to day repairs we currently perform.

## Welfare Reform

The new Welfare Reform Act came into effect in March 2012 and this covers changes to legislation which will be introduced over a four year period from 2013 to 2017. The main areas impacting the housing sector are:

- Introduction of “Bedroom Tax” from April 2013. This reduces housing benefit payable to working age tenants who are deemed to be under-occupying their home – by 14% if there is one extra bedroom and 25% for two extra bedrooms. We have identified 409 households potentially affected by this and we have been in direct contact with each of them to ensure firstly that they understand the changes and how they will be affected, and also to discuss their preferred options going forward. We will continue to work with these customers to find solutions, where required.
- A cap on the amount of benefit a household can receive of £26,000 per annum (or £500 per week) from July 2013. We have only 10 customers potentially affected by this change and are in contact with them to help manage the impact of this change.
- A single payment of benefit, termed Universal Credit, will be introduced from October 2013 over a four year period. This will replace housing benefit and a range of other benefits and will be paid directly to tenants of working age on a monthly basis. This is likely to have the most significant impact on our customers. As a result, we have engaged specialist staff to support those customers affected, by helping them to understand these changes, the impact they will have and how to deal with them – such as helping set up bank accounts and running special training sessions in budget management.

We have recognised the financial impact this could have on our organisation and have made an appropriate adjustment to our financial plans to encompass this. Our Financial Inclusion, Housing, Finance and Community Investment Teams will work closely together to provide guidance and support to customers, together with developing additional payment methods encompassing new technology applications.

## Rent Setting

We continue to set rents in accordance with the Government’s guidance on calculating target rents. The current guidance will be replaced from April 2014 and this will result in some changes to the method of calculating rent increases. The revised guidance will be in place for 10 years, providing a greater degree of certainty of future rents.

## External Risks

We have minimised the risks associated with external contractors and have achieved improved value for money by bringing the majority of work on our properties in-house. The majority of work is performed by our own internal workforce, who continue to develop and increase their skills and expertise. As a result of this, we do not incur VAT on our labour costs delivering further savings.

## Operating and Financial Review

We have delivered another year of strong financial performance with a reported surplus of £4.8 million (2012: £4.2 million). This represents 12.8% of our turnover of £37.3 million, an increase of 0.5% since last year.

The following information provides a comparison of our financial results compared to last year:

<b>Income and Expenditure account</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Total turnover	37,282	34,098
Surplus for the year	4,792	4,211
Surplus as % of turnover	12.8%	12.3%
Retained reserves	37,104	33,540

<b>Balance Sheet</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Housing properties, net of depreciation and grant	108,934	95,575
Other fixed assets	6,359	6,483
Fixed asset investments	141	-
Fixed assets net of depreciation and grant	115,434	102,058
Net current assets including debtors over one year	64,285	71,441
Total assets less current liabilities	179,719	173,499

Loans (due over one year) and sinking funds	73,645	66,636
Provision for liabilities	64,189	70,062
Pensions liability	4,781	3,261
Revenue reserve	37,104	33,540
Society's funds	179,719	173,499

The results show an increase in turnover year on year of £3.2 million (9.3%) and an increase in the surplus of £0.6 million (13.8%).

Our Balance Sheet shows an increase in the value of our housing properties of £13.3 million (cost less depreciation) which reflects the acquisitions value of £12.3 million in the year and property improvements of £5.7 million, less depreciation charged in the year of £3.5 million, disposals of £0.4 million and Grants of £0.8 million.

Our loans for the year have increased by £7 million to £73.5 million, leaving available funds of £26.5 million on our £100 million loan facility.

## Key Financial Indicators

	2013	2012
Surplus for the period as % of turnover	12.9%	12.3%
Surplus for the period as % of income from lettings	13.3%	12.8%
Liquidity (current assets due within one year divided by current liabilities within one year)	1.02	1.23
Gearing (total loans as % of capital grants plus reserves)	198.1%	198.3%
Total retained reserves per home owned	£4,630	£4,270

## Key Operational Performance Indicators

<b>Measure</b>	<b>2013/14 Target</b>	<b>2012/13 Result</b>	<b>2012/13 Target</b>	<b>2011/12 Result</b>
Current Arrears %	2.4%	2.07%	1.90%	2.16%
Rent loss due to voids %	1.0%	1.08%	0.90%	1.22%
Average re-let time in days	25.5 *	35.8	30	40
Residents satisfied with repairs %	92%	88.27%	95%	92.11%
Properties meeting Decent Homes Standard %	100%	99.47%	100%	100%
Complaints responded to within target %	98%	75.0%	95%	73.18%

\* To be profiled down from 30 to 21 days over the year

## Current Arrears

This is the amount of rent we were unable to collect from tenants who are currently living in our properties. Our arrears levels marginally improved in 2012/13 although our target was not achieved.

Effective income management has never been more important. The new Welfare Reform Act brings with it significant changes to welfare benefits which will impact on the incomes of many social tenants and the business plans of social landlords. This in turn may have an adverse impact on arrears levels and associated management costs. We have worked well to improve in all aspects of income collection and are now far better prepared for the challenges ahead.

We have prudently reviewed the target to 2.4% for 2013/14 in order to reflect the challenges that will be posed by the reforms to welfare benefit. Specialist staff have been recruited to help minimise the impact of this in what will be challenging times. New ways to pay have also been introduced, including text payment facilities and phone applications.

## Percentage of rent loss due to voids and the average re-let time

Rent loss is directly related to average re-let times and although neither met their targets for the year, we have introduced new management processes and targets have been achieved in the latter part of the year. It is expected that this improvement will continue into 2013/14 and the target will be achieved next year.

There were a number of hard to let and long term void properties let during the year and these did have a significant impact on the average relet time, but improved processes and working practices will allow for these without compromising performance.

## Percentage of residents satisfied with repairs

Our repairs service is delivered by our in-house workforce. Satisfaction with repairs is carried out monthly via a survey completed by customers who have had repairs to their property. Satisfaction levels decreased in 2012/13 and did not meet the target of 95% which was disappointing. As a result, a service improvement action plan has been designed to deliver an improved customer experience and the impact of this should be visible in 2013/14.

### Percentage of properties failing to meet the Decent Homes Standard

We have strived to maintain Decent Homes Standard on all of our properties, but at the end of March 2013, there were 42 properties that did not meet the standard. This has been partly due to access issues. We will continue to attempt to agree works with the customers and treat these properties as a priority for action in the coming year.

### Percentage of complaints responded to within 10 days

Performance improved compared to 2011/12 but did not meet the target set for the year. We have focussed management attention on this important aspect of our customer feedback and our learning from this and adherence to response timescales will be closely monitored to ensure improved performance.

## Value for Money

We define Value for Money (VfM) as providing homes and services at the right cost, which are fit for purpose and of the right quality for the needs and aspirations of our customers.

We aim to develop a culture and environment that enables us to embed Value for Money in everything we do.

Our Value for Money Strategy has seven key objectives:

- Provide leadership and a governance framework for our VfM agenda
- Increase involvement of residents in shaping our services and ensuring that we are delivering value for money
- Monitor and manage our VfM performance and deliver services economically, efficiently and effectively
- Ensure excellent financial management to support the business
- Make best use of our assets and resources
- Optimise the efficiency and effectiveness of our in-house repairs, maintenance and improvements services
- Continually improve our procurement practices and management of contracts

We believe that to achieve our VfM aims and objectives we must provide energy and commitment from our Board members to our staff. In providing leadership and a governance framework for VfM, the Board has set a target to reduce our expenditure by a further 7% by 2014/15.

We have residents participating in the selection process for new contracts where the goods or services have a direct impact on customers. We undertake regular resident satisfaction surveys to measure the level of satisfaction our customers have with the services we provide. The “Merlin Standard” for our properties goes beyond Decent Homes Standard.

Growth through development and acquisition is among one of our ways of improving VfM. Increasing our property portfolio and managing this within our existing resources, drives down the average costs of overheads per property. Another key component of our VfM strategy is to maximise the use of our internal workforce to deliver the majority of repairs, maintenance and major improvements, saving VAT on labour costs.

We have recently participated in a new insurance arrangement through Igloo, a special purpose insurance vehicle, which is expected to result in significant savings in insurance premiums.

Our financial management provides detailed reports on financial performance and future projections of income and expenditure and the resultant cash flows. This allows us to effectively manage our funding requirements, ensuring loans are only drawn when required.

Our Procurement Team provides guidance and expertise across the organisation in ensuring that Value for Money is achieved in all new contractual arrangements, delivering £145,000 of savings last year.

## Benchmarking

Benchmarking is an activity which allows us to compare our operational and financial performance against other organisations providing social housing for rent. It allows us to understand how we are performing and how much we are spending on services compared to our peers. We have participated in Housemark's annual exercise for the last five years and some of the latest results are available in the table below. The table shows our 2012/13 performance compared to the previous year and also against the National Group top and median quartiles.

	Merlin 2012/13	National Top Quartile 2012/13	National Median Quartile 2012/13	Merlin 2011/12
<b>% Responsive repairs completed within target</b>	96.81%	98.95%	97.79%	98.78%
<b>Appointments made as a percentage of repairs where appointments are applicable</b>	77.64%	100%	96.35%	79.41%
<b>% Residents satisfied with repairs &amp; maintenance</b>	88.27%	96.68%	94.29%	92.11%
<b>Rent collected as a percentage of rent owed</b>	99.00%	100.26%	99.68%	98.42%
<b>Current arrears %</b>	2.07%	1.54%	2.38%	2.16%
<b>Percentage of rent lost through dwellings being vacant</b>	1.08%	0.58%	0.96%	1.22%
<b>Percentage of properties that meet the Decent Homes Standard</b>	99.47%	100%	100%	100%

Benchmarking figures are for organisations who take part in the quarterly benchmarking exercise and represent performance for 2012/13

### Percentage responsive repairs within target

Our 2012/13 performance shows a deterioration of almost 2% against the prior year and places us just below the median quartile. This is mainly due to initial difficulties embedding procedures and service levels with a new materials supplier and we have progressed a number of actions to rectify these issues.

## Appointments made as a percentage of repairs

We have recently introduced an appointments system to cover a large proportion of day to day repairs. The level of appointments made has also suffered during the year reducing our performance by 1.8% compared to last year. In this area, we are considerably below the top and median quartiles, but we aim to improve this in the coming year.

## Percentage of customers satisfied with repairs and maintenance

As a result of the previous two measures, satisfaction levels have reduced by 3.8% year on year. This places us below the median level when compared to national averages. We aim to address this in the coming year.

## Rent collected as a percentage of rent owed

Our performance in this area has improved since last year and places us close to the median position when compared to national averages. This is a good indication of the level of control exercised over the management of arrears and bad debts. The top quartile shows a position exceeding 100% which would indicate reducing arrears.

## Current arrears percentage

This indicator is closely linked to the above measure and the improvement in collection levels is mirrored by a reduction in the current arrears percentage from 2.16% in 2011/12 to 2.07% in 2012/13. This places us above the median quartile but below the top quartile performance when compared to the national average. This is a considerable achievement in the current tough economic climate.

## Percentage of rent lost through dwellings being vacant

Our performance in this area has improved year on year and this places us close to median quartile. This has been an area of improved processes and efficiency in the year and we expect there to be further improvements on an ongoing basis.

## Percentage of homes achieving decent homes standard

We expect our performance in this area to be 100% as we have set a standard that exceeds the decent homes standard. However, difficulties can be experienced in gaining agreement with customers for major works and as a result of this, our performance has dropped below 100% to 99.47%. This represents 42 of almost 8,000 properties not meeting decent homes standard at 31 March 2013.

## Governance

The Board is responsible for the effective governance of the organisation, with day to day management delegated to the Executive Team.

The Board currently comprises 13 members plus one co-optee, made up of independent members, Council members and customers. The organisation has adopted the National Housing Federation Code 'Excellence in Governance'.

In November 2012, the Board decided to revise its arrangements for meetings and how it would delegate authority. The Board now meet on a more frequent basis and hold six Business Strategy meetings, primarily a discussion forum with a focus on considering the medium and long term strategy of the business, and four Business Management meetings, used to approve key strategies and strategic policies.

To reflect these changes, the Board agreed revised Standing Orders and Financial Regulations. A Scheme of Delegation & Control has also been introduced. This will help ensure that the Society's Board and senior managers are able to exercise full control over the affairs of the Society at all times.

The Board is supported by the Audit & Risk Committee, who provide them with assurance that the Society's risk management, internal control and assurance processes are robust and embedded across all of the Society's activities.

We have encouraged and developed more routes for customer involvement in the operations and decision making of the organisation. These include:

- Residents Scrutiny Group
- Involved Residents Inspecting Service (IRIS)
- Residents Finance Group
- Residents Procurement Group
- Property Services Group

## System of internal control

### Responsibility

The Board of Merlin Housing Society is responsible for maintaining a sound system of internal control which focuses on significant risks that could threaten the Society's ability to meet its objectives and provides reasonable assurance on the safeguarding of assets.

Processes for identifying, evaluating and managing the significant risks faced by the Society are set out in the Society's Risk and Opportunity Management Strategy. These processes are on going and have been in place for the financial year ended 31 March 2013 and up to the date of approval of the annual report and financial statements.

The key strategies, policies and frameworks established to monitor the effectiveness of the system of internal control are summarised below.

- Corporate governance arrangements – we have adopted and comply with the National Housing Federation Code 'Excellence in Governance' with the exception that we currently have 13 Board members plus one co-optee and the code recommends a maximum of 12 members
- Financial regulations and delegated authorities – this sets out the authority levels across the organisation
- Policies and procedures for all key areas of the business – this is an ongoing area of development
- Risk management system - the Audit & Risk Committee and Senior Leadership team reviewed the Homes & Communities Agency's (HCA's) sector risk profile to ensure there were no material gaps between our view of the risks that we faced and the regulatory view of risk in the sector. A framework for managing risks and opportunities is approved by the Audit & Risk Committee each year.
- Anti-fraud and corruption policy - we have robust and effective recruitment procedures, including the taking up of references and Criminal Records Bureau checks where appropriate. Checks are carried out on new suppliers to confirm they are bona fide. We are once again participating in the Audit Commission's National Fraud Initiative. In addition, we are members of the National Anti Fraud Network and the South West Fraud Forum. We maintain relevant insurance to cover the consequences of fraudulent activity.
- Internal audit - our internal audit charter is reviewed annually. Compliance with the International Standards for the Professional Practice of Internal Audit is emphasised in the charter. The internal audit plan seeks to provide independent and objective assurance across the whole range of the Society's activities.
- The HCA's Viability Report noted that we meet the requirements on viability set out in the Governance and Financial Viability standard but needs to manage material financial exposures to support continued compliance. It also noted that we have sufficient financing for the business plan period, with sufficient facilities to cover all contractual commitments and that we are meeting, and forecast to meet, all covenants with a good degree of headroom based upon limited scenario testing provided.

## Review of internal controls

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements. Where weaknesses have been identified, an action plan is in place to rectify the situation.

## Quality standards

Our internal works operation underwent two reviews in September, resulting in the retention of our ISO 9001 Quality Management Standard accreditation, and HQN Accredit: DLO and accreditation system specifically designed for direct labour organisations in the social housing sector.

We received an Investors in People (IIP) bronze award following an inspection in July 2012. The award puts us just outside the top 10% of all IIP accredited companies in the UK.

We participate in the Positive about Disabled People scheme for employers who have made commitments to employ, keep and develop the abilities of disabled staff.

In 2013/14 we will work to develop relevant policies, procedures and processes to support the delivery of consistently high standard independent living services, which meet Centre for Housing and Support standards. We will also investigate accreditation in connection with our approach to Health & Safety and Environmental Management.

## Going concern

After reviewing and approving the organisation's budget for 2013/14 and long-term financial plans, sensitivities and contingencies, the Board has a reasonable expectation that there are adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

## Shareholders

There is a policy for admitting and ending shareholding membership and it will accept applications from tenants and also from people who are not tenants if they have a legitimate interest in our business, although this excludes previous and current staff members.

## Annual general meeting

The annual general meeting will be held on 25<sup>th</sup> July 2013.

## Report of the Board

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### Disclosure of information to auditors

At the date of making this report, each of the Society's Board members, as set out on page 2, confirm the following:

- So far as each Board member is aware, there is no relevant information needed by the Society's auditors in connection with preparing their report, of which the Society's auditors are unaware; and
- Each Board member has taken all the steps that he/she ought to have taken as a Board member in order to make himself/ herself aware of any relevant information needed by the Society's auditors in connection with preparing their report and to establish that the Society's auditors are aware of that information.

### Appointment of external auditors

KPMG LLP have expressed their willingness to continue in office as the Society's auditors. Accordingly, a resolution to re-appoint KPMG LLP will be proposed at the forthcoming annual general meeting. It is intended to re-tender for external audit services during 2013.



Andrew Frayling

**Chairman**

18 July 2013

# Statement of the Board's responsibilities

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## Statement of the Board's responsibilities in respect of the report of the Board and the financial statements

The Board is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

Industrial and Provident Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the surplus or deficit for that period.

In preparing these financial statements, the Board is required to:

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

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Industrial and Provident Societies Acts 1965 to 2003, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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

## Independent auditor's report to the members of Merlin Housing Society

We have audited the financial statements of Merlin Housing Society for the year ended 31 March 2013 set out on pages 21 to 50. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with section 128 of the Housing and Regeneration Act 2008 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 18, the Society's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31 March 2013 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012.

## Independent auditor's report

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

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2003 require us to report to you if, in our opinion:

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



Chris Wilson

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
100 Temple Street  
Bristol  
BS1 6AG  
22 July 2013

# Financial Statements and Notes to the Accounts

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## Income and Expenditure Account

For the year ended 31 March 2013

	Note	2013	2012
		£'000	£'000
<b>Turnover</b>	3	37,282	34,098
<b>Operating costs</b>	3	(29,788)	(27,281)
<b>Operating surplus</b>	3, 5	7,494	6,817
Surplus on sale of fixed assets – housing properties	7a	253	321
(Deficit) / Surplus on sale of fixed assets – non housing	7b	-	(14)
Interest receivable and other income	8	5	4
Interest payable and other similar charges	9	(2,884)	(2,990)
Net interest/return on pension assets	11	(76)	73
<b>Surplus for the year</b>	23	<u>4,792</u>	<u>4,211</u>

The notes on pages 24 to 50 form part of these financial statements.

Historical cost surpluses and deficits were identical to those shown in the income and expenditure account.

## Statement of Total Recognised Surpluses and Deficits

For the year ended 31 March

	2013	2012
	£'000	£'000
Surplus for the financial year	4,792	4,211
Actuarial (loss)/ gain relating to pension scheme	(1,228)	(1,640)
Total recognised surpluses and deficits relating to the year	<u>3,564</u>	<u>2,571</u>

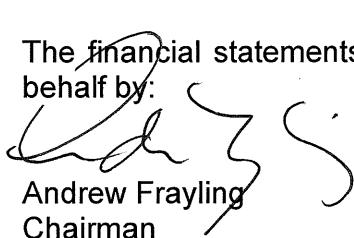
# Financial Statements and Notes to the Accounts

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## Balance Sheet as at 31 March 2013

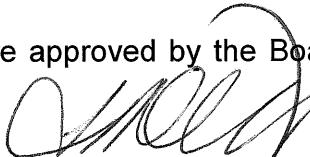
	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
<b>Tangible fixed assets</b>					
Housing properties – cost	13	110,446		96,291	
Social Housing and other capital Grant	13	(1,512)		(716)	
			108,934		95,575
Other tangible fixed assets	14		6,359		6,483
Fixed asset investments	15		141		-
				115,434	102,058
<b>Current assets</b>					
Stock	16	257		98	
Debtors	17	66,014		72,463	
Investments	18	-		1,700	
Cash at bank and in hand		3,463		3,169	
			69,734		77,430
<b>Creditors: Amounts falling due within one year</b>	19	(5,449)		(5,989)	
<b>Net current assets</b>					
Due within one year		113		1,394	
Debtors due after one year		64,172		70,047	
			64,285		71,441
<b>Total assets less current liabilities</b>			179,719		173,499
<b>Creditors: Amounts falling due after more than one year</b>	20		73,645		66,636
<b>Provision for liabilities</b>	25		64,189		70,062
<b>Net pension liability</b>	11		4,781		3,261
			142,615		139,959
<b>Capital and reserves</b>					
Non-equity share capital	22	-		-	
Revenue reserve	23		37,104		33,540
			37,104		33,540
<b>Society's funds</b>			179,719		173,499

The financial statements were approved by the Board on 18 July 2013 and signed on its behalf by:



Andrew Frayling

Chairman



Sue O'Neill

Finance Director



Andrew Ledger

Company Secretary

# Financial Statements and Notes to the Accounts

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## Cash Flow Statement

For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
<b>Net cash inflow from operating activities</b>	26	12,979	9,518
<b>Returns on investments and servicing of finance</b>		_____	_____
Interest received		5	4
Interest paid		(2,884)	(2,994)
		_____	_____
		(2,879)	(2,990)
<b>Capital expenditure</b>		_____	_____
Purchase and construction of housing properties		(17,829)	(5,701)
Purchase of other fixed assets		(876)	(2,049)
Acquisition of investment		(141)	-
Net receipts from sales of housing properties		332	761
Sinking Funds received		8	12
		_____	_____
		(18,506)	(6,977)
<b>Cash flow before management of liquid resources and financing</b>		_____	_____
<b>Management of liquid resources</b>		(8,406)	(449)
Cash out / (in) money market deposits		1,700	(1,170)
<b>Financing</b>		_____	_____
Loans received		7,000	1,500
<b>Increase/ (Decrease) in cash</b>	27, 28	294	(119)
		_____	_____

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013

### 1. Legal status

The Society is registered under the Industrial and Provident Societies Act 1965 and is registered with the Homes and Communities Agency as a social landlord.

At 31 March 2013, there were 46 shareholding members of the Society (31 March 2012: 62 members).

### 2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

#### **Basis of accounting**

The financial statements of the Society are prepared under the historic cost convention and on a going concern basis, in accordance with applicable accounting standards and the Statement of Recommended Practice for Accounting by registered social landlords (SORP 2010) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2012. The Board is satisfied that the current accounting policies are the most appropriate for the Society.

Merlin Housing Society Limited has participated in a protected cell insurance company, Igloo (PCC). This investment is classified as a quasi-subsidiary in accordance with Financial Reporting Standard 5. The directors do not consider that the balances of the quasi-subsidiary are material in the context of the Society. Therefore, in accordance with s405 of the Companies Act 2006, group accounts have not been prepared and these financial statements represent those of the Society only.

#### **Turnover**

Turnover comprises:

- a. Rental income from tenants receivable for the period;
- b. Rental income is deferred to a future period where it does not relate to the current period;
- c. Service charge income from tenants and leaseholders receivable;
- d. Supporting People funding;
- e. Other income included at the invoiced value of goods and services provided

#### **Interest payable**

Interest payable is charged to the income and expenditure account on an accruals basis.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 2. Accounting policies (continued)

#### **Value added tax**

The Society charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The costs within the income and expenditure account include VAT to the extent that it is suffered by the Society and is not recoverable from HM Revenue and Customs. The balance of VAT payable or receivable at the year-end is included as a current liability or asset.

#### **Taxation**

Merlin Housing Society is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore meets the definition of a charitable company for UK Corporation Tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

#### **Pensions**

The Society participates in one funded multi-employer defined benefit scheme, the Avon Pension Fund (APF). The operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the income and expenditure accounts with any other changes in fair value of assets and liabilities being recognised in the Statement of Total Recognised Surpluses and Deficits.

#### **Grants**

Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

#### **Social Housing Grant**

Social Housing Grant (SHG) is receivable from the Homes and Communities Agency and is utilised to reduce the cost of development and such grants are therefore matched with the expenditure to which they relate. The majority of SHG is shown as a deduction from the cost of housing properties. The Statement of Recommended Practice – Accounting by Registered Social Landlords (2010) requires that part of the development costs are regarded as revenue costs and therefore the proportion of SHG attributable to these costs is matched with the expenditure to which it relates by crediting the income and expenditure account as part of turnover.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 2. Accounting policies (continued)

#### **Disabled Facilities Grant**

Disabled Facilities Grant (DFG) is receivable from South Gloucestershire Council to cover the cost of major works with a value over £1,000 undertaken to provide special disability facilities. Such grants are matched to the expenditure to which they relate. Where this relates to the capital costs of housing improvements, the grant is deducted from the cost of works capitalised.

#### **Housing properties**

Housing properties are principally properties available for rent and are stated at historic cost.

Works to existing properties which result in an increase in the net rental income, such as a reduction in future maintenance costs, or result in a significant extension of the useful economic life of the property in the business, are capitalised as direct costs along with their directly associated overheads.

The development cost of housing properties including the cost of acquiring land, construction costs, directly attributable overheads and associated fees are capitalised.

Other repairs, including routine and planned expenditure incurred in the year, are expensed in the income and expenditure account.

#### **Depreciation of housing properties**

Freehold land is not depreciated. Freehold buildings have been broken down into components. Components are different elements of the dwelling which have varying useful economic lives which are depreciated so as to write down the net book value of the components to their estimated residual value over their expected useful lives.

The principle annual rates used for the components are:

Freehold Structure	100 years
Roofing	65 years
Windows	30 years
Doors	30 years
Kitchens	20 years
Bathrooms	30 years
Heating Systems	30 years
Boilers	15 years
Electrics	30 years
Lifts	25 years
PV Panels	25 years
Other works (Insulation etc.)	10 years

# Financial Statements and Notes to the Accounts

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Notes to the Financial Statements for the year ended 31 March 2013  
(continued)

## 2. Accounting policies (continued)

### **Acquisitions**

In accordance with the accounting requirements for property components, the costs relating to property acquisitions are divided into their relevant component parts and are capitalised and depreciated over their expected useful lives.

### **Impairment**

Housing properties which are depreciated over a period in excess of 50 years are subject to an annual impairment review. Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down is charged to the Income and Expenditure account.

### **Sale of housing properties**

Sales of housing properties are accounted for on their completion date. Under the terms of the transfer agreement, a proportion of the proceeds from Right to Buy sales are shared with South Gloucestershire Council. On completion of a Right to Buy sale contract, the full proceeds are credited to the Income and Expenditure account and the share payable to the Council is treated as a cost of sale.

### **Other tangible fixed assets**

Depreciation is provided evenly on the cost of other fixed assets to write them down to their estimated residual values over their expected useful lives. The principal annual rates used for other assets are:

Freehold Land	No depreciation charged
Freehold Property (non-housing)	25 years
IT software	5 years
IT hardware	5 years
Other equipment	5 years
Furniture & fittings	5 years
Leasehold offices – refurbishment works	Over the life of the lease
Motor vehicles	4 years

### **Investments**

Current asset Investments comprise cash deposits placed on the money market in line with the Society's Treasury Management.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 2. Accounting policies (continued)

Fixed asset investment represents Merlin's investment in one of the protected cells of a Protected Cell Company, Igloo (PCC) incorporated in Guernsey under the Companies (Guernsey) Law 2008. The Cell shareholder will have rights to dividends, other distributions and redemptions in relation to the profits and net assets of the Cell

As the Cell shareholder, in substance, will gain the benefits arising from the net assets of the Cell and will be exposed to the risks inherent in the Cell, the Cell is classified as a quasi-subsidiary within the meaning of Financial Reporting Standard 5.

#### **Operating Leases**

Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the term of the lease.

#### **Stock**

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

#### **Liquid resources**

Liquid resources are readily disposable current asset investments. They include money market deposits, held for more than 24 hours that can only be withdrawn without penalty on maturity or by giving notice of more than one working day.

#### **Service charge prepayments**

Service charge funds received in advance are shown as creditors and are included within the amounts falling due after one year.

#### **Transfer of Housing Stock from Local Authority**

Properties were acquired from a local authority for a consideration equivalent to their 'current market value' (i.e. the normal transfer price) plus the cost of bringing them into a good state of repair. Immediately prior to the transfer, the Council contracted with Merlin Housing Society to carry out these refurbishment works for a fixed sum, equal to the expected cost of the required work, and an invoice was issued by Merlin Housing Society to the Council for the full amount of the contract.

The terms of the Council's undertaking to refurbish/repair the properties and the terms of the contract with Merlin Housing Society are essentially similar; in particular, the price is fixed and no time limit imposed. Merlin Housing Society's workforce and subcontractors are subsequently employed to carry out the work over a number of years.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 2. Accounting policies (continued)

The underlying substance of the transactions were reflected on a gross basis; recognising the contractual position of Merlin Housing Society, which has both a valuable asset for which it has paid (the Council's obligation to have the refurbishment carried out) and a legally binding obligation to complete the works under the refurbishment contract. These assets and liabilities are recognised in the balance sheet within debtors and provisions respectively.

#### **Provisions**

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can readily be estimated.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 3. Turnover, cost of sales, operating costs and operating surplus

	Note	Year ending 31 March 2013		
		Turnover £'000	Operating costs £'000	Operating Surplus £'000
<b>Social housing lettings</b>	4	35,978	(28,762)	7,216
<b>Other social housing activities</b>		—	—	—
Management services		14	(5)	9
Supporting people contracts		292	(500)	(208)
		306	(505)	(199)
<b>Non social housing activities</b>		—	—	—
Garages		718	(378)	340
Commercial properties		280	(143)	137
		998	(521)	477
		37,282	(29,788)	7,494
		—	—	—
	Note	Year ending 31 March 2012		
		Turnover £'000	Operating costs £'000	Operating Surplus £'000
<b>Social housing lettings</b>	4	32,854	(26,316)	6,538
<b>Other social housing activities</b>		—	—	—
Management services		14	(6)	8
Supporting people contracts		293	(447)	(154)
		307	(453)	(146)
<b>Non social housing activities</b>		—	—	—
Garages		706	(386)	320
Commercial properties		231	(126)	105
		937	(512)	425
		34,098	(27,281)	6,817
		—	—	—

#### 4. Turnover, cost of sales, operating costs and operating surplus

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

	Year ended 31 March 2013				Year ended 31 March 2012	
	General needs housing	Supported housing and housing for older people	Temporary social housing	Low cost home ownership	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	27,957	5,373	206	67	33,603	31,151
Service charge income	699	841	16	-	1,556	911
Charges for support services	-	711	4	-	715	696
<b>Net rental income</b>	<b>28,656</b>	<b>6,925</b>	<b>226</b>	<b>67</b>	<b>35,874</b>	<b>32,758</b>
Other income	85	19	-	-	104	96
<b>Turnover from social housing lettings</b>	<b>28,741</b>	<b>6,944</b>	<b>226</b>	<b>67</b>	<b>35,978</b>	<b>32,854</b>
Management	(10,023)	(2,424)	(79)	(23)	(12,549)	(12,629)
Services	(1,195)	(1,362)	(37)	-	(2,594)	(2,206)
Routine maintenance	(5,685)	(1,305)	(84)	(8)	(7,082)	(6,053)
Planned maintenance	(2,031)	(571)	(12)	(2)	(2,616)	(2,572)
Exceptional item – insurance recovery	-	-	-	-	-	789
Bad debts	(261)	(24)	(1)	-	(286)	(287)
Loss on disposal of fixed assets	(91)	(1)	-	-	(92)	(220)
Depreciation of housing properties	(3,056)	(481)	(5)	(1)	(3,543)	(3,138)
<b>Operating costs on social housing lettings</b>	<b>(22,342)</b>	<b>(6,168)</b>	<b>(218)</b>	<b>(34)</b>	<b>(28,762)</b>	<b>(26,316)</b>
<b>Operating surplus / (loss) on social housing lettings</b>	<b>6,399</b>	<b>776</b>	<b>8</b>	<b>33</b>	<b>7,216</b>	<b>6,538</b>
<b>Void losses</b>	<b>(233)</b>	<b>(119)</b>	<b>(25)</b>	<b>-</b>	<b>(377)</b>	<b>(421)</b>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 5. Operating Surplus

This is arrived at after charging/ (crediting):

	2013 £'000	2012 £'000
Depreciation of housing properties	3,548	3,138
Depreciation of other tangible fixed assets	878	780
Loss on disposal of housing property components	91	237
Loss / (gain) on disposal of other tangible fixed assets	-	14
Operating lease rentals		
- land and buildings	78	80
- vehicles	430	442
Auditors' remuneration (including VAT)		
- for audit services - current year	35	33
Exceptional item – insurance recovery (revenue)	-	<u>(789)</u>

In 2011/12 the Society had an exceptional item which related to an insurance recovery in relation to a fraud which was considered to have taken place over a number of years. The insurance settlement received, net of related expenses, is shown above.

### 6. Accommodation in management

At 31 March, accommodation in management for each class of accommodation was as follows:

	2013 Number	2012 Number
<b>Social housing</b>		
General housing	6,484	6,380
Supported housing and housing for older people	1,452	1,396
Low cost home ownership	39	39
Temporary social housing	39	39
Leasehold properties*	474	471
Total owned & managed	8,488	8,325

\* A specific level of service is delivered to the leaseholders in these properties, mostly flats or maisonettes

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 7 a. Surplus on sale of fixed assets – housing properties

	2013 £'000	2012 £'000
Sales Proceeds	1,477	1,574
Other Income	43	16
Cost of Sales	(280)	(190)
Council Clawback and Other Costs	(987)	(1,079)
<b>Surplus</b>	<b>253</b>	<b>321</b>

### 7 b. (Deficit) / Surplus on sale of fixed assets – other fixed assets

	2013 £'000	2012 £'000
Sales Proceeds	-	-
Cost of Sales	-	(14)
<b>(Deficit) / surplus</b>	<b>-</b>	<b>(14)</b>

### 8. Interest receivable

	2013 £'000	2012 £'000
Interest receivable and similar income	<u>5</u>	<u>4</u>

### 9. Interest payable and similar charges

	2013 £'000	2012 £'000
Loans and bank overdrafts	<u>2,884</u>	<u>2,990</u>

### 10. Employees

**Average monthly number of employees expressed in full time equivalents:**

	2013 Number	2012 Number
Administration	57	54
Housing, support and care	154	135
Repairs and property maintenance	179	135
<b>Total</b>	<b>390</b>	<b>324</b>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 10. Employees (continued)

	2013 £'000	2012 £'000
Wages and salaries	10,016	8,229
Redundancy costs	304	165
Compensation for loss of office	68	-
Social security costs	820	669
Pension costs	1,169	1,046
	<hr/> <hr/> 12,377	<hr/> <hr/> 10,109

During the year, as part of our continued delivery of value for money, we brought more of our property repairs, maintenance and improvements in-house resulting in increased staff numbers and relevant costs.

The number of persons including directors whose total remuneration (excluding employer pension contributions, or pay in lieu thereof, and including compensation for loss of office) exceeding £60,000 per annum is as follows:

	2013	2012
£150,000 to £159,000	1	-
£100,000 to £149,999	-	2
£90,000 to £99,999	3	1
£80,000 to £89,999	1	1
£60,000 to £69,999	2	3
	<hr/> <hr/> 7	<hr/> <hr/> 7

### 11. Pension Scheme

The Avon Pension Fund is a multi-employer scheme, administered by Bath & North East Somerset Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The current value of the obligation exceeds the value of the assets by £4.8 million. A formal FRS17 actuarial valuation was completed as at 31 March 2013 by a qualified independent actuary.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 11. Pension Scheme (continued)

On transfer of the employees to Merlin Housing Society on 12 February 2007, their associated pension liability was fully funded by South Gloucestershire Council so there was no pension liability at that time. The value of the assets and obligations of the plan at this time were equal. A full triennial actuarial valuation was carried out reflecting the position at 31 March 2010. This identified a deficit of £1.3 million in the Merlin share of the fund. The proportion of the deficit relating to staff who transferred from South Gloucestershire Council (£0.9 million) was met by the transfer of assets from the SGC fund to the Merlin fund. The remaining deficit of £0.4 million relating to Merlin staff appointed since transfer was met by a single payment into the fund by Merlin in 2011/12. A further triennial valuation is in progress based on the position as at 31 March 2013.

The employer's contributions to the fund by the Society for the year ended 31 March 2013 were £958,000 (2012: £1,268,000) at an average contribution rate of 14.3% of pensionable salaries. In addition, a further £186,000 was made in respect of Early Retirement costs (2012: £45,000).

Adjustments were also made to reflect the position at the 31 March 2013 based on the FRS17 Pension Adjustments. This resulted in a debit of £291,000 being reflected against contributions (2012: credit of £340,000).

A total of £116,000 was payable to the scheme at 31 March 2013 (2012: £107,000) and this is included in our creditors balance.

#### Financial assumptions

The main financial assumptions used by the actuary were:

	31 March 2013 % per annum	31 March 2012 % per annum	31 March 2011 % per annum	31 March 2010 % per annum
Discount rate	4.4%	5.1%	5.5%	5.7%
Rate of increase in salary	3.9%	4.1%	4.4%	4.8%
Rate of increase in pension	2.4%	2.6%	2.9%	3.5%
Rate of inflation	2.4%	2.6%	2.9%	3.5%

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 11. Pension Scheme (continued)

#### **Mortality assumptions**

The post-retirement mortality assumptions used to value the benefit obligation for the last three years are based on the PA92 medium cohort series. The assumed life expectations on retirement at age 65 are:

	2013 No. of Years	2012 No. of Years	2011 No. of Years	2010 No. of Years
<b>Current pensioner:</b>				
Males	22.9	22.8	21.2	21.2
Females	25.9	25.7	24.1	24.1
<b>Future pensioner retiring in 20 years:</b>				
Males	25.2	25.1	22.2	22.2
Females	28.2	28.1	25.0	25.0

This means an expected average age of a male is currently 88 and 91 for a female. In 20 years time, this is 90 and 93 respectively for a male and a female.

The information disclosed below is in respect of the whole of the plans for which the Society is either the sponsoring employer or has been allocated a share of cost under an agreed policy throughout the periods shown.

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Present value of funded defined benefit obligations	(30,863)	(25,406)	(20,299)	(19,453)	(11,927)
Fair value of plan assets	26,082	22,145	18,338	15,006	10,009
Deficit	(4,781)	(3,261)	(1,961)	(4,447)	(1,918)

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 11. Pension Scheme (continued)

#### **Movements in present value of defined benefit obligation**

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Benefit obligation at start of year	25,406	20,299	19,453	11,927	13,707
Current service cost	1,125	994	977	600	860
Past service cost	-	-	(1,290)	162	-
Interest cost on pension scheme liabilities	1,318	1,140	1,141	881	861
Loss on curtailments	231	52	105	47	207
Actuarial (gains)/losses	3,018	3,049	(234)	5,482	(3,654)
Member contributions	413	378	359	343	318
Benefits/transfers paid	(648)	(506)	(212)	11	(372)
<b>Value at end of year</b>	<b><u>30,863</u></b>	<b><u>25,406</u></b>	<b><u>20,299</u></b>	<b><u>19,453</u></b>	<b><u>11,927</u></b>

#### **Movements in fair value of plan assets**

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Fair value at start of year	22,145	18,338	15,006	10,009
Expected return on plan assets	1,242	1,213	1,001	652
Actuarial gains	1,789	1,409	1,324	3,020
Employer's contributions	1,141	1,313	860	971
Member contributions	413	378	359	343
Benefits/transfers paid	(648)	(506)	(212)	11
<b>Fair value at end of year</b>	<b><u>26,082</u></b>	<b><u>22,145</u></b>	<b><u>18,338</u></b>	<b><u>15,006</u></b>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 11. Pension Scheme (continued)

#### **Analysis of the amount charged to the income and expenditure account:**

	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Current service cost	1,125	994	977	600
Loss on curtailments	231	52	105	47
Past service cost	-	-	(1,290)	162
Expected return on plan assets	(1,242)	(1,213)	(1,001)	(652)
Interest cost on plan liabilities	1,318	1,140	1,141	881
Total operating charge	<u>1,432</u>	<u>973</u>	<u>(68)</u>	<u>1,038</u>

These amounts are recognised as a net cost within operating costs of £1,356,000 (2012: a cost of £1,046,00) and a shortfall on the return on pension assets of £76,000 (2012: surplus of £73,000) in the Income & Expenditure Account. The total amount recognised in the Statement of Total Recognised Surpluses and Deficits in respect of actuarial gains and losses is a loss of £1,228,000 (2012: loss of £1,640,000).

#### **Major categories of plan assets**

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Equities	14,633	11,604	11,480	9,753	6,075
Government bonds	2,686	2,569	2,384	1,546	1,391
Other bonds	4,799	4,562	1,449	1,441	861
Cash/Liquidity	443	332	385	405	691
Property	1,747	1,484	1,100	495	-
Other	1,774	1,594	1,540	1,366	991
Fair value at end of year	<u>26,082</u>	<u>22,145</u>	<u>18,338</u>	<u>15,006</u>	<u>10,009</u>
Actual return on plan assets	<u>3,030</u>	<u>646</u>	<u>1,175</u>	<u>3,672</u>	<u>(2,110)</u>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 11. Pension Scheme (continued)

The expected rates of return on the scheme assets are set at the beginning and end of the year as follows:

	Expected return on assets 2013	Expected return on assets 2012	Expected return on assets 2011	Expected return on assets 2010
Equities	7.0%	7.0%	7.5%	7.5%
Corporate bonds	2.8%	3.1%	4.4%	4.5%
Other bonds	3.9%	4.1%	5.1%	5.2%
Cash/Liquidity	0.5%	0.5%	0.5%	0.5%
Property	5.7%	6.0%	6.5%	6.5%
Other	7.0%	7.0%	7.5%	7.5%
Overall expected rate of return	<u>5.51%</u>	<u>5.50%</u>	<u>6.82%</u>	<u>6.46%</u>

The expected rate of return on the scheme assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighing the individual rates in accordance with the anticipated balance in the scheme's investment portfolio, net of investment management expenses.

#### Amounts recognised in the balance sheet:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Present value of funded obligations	(30,863)	(25,406)	(20,299)	(19,453)	(13,707)
Fair value of plan assets	26,082	22,145	18,338	15,006	11,418
Net liability	<u>(4,781)</u>	<u>(3,261)</u>	<u>(1,961)</u>	<u>(4,447)</u>	<u>(2,289)</u>

#### Experience adjustments on scheme assets:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Experience adjustments on scheme assets	1,789	1,409	1,324	3,020	(2,879)
As a percentage of scheme assets	6.9	6.4	7.2	20.1	28.8

The Society expects to contribute approximately £1 million to its defined benefit scheme in the next financial year, but will make an additional provision of £0.5m to cover potential increases in membership of the scheme.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 12. Board members and executive directors

	2013 £'000	2012 £'000
Remuneration paid to the executive directors including the Chief Executive was:		
Emoluments	395	462
Employers' pension contributions	54	60
Amounts paid to third parties in respect of directors' services	72	25
Loss of Office Chief Executive compensation	68	-
Loss of Office Chief Executive pension contributions	132	-
	<u>721</u>	<u>547</u>

None of the Board members received emoluments.

During the year, there has been a change of Chief Executive and the emoluments of the highest paid director refer to the previous Chief Executive. Excluding pension contributions, this was £152,000 including a compensation payment for loss of office (2012: £114,000). He was a member of the Local Government Pension Scheme and was an ordinary member, with no enhanced or special terms applicable.

Included in the above, a total of £72,000 was paid in respect of agency fees for one interim director during the year.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 13. Fixed assets – properties

	<b>Social housing properties held for letting</b> <b>£'000</b>	<b>Shared ownership properties</b> <b>£'000</b>	<b>Social housing properties under construction</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
<b>Cost</b>				
At 1 April 2012	5,416	96,481	138	40
Improvements	-	5,708	-	5,708
Acquisitions	2,155	10,182	-	12,337
Transfer costs	169	(129)	-	(40)
Construction costs	-	-	48	48
Disposals	(16)	(408)	-	(424)
At 31 March 2013	<u>7,724</u>	<u>111,834</u>	<u>138</u>	<u>48</u>
<b>Depreciation</b>				
At 1 April 2012	-	5,778	6	-
Charged in year	-	3,547	1	-
Disposals	-	(34)	-	(34)
At 31 March 2013	<u>-</u>	<u>9,291</u>	<u>7</u>	<u>-</u>
<b>Net book value</b>				
At 31 March 2013	<u>7,724</u>	<u>102,543</u>	<u>131</u>	<u>48</u>
<b>Grants</b>				
Social Housing & Disability Grants at 1 April 2012	-	(716)	-	(716)
Social Housing & Disability Grants Transfers	(169)	169	-	-
Social Housing & Disability Grants received in year	(138)	(658)	-	(796)
At 31 March 2013	<u>(307)</u>	<u>(1,205)</u>	<u>-</u>	<u>(1,512)</u>
<b>Net book value</b>				
At 31 March 2013	<u>7,417</u>	<u>101,338</u>	<u>131</u>	<u>48</u>
At 31 March 2012	<u>5,416</u>	<u>89,987</u>	<u>132</u>	<u>40</u>
				<u>108,934</u>
				<u>95,575</u>

In the year, our property assets have increased by £13.4 million mainly as a result of the three property acquisitions at a total value of £12.3 million.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 13. Fixed assets – properties (continued)

Our housing properties are valued on the Balance Sheet at historical cost less depreciation.

To determine the value on the basis of their existing use value for social housing (EUV - SH), they were professionally valued by Savills (L&P) Limited as at 31 March 2013 at £173,380,000 (2012: £148,736,000). The valuation was undertaken in accordance with the RICS Appraisal and Valuation Manual. In determining this valuation, the valuers made use of discounted cash flow methodology and key assumptions were made concerning the level of future rents, including government restrictions on the level of future rent increases, voids, the level of sales and the discount rate. The assumed discount rate used by Savills was 6%. Savills valued the properties on an open market value, assuming vacant possession and excluding shared ownership, at £914,545,000 (2012: £896,292,500).

The Society owns all its land on a freehold basis.

Total maintenance and improvement work to our properties completed in the year was £14.3 million (2012: £13.6 million) of which £5.7 million (2012: £4.6 million) was capitalised.

Notes to the Financial Statements for the year ended 31 March 2013 (continued)

14. Other fixed assets

	Freehold Land £'000	Freehold properties & fittings £'000	Leasehold properties £'000	Commercial properties £'000	Furniture & equipment £'000	Computer equipment £'000	Computer software £'000	Vehicles £'000	Total £'000
<b>Cost</b>									
At 1 April 2012	1,079	3,808	111	60	602	1,205	1,486	210	8,561
Additions	-	162	-	42	102	227	221	-	754
At 31 March 2013	<u>1,079</u>	<u>3,970</u>	<u>111</u>	<u>102</u>	<u>704</u>	<u>1,432</u>	<u>1,707</u>	<u>210</u>	<u>9,315</u>
<b>Depreciation</b>									
At 1 April 2012	-	385	14	11	164	702	795	7	2,078
Charged in year	-	196	23	4	126	227	248	54	878
At 31 March 2013	<u>-</u>	<u>581</u>	<u>37</u>	<u>15</u>	<u>290</u>	<u>929</u>	<u>1,043</u>	<u>61</u>	<u>2,956</u>
<b>Net book value</b>									
At 31 March 2013	<u>1,079</u>	<u>3,389</u>	<u>74</u>	<u>87</u>	<u>414</u>	<u>503</u>	<u>664</u>	<u>149</u>	<u>6,359</u>
At 31 March 2012	<u>1,079</u>	<u>3,423</u>	<u>97</u>	<u>49</u>	<u>438</u>	<u>503</u>	<u>691</u>	<u>203</u>	<u>6,483</u>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 15. Fixed Asset Investment

	2013 £'000	2012 £'000
Balance brought forward	-	-
Addition in year	208	-
Insurance costs in the year	(67)	-
Balance carried forward	<u>141</u>	<u>-</u>

During the year, Merlin invested in Igloo (PCC) which is a Protected Cell Company. PCC is a single legal entity, but it is made up of individual "protected cells". Each cell has its own capital provided by the cell's shareholders using that cell. Cell shares are non-voting and redeemable. The Cell shareholder will have rights to dividends, other distributions and redemptions in relation to the profits and net assets of the Cell. The Cell shareholders are responsible for keeping the Cell adequately funded in full support of the agreed insurance programme and to the extent necessary to meet the regulatory minimum capital, minimum solvency capital requirement and own solvency capital requirement as required by the Insurance Law and related regulations, and to enable the Cell to meet its liabilities to all valid creditors as they become due, restricting requests for dividends and injecting additional capital as necessary. The sole interest in the net assets and profits of the Cell is attributable to the Cell shareholders and not to any other shares of the Company (i.e. PCC) or to any other person.

As a result of the above, Merlin's investment in Igloo (PCC) is classified as a quasi-subsidiary in accordance with Financial Reporting Standard 5.

Igloo (PCC) is a Protected Cell Company incorporated in Guernsey under the Companies (Guernsey) Law 2008. The principle business activity is insurance. Merlin has a 100% investment in the cell.

### 16. Stock

	2013 £'000	2012 £'000
Van stock	147	93
Other Stock	110	5
	<u>257</u>	<u>98</u>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 17. Debtors

	2013 £'000	2012 £'000
<b>Due within one year</b>		
Arrears of rent and service charges	2,035	1,870
Less: Provision for bad debt	(1,422)	(1,222)
	<hr/>	<hr/>
	613	648
VAT debtor	258	16
Other debtors	348	175
Less: Provision for bad debt	(37)	(50)
	<hr/>	<hr/>
	569	141
Prepayments and accrued income	660	1,627
	<hr/>	<hr/>
	1,842	2,416
<b>Due after one year</b>		
Other debtors	64,172	70,047
Total debtors	<hr/>	<hr/>
	66,014	72,463

### 18. Current asset investments

	2013 £'000	2012 £'000
Money market deposits	-	1,700
	<hr/>	<hr/>

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

	2013 £'000	2012 £'000
Trade creditors	1,595	1,617
Rent and service charges received in advance	492	621
Other taxation & social security	302	279
Local Authority – right to buy share of proceeds	873	1,064
Capital creditors	371	396
Other creditors	139	127
Accruals	1,306	1,552
Capital accruals	371	333
	<hr/>	<hr/>
	5,449	5,989

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

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

	2013 £'000	2012 £'000
Bank loans	73,500	66,500
Deposits	14	13
Leaseholder sinking funds	131	123
	<u>73,645</u>	<u>66,636</u>

### 21. Borrowings

	2013 £'000	2012 £'000
<b>Repayment of bank loans:</b>		
Loans repayable in more than five years	73,500	66,500
	<u>73,500</u>	<u>66,500</u>

The bank loans are secured by a fixed legal charge over the majority of the Society's residential housing property. Interest is payable on a monthly, quarterly or half yearly basis. At the year end, 72% of debt was fixed with interest rates ranging from 4.53% to 5.73% (2012: 80% of debt fixed with interest rates ranging from 5.29% to 5.63%).

### 22. Non-equity share capital

	2013 £	2012 £
At start of year	62	60
Cancelled during the year	(21)	(3)
Issued during the year	5	5
At end of year	<u>46</u>	<u>62</u>

Share capital at 31 March 2013 comprises 46 shares of £1 each, of which 46 were fully paid at the year end. Each member of the Society holds a share of £1 in the Society. The shares provide members with the right to vote at general meetings, but do not provide any rights to dividends or distributions at winding up. Shares cannot be repaid or transferred. They are cancelled when a shareholder ceases to be a member and the £1 becomes the property of the Society. Therefore, all shareholdings relate to non-equity interests and there are no equity interests in the Society.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 23. Reserves

	2013 £'000	2012 £'000
<b>Revenue reserve</b>		
At start of year	33,540	30,969
Surplus for the year	4,792	4,211
Actuarial (loss) / gain relating to pension scheme	(1,228)	(1,640)
At end of year	<u>37,104</u>	<u>33,540</u>

### 24. Financial commitments

	2013 £'000	2012 £'000
<b>Capital expenditure commitments:</b>		
<b>Capital expenditure</b>		
Expenditure contracted for but not provided in the accounts	421	20,091
Expenditure authorised by the Board, but not contracted	16,383	7,370
	<u>16,804</u>	<u>27,461</u>

The above commitments will be financed primarily through borrowings, which are available for draw-down under existing loan arrangements.

### Operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2013 £'000	2012 £'000
<b>Operating leases which expire:</b>		
<b>(i) Land and buildings, leases expiring</b>		
Between one and five years	79	79
	<u>79</u>	<u>79</u>
<b>(ii) Vehicles expiring</b>		
Within one year	31	61
Between one and five years	108	121
	<u>139</u>	<u>182</u>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 25. Provision for liabilities

<b>Major repairs provisions</b>	<b>2013</b>	<b>2012</b>
	£'000	£'000
At start of year	70,047	74,781
Utilised in year	(5,875)	(4,734)
 At end of year	<u>64,172</u>	<u>70,047</u>
 <b>Other provisions</b>	 <b>2013</b>	 <b>2012</b>
	£'000	£'000
At start of year	15	128
Utilised/ Paid in year	(15)	(128)
Provision for redundancies, early retirement and Long Service Awards	-	15
Insurance Provision	<u>17</u>	<u>-</u>
 At end of year	<u>17</u>	<u>15</u>
 Total provisions for liabilities	<u>64,189</u>	<u>70,062</u>

Other provisions include amounts for redundancies, early retirements, Long Service Awards and insurance provision totalling £17,000 as at 31 March 2013 (2012: £15,000). The major repairs provision is for works to be undertaken to improve the housing stock transferred to Merlin Housing Society from South Gloucestershire Council in 2007.

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 26. Reconciliation of operating surplus to net cash inflow from operating activities

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
<b>Operating surplus</b>	<b>7,494</b>	<b>6,817</b>
Depreciation of tangible fixed assets	4,426	3,918
Loss on disposal of fixed assets	94	237
Pensions operating charge	1,356	1,046
Pension contributions paid	(1,141)	(1,313)
(Increase)/decrease in stock	(159)	(12)
Decrease/(increase) in debtors	573	(543)
increase/(decrease) in creditors	336	(632)
<b>Net cash inflow from operating activities</b>	<b>12,979</b>	<b>9,518</b>

### 27. Reconciliation of net cash flow to movement in net debt

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Increase / (decrease) in cash	294	(119)
Cash flow from (decrease / increase) in liquid resources	(1,700)	1,170
Cash inflow from increase in debt	(7,000)	(1,500)
<b>Increase in net debt from cash flows</b>	<b>(8,406)</b>	<b>(449)</b>
Net debt at 1 April	(61,631)	(61,182)
<b>Net debt at 31 March</b>	<b>(70,037)</b>	<b>(61,631)</b>

# Financial Statements and Notes to the Accounts

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## Notes to the Financial Statements for the year ended 31 March 2013 (continued)

### 28. Analysis of net debt

	1 April 2012 £'000	Cash Flow £'000	31 March 2013 £'000
Cash at bank and in hand	3,169	294	3,463
<b>Current asset investment</b>	1,700	(1,700)	-
<b>Debt due after one year</b>			
Loans drawn down	(66,500)	(7,000)	(73,500)
<b>Changes in net debt</b>	<u>(61,631)</u>	<u>(8,406)</u>	<u>(70,037)</u>

### 29. Related parties

Board Members who are tenants of the Society are included on the list on page 2. They are charged normal policy rents and receive no favourable treatment in any respect as a result of their membership of the Society. Board Members who are Councillors with South Gloucestershire Council are included on the list on page 2. South Gloucestershire Council has nomination rights over tenancies for the Society's properties. All transactions with the Council are under normal commercial terms and councillors are not able to use their position to their advantage.

### 30. Contingent Liabilities and assets

As at 31 March 2013, Merlin Housing Society has a performance bond of £250,000 held by Lloyds TSB Plc.