Merlin

www.merlinhs.co.uk

Financial Statements 2014/15

New homes at Oak Tree Close, including some shared ownership.

Operating financial review

Our performance highlights

Strong growth with new leadership, generating a net surplus of £9m (22%) an increase from £3.8m (10%)

Increased operational efficiency, achieved by a stronger focus on income and robust management and reduction of costs

Increased investment in new developments and refurbishment projects

- Achieved Investment Partner Status with the Homes and Communities Agency, and successful bid for £2.4m funding to deliver 84 new affordable homes
- Progressing an Independent Living Community modernisation programme worth £15m over the next six years
- Started on site with 82 new homes
- Refurbishing Precast Reinforced Concrete homes to increase energy efficiency and reduce fuel poverty for customers

Robust platform for sustained growth

- Funding facilities restructured to increase funds available for investment to over £70m following a Private Placement
- New appointments in Executive Team made with recruitment of two new directors of investment and housing and communities
- New governance arrangements to deliver a Board with a membership based on skills
- New co-regulation arrangements with the Customer Assembly allowing customers to shape and scrutinise services
- Four year corporate plan outlining new vision, values and objectives developed with input from staff

Sam Stevens and sons Joseph, nine months, and Charlie, four, in their new home in the rural village of Cromhall

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Merlin works with customers in priority neighbourhoods .

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Increasing customer satisfaction

Satisfaction with home and repairs remains on target.

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Young people at a carpentry taster day organised by Merlin, the Princes Trust and Forest of Avon

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Our business

One of the largest social landlords in the South West

- Approaching 9,000 properties, including more than 7,800 rented social housing homes, nearly 500 leasehold properties, a number of commercial properties and several hundred garage sites
- Wide variety of stock in current portfolio – from studio apartments to four bedroomed detached houses – in geographically diverse locations, that include the urban fringe of Bristol to the rural Cotswold escarpment
- Housed 1,200 people in the 2014-15 financial year
- Member of Placeshapers and National Housing Federation – played fundamental role in Homes for Britain campaign to get housing on the 2015 general election agenda
- Provide tailored support packages to enable 1,700 elderly customers to remain independent in their own homes
- Active development pipeline in place with commitment to invest over £70m to deliver our corporate plan targets as part of 1,000 new homes by 2020 and 300 a year after that
- Strong partnership with local authority stakeholders

74% the percentage of the total number of social housing units Merlin owns across South Gloucestershire

£70m funds available for investment in the development of new homes

136% increase in net surplus from last year to £9m (22% of turnover)

97% of Merlin's income comes from social housing lettings

Core business

Investment in new homes

Provision of new affordable housing in Merlin's operating areas is significantly below demand, so it has developed an ambitious Development Strategy that will see it deliver 1,000 new homes by 2020. A proportion of these will come from the redevelopment of Precast Reinforced Concrete homes. Merlin gained development partner status with the HCA and was awarded £2.4m grant. Merlin expects development activity to increase significantly in future years.

Management and maintenance of current homes

Since 2007, £144m has been spent on improving and maintaining Merlin's housing so that it meets the Government's Decent Homes Standard. An in-house maintenance department - Property Solutions - employs more than 200 skilled tradespeople to complete extensive programmes of repairs and maintenance, designed and scheduled by asset management professionals. Housing management is delivered from three area offices, providing a comprehensive customer focussed 24-7 service.

Merlin tradespeople in action

A satisfied customer in her new home

Consulting the community about development plans

Another very busy year...

The environment in which we operate continues to change which results in new opportunities and challenges.

Following the arrival of our new chief executive in March 2014, we reviewed our core business and determined that for the foreseeable future our focus would be on the management and maintenance of our current homes and investment in new ones.

In 2014-15, we identified four priorities. Firstly, to materially improve our operating margin. Secondly to improve our right first time service to our customers. Thirdly, to complete a review of our funding facilities. And finally, to improve our planning for the future with a new four year strategy.

I am very pleased to be able to report a much stronger set of results for the year ended 31 March 2015.

Our surpluses have increased to £9m (22%), up from £3.8m (9.9%) in 2013-14, whilst our operating margin increased to 26.7%, up from 18.3% in 2013-14. We have benefited from a much stricter control of costs, particularly overheads and a stronger focus on income.

Our customer satisfaction levels have remained broadly flat during the year at 83%, but we have materially increased our focus on improving our right first time approach.

We completed a review of our financing, restructuring our funding facilities, including a new Private Placement and increasing our funds available for investment to over £70m.

We continue to operate with a strong balance sheet with an existing use value for social housing of £254m and £68.9m of net debt equating to only £8.8k net debt per unit.

We have historically focused our investment on our current homes. This continued with Precast Reinforced Concrete (PRC) homes benefitting from significant improvements, together with a comprehensive programme of refurbishment of our Independent Living

Communities. But we are clear that we are able to increase significantly the number of new homes we build too. In 2014-15 we completed 19 new affordable homes during the year and started on site with a further 82.

In May 2014 we informed the Regulator of issues that we had identified in respect of gas servicing. This ultimately led to a governance downgrade by the HCA. We have focused heavily on our internal control systems during the year, improving them considerably and introducing new contract management processes. We commissioned third party specialists to review our approach and have also strengthened our leadership and management teams.

Recognising the increasingly challenging operating environment and our ambitions for the future, we also reviewed our governance arrangements and, working closely with our customers and South Gloucestershire Council, our shareholders agreed to move to a full skills-based board.

The years ahead may be even more difficult for our customers, and therefore, after determining our core business we reviewed our vision and values. We concluded that our vision is to provide homes in communities people aspire to live in, and our goal is to be world class.

At the start of 2015 we launched our new four year corporate plan with clear objectives and ambitious targets to achieve further considerable improvements in our operating margin, customer satisfaction levels and a step change in the investment in new homes by 2019.

To realise our vision requires great leadership, committed employees, partnership working and the effective involvement and empowerment of our customers. I am extremely grateful for the efforts of the staff and I am excited by the opportunity to work with our customers within our new co-regulation framework. The Customer Assembly at the heart of this framework will help shape our service delivery and through strong scrutiny, drive value for money performance improvement. I welcome the rigor of this new collaborative approach.

Andrew Frayling
Chairman
30th July 2015

The new Customer Assembly

Our market

There can be no doubt that the UK is facing a housing crisis. House building has reduced over the years and in particular since the financial crash in 2007.

55,000 is the number of extra affordable homes local authorities in Merlin's main operating areas say they will need in the next ten years

63% is the amount market rents are above Merlin's social rent

19,000 people are currently on the waiting list for social housing in Merlin's main operating areas

9.5 is the ratio of house prices to incomes in the South West

£87,000 is the amount of money every new affordable home built in the South West generates in the economy

35% of people's income in the South West goes on rent

Over 17,000 customers live in Merlin properties and many more are waiting to be housed.

Merlin's customers live in diverse communities and have a range of needs. Merlin provides services to urban and rural areas and to a variety of clients including those in local government defined Priority Neighbourhoods.

This financial vulnerability is particularly relevant for Merlin in light of the Government's current and planned welfare reforms.

Merlin currently receives £10.1m a year (25% of turnover) in Housing Benefit payments from its working age customers. So far 442 customers have been affected by the bedroom tax, and a further 11 were impacted by the £26,000 benefit cap. This number will rise following the announcement in July 2015 of a reduction in this cap to £20,000.

Universal Credit is due to roll out for single new claimants in Merlin's main operating area in February 2016. Plans to remove Housing Benefit for people under 21 means that Merlin's efforts to support customers in budgeting and money management are vital.

A dedicated Income Management Team has reduced Merlin's percentage of current rent arrears to 1.45% of the entire rent debit.

Merlin also has a much higher percentage of customers with a disability (40%) and customers who are over 65 (26%) than the wider local population (17% and 16% respectively).

According to the Office of National Statistics the UK population is set to exceed 64 million by 2018 and will get older. By 2028, it is estimated that there will be 15,000 extra people in Merlin's main operating area aged over 75. Against a background of funding cuts, this will particularly impact those in priority neighbourhoods or facing financial, social or digital isolation and wanting to live independently for longer in their homes.

Finally, the impact of the proposed extension of the Right to Buy to properties belonging to housing associations needs to be understood so that any risks can be mitigated. The change is likely to affect non stock transfer Registered Providers more than Merlin, as a significant amount of customers are already eligible for the (preserved) Right to Buy due to the original transfer promises with the council. Currently the preserved Right

Getting customers ready for Government changes to benefits

Merlin works with customers in priority neighbourhoods like Church View flats in Filton to improve their communities – in this case, with a new playground which the children helped design and build

to Buy scheme is available to the remaining 3,922 tenancies that were in existence when homes transferred from South Gloucestershire Council to Merlin. There are also 1,207 tenancies that now qualify for the Right to Acquire their homes and could be eligible for the extended Right to Buy. Since 2007 Merlin has sold 231 homes under Right to Buy. Over the last two years there has been an increase of sales due to the increased discounts and last year 49 properties were sold through Right to Buy.

More customers have a disability than the general population

Becoming a world class provider

Merlin's vision is to be a world class organisation providing homes in communities people aspire to live in.

The Corporate Plan 2015-2019 sets out a strategy for achieving this and focuses on the management and maintenance of current homes and investment in new ones. The plan has four key objectives to meet this purpose and deliver the vision.

Continuously strengthen the organisation

This requires a combination of Merlin's commitment to social value with an increasingly commercial approach. The focus is on making the right decisions for the long term. Surpluses will increase markedly and planned efficiencies and measured risks will achieve the objectives. Key to this is a highly skilled workforce with strong values and behaviours, operating with a high level of customer insight to enable the correct response to customer needs in a safe and supportive environment.

The primary measure of success is increased surplus

Provide housing and related support services right first time

Two things are vital to the delivery of this objective: effective management of homes and real customer involvement in the shaping and scrutiny of services. Merlin understands that customers are individuals and services must be tailored. Continuing to improve customer and environmental intelligence will help target resources and the work of the Customer Assembly will shape services further. An increase in on-line contact and working in partnership with other agencies also underpin future delivery.

The primary measure of success is customer satisfaction

Deliver repairs and maintenance right first time

Cost effective repairs and maintenance is the most important service Merlin can provide. This is recognised and clear challenging customer service targets have been set to drive improvement. The focus is on delivering exceptional services to customers at a competitive price with high levels of satisfaction. Only when these conditions are met will expansion to deliver services to others be considered.

The primary measure of success is customer satisfaction

Invest responsibly in our current homes and new ones

The focus on current homes within the new plan is to markedly improve average thermal efficiency through our affordable warmth programme, our PRC refurbishment programme and our independent living community regeneration programme. Scrutiny of health and safety data for customer and staff continues to be non negotiable. Increased surpluses will be invested in both existing homes and the development of new homes. The plan sets out sustainable targets for increasing new supply.

The primary measure of success is the delivery of new homes and investment in current ones.

Achieving value for money in these areas is a key business driver underpinning the delivery of the new corporate plan and is embedded throughout Merlin's work. Value for money is a means to an end, not just an end in itself, and it is only by making key decisions on the most effective use of the limited resources available, that Merlin will deliver on its vision and objectives.

Providing housing and support services and repairs and maintenance right first time leads to customer satisfaction

Financial review

Merlin's financial performance improved markedly in 2014/15. Turnover increased by 4.4% driven by the last year of rent convergence, while plans to drive down operating costs delivered a 6.4% decrease (a real term decrease of 7.2% allowing for September CPI inflation). This has led to a significant increase in operating surplus from £7.0m in 2013/14 to £10.8m in 2014/15. The net surplus also increased significantly from £3.8m in 2013/14 to £9.0m in 2014/15.

The major drivers for the increase in operating surplus were increased revenue (£1.7m); reduced management costs (£2.2m); reduced planned maintenance (£0.5m) offset by an increase in depreciation and components charged to expenditure on disposal (£1.1m).

Merlin refinanced its existing bank debt in January 2015, obtaining long term fixed rate debt in addition to renegotiating existing fixed bank debt. As a result, the loans drawn position at the year-end increased by £9.5m and cash on deposit increased by £8.5m. Interest charges relating to our debts were £3.1m, £0.3m higher than charges for last year, although £0.2m of interest charges related to developments under construction and was capitalised. This reduced the charge to the income and expenditure account.

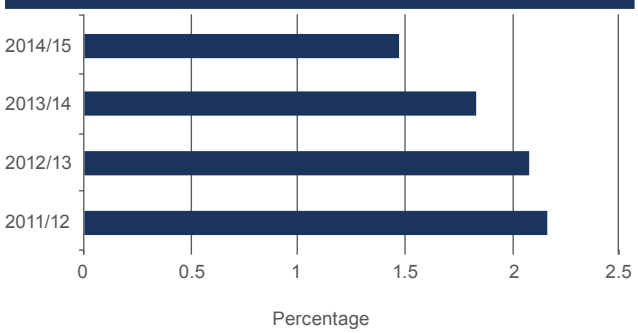
The number of Right to Buy sales has remained at a high level following the increase in the discount rate in 2012. Forty-nine properties were sold through the Right to Buy in the year (2013/14: 47), providing net income of £0.9m (2013/14: £0.6m).

Fixed assets (predominantly housing properties) and revenue reserves increased again bringing the total increase since 2011 to 32% and 56% respectively. Assets at net book value (less grant) were 191% of net borrowing (of £69.0m), whilst properties on an existing use value for social housing (EUV-SH) basis were worth £254m, an increase of £38.3m and 368% of net borrowing. Merlin benefits from a VAT shelter arrangement with South Gloucestershire Council to enable recovery on VAT relating to those major repairs. A provision of £43.7m is included on the balance sheet, offset by a similar debtor (due after one year). This decreased by £10.1m in relation to work undertaken during the year.

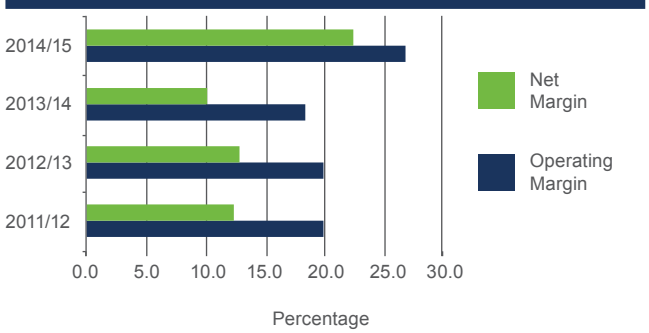
Pension liabilities increased by £4.3m (to £6.6m). This figure is sensitive to fluctuation depending upon actuarial assumptions year on year. An increase of £6.0m in the value of the scheme assets has been outweighed by a £10.3m increase in benefit obligations due to a change in the discount rate assumption from 4.6% to 3.4%. The defined benefit scheme to which this relates was closed to new employees during 2013 with a defined contribution scheme taking its place. This will help to mitigate increased costs associated with the scheme. However, existing members of the Avon Pension Fund defined benefit scheme retain ongoing membership, and existing liabilities will require continued funding.

Merlin has substantial capital expenditure planned to deliver its ambitions of building 725 new homes over the next four years while continuing to invest in the modernisation of existing stock. £18m of expenditure is already committed and, apart from relatively small amounts for operational purposes, this is split between improvements to existing properties (£12.4m) - particularly PRC and independent living community upgrades and development of new units (£6.0m).

Current Tenant Arrears



Operating & Net Margin



Income and expenditure in £000's

	2011	2012	2013	2014	2015
Turnover	31,792	34,098	37,282	38,560	40,263
Operating costs	(23,410)	(27,281)	(29,788)	(31,517)	(29,506)
Operating surplus	**8,382**	**6,817**	**7,494**	**7,043**	**10,757**
Surplus on sales	123	307	253	639	1,002
Impairment - non-housing				(1,102)	
Interest receivable	2	4	5	4	26
Interest payable	(2,561)	(2,990)	(2,884)	(2,842)	(2,890)
Net return on pension assets	(140)	73	(76)	79	114
Surplus for the year	**5,806**	**4,211**	**4,792**	**3,821**	**9,009**
Operating margin %	26.4%	20.0%	20.1%	18.3%	26.7%
Surplus %	18.3%	12.3%	12.9%	9.9%	22.4%
Turnover increase	1.3%	7.3%	9.3%	3.4%	4.4%
Operating cost increase	12.0%	16.5%	9.2%	5.8%	(6.4%)

Balance sheet in £000's

	2011	2012	2013	2014	2015
Total fixed assets (net)	99,798	102,058	115,434	121,216	131,453
Net current assets *	73,164	71,441	64,285	52,726	50,801
Total assets less current liabilities	**172,962**	**173,499**	**179,719**	**173,942**	**182,254**
Creditors	65,123	66,636	73,645	73,685	83,300
Provisions	74,909	70,062	64,189	54,231	44,105
Pension	1,961	3,261	4,781	2,237	6,567
Revenue reserve	30,969	33,540	37,104	43,789	48,282
Balance	**172,962**	**173,499**	**179,719**	**173,942**	**182,254**
* includes cash (or equivalent)	3,818	4,869	3,463	6,055	14,024
Owned and managed units	7,862	7,854	8,014	7,952	7,866
Leasehold and other	469	471	474	482	496
Total owned or managed	**8,331**	**8,325**	**8,488**	**8,434**	**8,362**
Net debt / unit £	7,782	7,847	8,739	8,482	8,769
Reserves / unit £	3,939	4,270	4,630	5,507	6,138
Average interest cost %	4.3%	4.5%	4.1%	3.9%	3.9%
Fixed assets (net) increase %	19.1%	2.3%	13.1%	5.0%	8.4%
Revenue reserve increase %	31.2%	8.3%	10.6%	18.0%	10.3%

The Board's value for money self-assessment

As a Board, our focus for driving better value for money is based around increasing performance and outcomes for three key areas illustrated below and directly linked to the primary measures of success in our corporate plan objectives.

Our value for money assessment is based around these areas supported by our work on return on assets and social value.

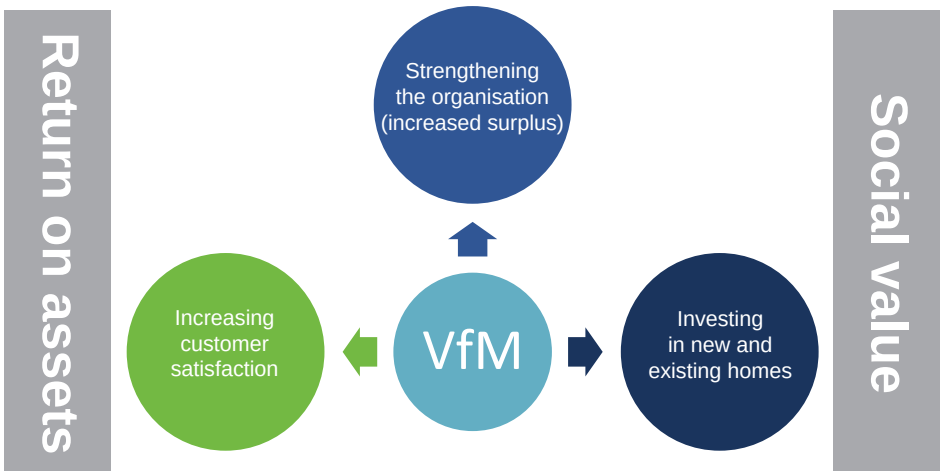
We monitor a suite of performance indicators, fully aligned to the corporate plan, to track operational performance. A cross section of these is shown under the relevant sections and includes benchmarking with all other English Registered Providers over 2,500 units excluding London. The benchmark figures provided through Housemark are annual measures following a specific methodology, and for ongoing management we focus where possible on indicators which can be tracked at more frequent intervals to ensure standards within the year.

The governance framework enables value for money to be considered, challenged and monitored at every turn. We provide leadership on value for money and challenge how the organisation is performing. We have monthly performance and financial reports, updating us on key performance indicators highlighting areas of good and poor performance along with any actions taken to redress poor performance. Through these reports we hold the executive to account on value for money.

As a Board, we have reviewed the parameters around development to ensure value for money. We have also moved to a position where we now consider the 30 year financial plan three times a year. In addition to our scrutiny, customers also play a key role. Merlin has reviewed and reshaped customer involvement structures in 2014/15 with the introduction of the Customer Assembly and supporting groups. This enables customers to input into service improvement and procurement, and to challenge and probe areas where they perceive value for money to be weak.

Benchmarking costs and performance informs our target setting work and helps us and our customers assess our performance on value for money.

The Board's self-assessment is shown under the four categories for 2014/15 including our return on assets section. The Board's overall assessment is that we have made a step change in relation to our financial performance, have put in place key building blocks to enable the delivery of new homes, but still have much to do to make the required improvements in customer satisfaction.



Return on our assets and resource decisions

Understanding the financial return on our assets is critical to making effective resource decisions. Our property portfolio is valued at £980m on the open market and £254m when recognising its existing social housing use. The existing use valuation increase of 17.8% has been driven by three primary factors; an increase in target rent assumptions following a review of our underlying January 1999 property valuations; a reduction in assumption on voids and bad debts; and a change in the discount factor to reflect the move from RPI to CPI on inflation. The majority of our stock is general needs, but we also own a significant amount of housing for older people, and smaller numbers of commercial units and garages.

We annually review all our assets (as evidenced below) to ensure they are fully utilised in their current remit and deliver value for money. In addition to the annual review, we consider opportunities on individual sites as they arise. Key to our review is an understanding of the return on investment for the assets both on a portfolio and individual property basis.

A comprehensive and up-to-date stock condition database is maintained that is used in conjunction with detailed information on aspects of property income and expenditure to assess the projected 30 year returns for each unit of stock. The data provides overall returns by key categories. However, as the information is based on a property by property analysis, it can readily be adjusted for any other groupings and to inform decisions regarding individual units or groups of units.

The overall analysis for different asset types is shown in the table below. Green and red cells highlight good and poor performance with negative returns shown in brackets. The average annual return per unit (excluding inflation) is 12% comparable with the previous year (2013/14 12%), although there have been some changes in individual categories. The biggest change is in the return we are now achieving from bedsits, which is to be expected as we progress our strategy to remodel this stock. Eighteen bedsits were remodelled during the year and replaced with 15 one and two bedroom flats. This, combined with a number of re-lets at target rent has increased the rate of return.

Our two hostels have been excluded from the above analysis. They are subject to a separate review taking place in 2015/16.

The other year-on-year move is in properties under 30 years old. This arises as new properties are added that, while producing a rate of return, are not as high as the majority of the transferred stock.

This comparison of rates of return (%) between stock categories, underpins Merlin's Asset Management Strategy. We have responded to this information and made key stock investment decisions to give Precast Reinforced Concrete (PRC) constructed properties a fit for purpose future, and re-model independent living community bedsit units which were no longer providing a return over a 30 year period. These decisions ensure income streams from these homes will continue whilst maintaining accommodation of a good standard in local communities.

In addition, we continue to invest in improving and maintaining our assets to a decent standard and have invested £12.4m in stock improvement and maintenance.

All potential asset acquisitions and investments must meet investment criteria that is set and annually reviewed by the Board and are scrutinised to ensure compliance with objectives.

Internal Rate of Return (IRR) of different categories of home

	2013/14 (%)	2014/15 (%)		2013/14 (%)	2014/15 (%)
Standard construction	14.3	14.3	Precast Reinforced Concrete (PRC)	1.7	1.4
1 + bedrooms	13.1	12.3	Bedsit	(4.0)	(0.7)
General needs (not PRC)	14.5	14.8	Independent living (not PRC)	12.4	12.4
Under 30 years old	15.6	13.8	Over 60 years old	10.8	11.2

Supported housing in independent living communities

Independent living communities, where customers receive supported housing services, comprise 17% of our homes. We have 50 schemes, which pose challenges as some are outmoded by current standards, and 14 included bedsit type accommodation that was no longer desirable. In 2014/15 it took an average of 44 days to re-let independent living community bedsits 69% longer than equivalent one bed units.

An independent consultant's assessment undertaken in 2011 showed that 10 of the 50 schemes required significant action.

Following financial evaluation, we agreed the closure of three of the 50 schemes removing 37 of the bedsit properties. These sites were earmarked for construction of 54 new general needs homes (at a cost of £8m). A further £13m was earmarked for modernisation of our independent living communities. This includes remodelling a further 76 bedsits, installing eight lifts, improving access and scheme infrastructure.

During the year, we have started to deliver our strategy for this type of accommodation. The first of the three schemes earmarked for demolition and rebuild, Newleaze House, started on site at the end of March. This is expected to complete in December and will deliver 16 affordable rented properties at a total scheme cost of £2.1m. We are also progressing with the next scheme, Irving Close, which is currently in the planning phase with the expectation that we are on site in late autumn. The final scheme identified for demolition, Ableton, is currently going through a detailed review to assess different design options.

In terms of redevelopment, we completed our first whole scheme remodelling in September at Prinknash. The works cost £0.6m and funded the conversion of 19 bedsits into 15 self-contained flats. We have now started on the next scheme, Ware Court that is due to finish in December 2015. The following two schemes in the programme, Buckingham House and Langdale are due to commence in the latter part of 2015/16.

Our investment plans around our independent living communities will ensure we have properties that have at least a 30 year life and a positive rate of return

Non-traditional construction – upgrade and redevelopment

In 2012, we owned 1,427 PRC homes. These homes have an inherently limited lifespan and poor thermal qualities and posed the most challenge in having to make decisions as to whether properties should be refurbished or demolished to provide land for the development of new homes. After a full evaluation, we approved a strategy in March 2012, which provided for upgrading the majority (973 units) of the stock at a cost of £24m. This will extend the lifespan for at least 30 years. The work includes external wall insulation, which contributes to improving the SAP energy rating per unit from 38 to 77, making an immense impact on social and environmental value, and helping our customers to both reduce heating costs and live in improved conditions.

During 2014/15 we continued with our refurbishment programme. We finalised the second phase of the work and commenced the third phase of 148 units in December 2014. This phase is due to be fully competed by August 2015 at a cost of £3.3m and will bring the total number of refurbished PRC properties to 298.

In addition to those earmarked for upgrade, we have also considered plans for demolition and reconstruction. These plans seek to maximise value by increasing density so that approximately 840 new homes can be delivered (almost two for every one demolished). The new homes will provide long-term financial and asset base advantages, transforming property standards, reducing maintenance and upkeep costs and extending asset lives. In view of the potential level of investment involved, all options for maximising value for money remain under consideration, including access to grant-funding. We review an updated financial assessment for each phase of possible redevelopment prior to committing to the work to ensure it still remains the most appropriate course of action. Properties may revert to the refurbishment programme if specific sites are found to be unviable.

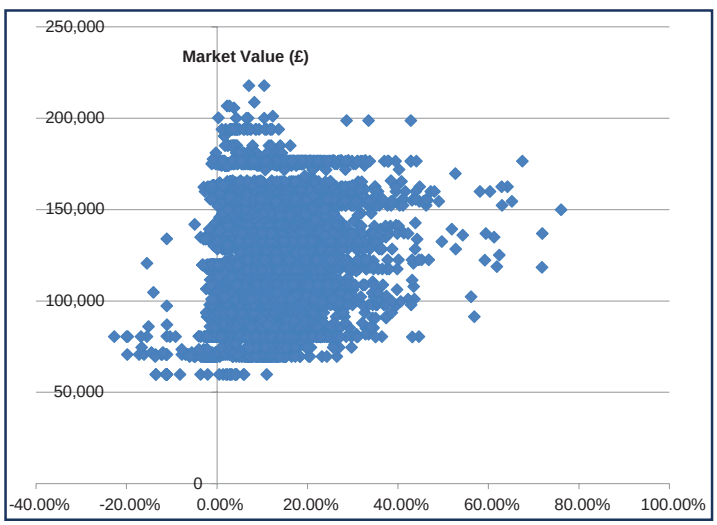
During the year we started on site with our flagship scheme. This is replacing 18 units with a mix of 39 new social and affordable rent properties at a budgeted cost of £5.4m. We were successful in bidding for, and being awarded, HCA grants of £476k towards the cost of the affordable rent units included in the scheme. Phase 1 is also progressing and the tenants have been fully decanted with the contractor due to be appointed in late summer. Phases 2a, 2b have been subject to detailed review and, in January 2015, we gave approval for these to proceed.

Disposals

We understand the internal rate of return for each of our properties as illustrated on the chart opposite, and are looking at how we further maximise our return on assets by identifying specific properties where disposal would both realise cash and remove assets with a negative rate of return.

Options for disposal of such assets to lever additional resources for investment are currently limited. The transfer agreement requires most gains to be passed to South Gloucestershire Council. Despite the current restrictions, our corporate plan sets a clear target to unlock value in underutilised assets of £250k by March 2017. In order to achieve this, we will review assets as they fall vacant and review how land is utilised with the aim of potentially gaining additional capital receipts for re-investment.

Young customer Jorge Cardoso and his family outside their PRC property, one of the first to be redeveloped.



Strengthening the organisation (increased surplus)

Our assessment is that Merlin has made a step change in relation to strengthening the organisation by achieving a 12.5% increase in net surplus to £9m.

Financial performance

	Actual 12/13	Actual 13/14	Target 14/15	Actual 14/15	Target 15/16	Target 18/19
Surplus (£000s)	4,792	3,821	5,782	9,009	8,151	10,967
Net surplus margin %	12.9	9.9	14.2	22.4	19.7	21.0
Operating margin %	20.1	18.3	21.1	26.7	28.9	34.0
Responsive repairs and voids cost per home	1,008	1,112[1]	993[2]	1,090	1,000	880
Housing management cost/home	328	336[1]	312[1]	352	340	330
Overheads as % of turnover	8.7	9.0[1]	9.0[2]	8.9	8.8	8.5
Void loss %	0.99	0.75	0.75	1.02	0.8	0.75
Average days to re-let each void property	39.0	22.9	20	27	18	14
Current tenant arrears (%)	2.07	1.82	2.2	1.45	1.6	2.5
Average interest cost (%)	3.9	3.9	4.1	3.9	4.6	4.4
Interest cover % (EBITDA)	420	437	431	396	427	398
Net debt per unit owned (£)[3]	8,739	8,482	10,047	8,769	10,951	16,220

[1] HouseMark figures for 2013/14 were given prior to validation. Where appropriate, these have been adjusted to the final published figure
[2] Target has been adjusted to reflect validated HouseMark performance data
[3] Definition changed from debt per unit to net debt per unit owned

Key: Where Housemark bechmarking figures exist, we use this colour scheme to indicate our position

Top quartile | Upper middle quartile | Lower middle quartile | Bottom quartile

The focus on delivering higher operating margins to ensure the delivery of investment in new and existing homes, while providing a necessary buffer against sector wide economic risks, is working. Merlin has made a step change in increasing its operating margin from 18.9% to 26.9% in this year. The operating margin is currently slightly above the sector average of 26.5% (2014 global accounts). Net margin has increased from 9.9% to 22.4%. The net margin compares very favourably to the 2014 global accounts average figure of 15%, with lower interest costs albeit offset by a limited ability to benefit from asset sales.

The increase in operating margin has been driven by increased turnover (£1.7m) allied with a reduction in management costs of £2.2m and a reduction in planned maintenance spend of £0.5m. Specific savings include overheads within our property solutions directorate (£612k); a review of VAT (£275k); insurance (£228k); utility costs (£125k) and stationary and printing (£69k).

There has been a clear focus on income collection during the year which saw the introduction of revised income management structures including the appointment of a new Head of Income. Performance on current tenant arrears has been excellent moving from 1.82% in March 2014 to 1.45% at the end of March 2015 driven by improved reporting arrangements and tighter performance management.

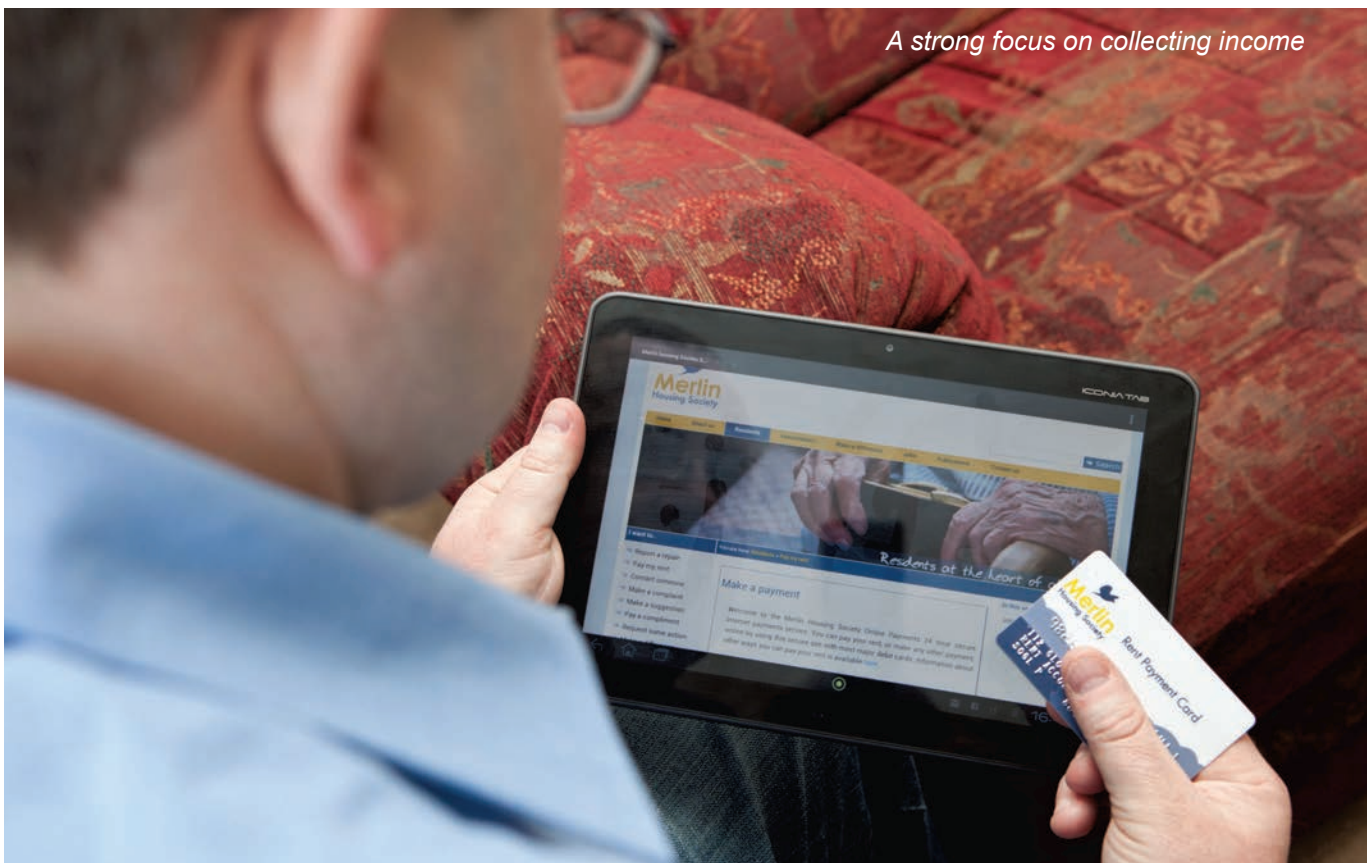
Underneath the positive movement in headline surplus, responsive repairs and void costs per home have decreased slightly but remain bottom quartile and outside of target. Housing management cost per home has increased by £16 (4.8%) and is outside of target. Overheads as a percentage of turnover have improved year on year from 9.0% to 8.9%.

Performance on re-lets has deteriorated. The number of days taken to re-let properties (27 days) along with the associated rent lost due to properties being void (1.02%) have both increased. Overall, Merlin re-let 559 properties excluding major work compared to 569 properties in 2013/14 so volumes are broadly comparable. The increase is attributed to resourcing issues leading to increased times to complete repairs works. This follows a previous period of steady improvement that has seen void performance reduce year on year since 2009/10. The Board has challenged performance in this area and clear actions were taken during the year to redeploy resources and amend the management arrangements. This resulted in improved performance in March but the overall position remained below target.

Merlin has drawn on its balance sheet strength in refinancing its existing loan facility in January 2015. Following this transaction, the treasury position remains strong. Borrowings at the year-end were £83m, undrawn facilities an additional £57m, with £14m cash in the bank. Average interest rates paid during the year was 3.9%, which compares favourably to the sector average of 4.7% (2014 global accounts). Interest cover at the end of the year as measured by EBITDA was 396%. We are comfortably within our covenant requirements. Similarly, Merlin's debt per unit of £8.8k remains low and is significantly below covenant requirements of £25k per unit.

We are pleased to see the Government's consultation on the possibility for market value subject to tenancy (MVT) valuations to be permitted for organisations with transferred local authority stock. This would give additional chargeable security of an estimated £140m (at MVT of 40% of open market value) and potentially enable leverage of additional funds for future development.

The following table shows what has been achieved compared to planned improvements along with future plans clearly linked to the new corporate plan.



A strong focus on collecting income

Corporate plan outcome	Plan for 2014-15	Achieved in 2014/15	Future plans
Increase operating margin	Increase in operating surplus of £800k and operating margin to 21% Review of office accommodation to save £400k per annum A review of income collection methodology	Outstripped target and increased by £3.7m to 26.7% Revised accommodation strategy realised £274k Improved performance on current rent arrears (1.82% - 1.45%) collected an additional £133k	Budgeted operating surplus for 2015/16 of 29%, driven by the statutory rent increase of 2.2% and a further reduction in cost base Overall staffing expenditure has been held in spite of cost of living award (1.5%) and increased pension costs (up to 2.2%) Maintenance costs and indirect costs such as consultancy spend are budgeted to reduce by £1m Focus on delivering significant improvements in both re-let times and void loss performance - re-let target set at 18 days for 2015/16 Consultation with customers on proposals to introduce a revised independent living service which could mitigate the loss of grant from local authority partners
Increase net surplus	14.2%	Exceeded our target by 8.2%, achieving 22.4% net margin	Budgeted net surplus for 2015/16 of 20% to reflect impact of increased interest costs (£900k higher budget than 2014/15) as investment set out in the new corporate plan is delivered
Increase capacity for investment	Refinancing of existing loan facilities	Refinancing undertaken increasing facilities from £100m to £140m to support delivery of the units set out in the corporate plan	Targets set for 2015/16 to have investment capacity of greater than £60m and a liquidity position that provides headroom of £20m over and above the requirements to fund the next 36 months net cash-flows
Day to day repairs are delivered cost effectively	10% reduction in the level and cost of repairs and maintenance equating to £530k	£125 per repair (median benchmark cost £121) Reduction in routine maintenance of £215k Reduction in planned maintenance of £525k	Delivering reduced average cost of repair to £100 saving £340k, driven by implementing revised working practices, a review of management overheads and the re-procurement of the materials contract during the year
Secure contracts on top quartile financial and service delivery terms		Contracts for gas servicing, kitchens and bathrooms, windows and doors and roofing in place	Contracts for day to day and void repairs, set at reduced cost rates, have been developed and will be operating in 2015/16
Create a value driven culture with strong leadership	Procure a management and leadership development programme Develop new corporate vision and values	Completed Completed with full staff engagement in development	Two year leadership development programme underway Values and visions embedded through PDR process and corporate plan delivery

Increasing customer satisfaction

Our assessment of customer satisfaction is that performance remains below average and that plans have been developed to seek significant improvement.

Customer satisfaction

	12/13	13/14	Target 14/ 15	Actual 14/15	Target 15/16	Target 18/19
Satisfaction with overall service provided	84.1	83.6	85.0	82.8	84.0	90.0
Satisfaction with home	80.7	81.8	83.5	83.3	84.0	85.0
Satisfaction with neighbourhood	87.7	88.3	88.0	88.2	89.0	89.0
Satisfaction with rent	78.6	79.8	79.0	80.6	82.0	86.5
Satisfaction with repairs	78.4	78.3	78.0	79.3	81.0	90.0
Satisfaction views taken into account	67.1	65.6	67.0	66.1	68.0	71.0
Average repairs completion time (days)	9.4	6.4	6.0	4.9	6.0	6.0
Decent Homes % failures	0.5	0.4	0.0	0.0	0.0	0.0
Anti-social behaviour resolved within time %	63.0	65.0	75.0	68.0	80.0	80.0

Note the satisfaction data has been updated to exclude leaseholders in line with the benchmarking definition

Overall customer satisfaction is 82.8% and has remained broadly flat year on year. This is below the target set for 2014/15 of 85% and remains bottom quartile. Beneath the headline measure, other satisfaction measures – home, rent, repairs, and views taken into account - have all improved year on year and average repairs completion time and Decent Homes failures continue to be top quartile. Satisfaction with neighbourhood shows a slight decrease and we remain in the lower median quartile for four of the six satisfaction indicators and upper median for one.

As a Board we recognise there is work to do in this area. We have ensured that there is a significant focus in the new corporate plan, with two of the four headline objectives relating directly to providing housing and repairs and maintenance services right first time to increase customer satisfaction.

We have set an ambitious target to increase overall customer satisfaction to 90% by March 2019.

Added to this, newly developed arrangements for Merlin's Customer Assembly and scrutiny will allow more robust customer scrutiny of decisions and performance with regard to value for money.

Satisfaction with home and repairs remains on target

Corporate plan outcome	Plan for 2014-15	Achieved in 2014/15	Future plans
Improvement in overall customer satisfaction	Complete catch up redecoration works Customer service excellence programme Co-locate frontline housing management and repair and maintenance services	£1.3m painting programme completed Customer service excellence training started Completed. Co-location over three area offices.	Action plan to achieve national Customer Excellence accreditation Complete customer service excellence training programme for all staff incorporating a revised Customer Care Policy Changes to customer contact system to enable greater customer insight which will strengthen the ability to tailor services to customer need and meet needs on the first occasion
Satisfaction with neighbourhoods	A right first time approach to housing management and related queries	88.2% satisfaction	Introduce local lettings plans on a consistent basis which will strengthen community cohesion and will aim to reduce void volumes
Transformation of services so that percentage of customers contacting Merlin digitally increases	Deliver new website	Designed for mobile site delivered with increased functionality enabling better contact from customers through forms and workflows	Review and develop our ICT strategy Commence 2020 vision work to determine future operating model Target set to reduce paper including move to an electronic customer magazine and the use of online rent checking functionality
Complaints satisfaction improved markedly	Establish a simpler, more efficient and effective complaints process	New complaints handling process introduced	Target set to improve satisfaction with complaints handling from 54% to 65%
Customer Assembly operating very effectively	Development of Customer Assembly and scrutiny arrangements	Customer Assembly launched and presenting reports to the Board	Greater involvement of Customer Assembly in shaping our services, scrutinising performance, and challenging value for money
Repairs completed right first time	Right first time approach to repairs Train customer service advisors to improve diagnosis of repairs	79.3% satisfaction (1% increase from 2013/14) 90% appointments kept in March 2015, a marked increase from 66% in March 2014	Rollout repairs service workflows to improve clarity of role and accountability Check appropriateness of appointments made to ensure timeframe allocated is appropriate as emergency repairs impact on ability to deliver appointments Review van stock to ensure correct materials are available for frequently occurring repairs and increase the number of operatives with automatic van stock replenishment Reprocure materials contract

Investment in new and current homes

Our assessment is that delivery of new homes has been modest but good progress has been made in enabling future provision

Number of homes developed, acquired and refurbished

	Actual 12/13	Actual 13/ 14	Target 14/ 15	Actual 14/15	Target 15/16	Target 18/19
Homes developed	24	2	60	14	67	300
Homes acquired	154	1	-	5	-	-
Number of starts on site	-	-	75	82	180	360
Homes refurbished / remodelled	-	156	158	41	187	258
Average SAP	65.5	65.5	67.7	66.0	71.0	80.0

Merlin delivered 19 completed homes during the 2014/15 year, against a target of 60. Delays were experienced in achieving planning consent on key sites (Newleaze House and PRC Flagship), which had a knock-on effect on the rest of the programme. The delays on those schemes have now been resolved. The situation is expected to improve further following the creation of a planning liaison role within the planning team at South Gloucestershire Council to work with social developers like Merlin.

Beneath the headline completion numbers, Merlin has made significant progress in moving development activity forward. We have recruited a new Director of Investment to oversee our development programme and successfully secured Investment Partner Status with the Homes and Communities Agency to access grant funding. Merlin is also now eligible to bid for additional monies through the Continuous Market Engagement (CME) process to fund more affordable homes.

As a result of bidding for grant, Affordable Rent tenancies have been introduced, which are set at 80%of market rents. Merlin will monitor the impact of these going forwards to ensure that they remain affordable for its target client group.

We have agreed a revised Development Strategy, new Land Banking Policy and revised development parameters to ensure our ambitions are well managed within a sound framework.

The development programme is now starting to grow with starts on site of 82 achieved in 2014/15, against a target of 75. Going forwards there will be a planned increase in production with a target of 125 new homes being completed per annum by March 2017 and 300 per annum by March 2019.

SAP rating is lower quartile but we are working to address this through our PRC and affordable warmth programmes.

In order to achieve these targets, we are looking at both HCA grant funded and other opportunities as they arise.

Hoardings at the first phase of Merlin's PRC Flagship site in Coalpit Heath

Corporate plan outcome	Plan for 2014-15	Achieved in 2014/15	Future plans
Completions per annum	Develop 60 new homes by 2015/16 Gain HCA investment partner status Grant bid for new affordable rent properties	19 new homes completed in 2014/15 and 82 started on site Awarded Grant of £2.4m for 84 affordable homes awarded	PRC flagship and Phase 1 programmes progressing and other opportunities explored. 67 completions planned for 2015/16 and 180 starts on site Continuous market engagement with the HCA for further grant
Investment capacity	Refinance and increase borrowing facilities	Refinancing gave additional capacity of £40m	Revised Treasury Policy and Strategy in 2015/16 to meet increased requirements
Investment plans	Remodel and refurbish 618 homes by 2015/16	On site at 148 PRC properties in 2014/15 with 26 complete at year-end ILS modernisation programme progressing with one site remodelled from 18 hard to let bedsits to 15 new one and two bed units	Continuation of PRC remodelling delivering 172 refurbished properties in 2015/16
Step change in the thermal efficiency of homes with customers aware of costs	Programme of 148 PRC refurbishments	SAP rating of 66	Continue PRC refurbishment and affordable warmth programmes to reach target of 71 in 2015/16
Investment in garage sites to either redevelop or refurbish	Review garage strategy	Strategy reviewed. 40 garages demolished and 66 refurbished	Demolish 55 garages and refurbish a further 129

Social value

Merlin donated £10,000 to a local community centre to sponsor an apprenticeship for a year

The Board is committed to maximising Merlin's impact within the communities it serves and approved a new Community Investment Strategy in July 2014. The new strategy takes a focused approach to community investment across three themes that are detailed below.

Knowing our communities and understanding the impact: Deepen knowledge of communities, target resources and measure the impact.

Merlin has committed through its Diversity, Equality and Inclusion Strategic Framework to further understand its communities so it may best respond to them and can plan and adapt services to support them. Merlin delivers services to a customer population with greater needs and diversity than the wider local population – 41% of properties are in Government defined Priority Neighbourhoods where people are more likely to face inequalities in health, employment, education and financial status. Merlin also has a higher percentage (42.2%) of elderly customers and a higher percentage of customers with a disability (40.3%) than the wider local population.

An insight plan has been developed which sets targets for customer data collection across all nine protected characteristics as well as other vulnerabilities prevalent in its communities, such as unemployment. By understanding communities further, Merlin will be able to better support customers and remove inequalities that exist.

Focus on skills and employment: Provide support to residents to get into or nearer to employment.

Although Merlin's main operating area has lower rates of unemployment, economic activity and job seeker's allowance than the UK national average, break these figures down further and it is clear that Priority Neighbourhoods - where most of Merlin's customer live – have over twice the local average take up of Job Seekers Allowance. Some are above the UK average. This is further reflected in the fact of 20% of new customers say at sign up that they are currently looking for work. These areas also have low wage levels and in-work poverty, and low educational attainment as measured by achievement of "good" GCSE results.

Merlin will develop a programme of skills based courses to help support customers into work. A programme of apprenticeships for the entire organisation is also being developed, to build on those current 19 that currently exist, and work experience placements and offers are being standardised.

Building community resilience: Support communities to be sustainable and empower them to shape their own aims and ambitions.

Merlin has a dedicated community investment staff resource and budget which funds projects or activities to increase the social or human capital within the local area. This includes two regeneration projects in Staple Hill and Patchway that have seen significant improvement to the physical landscape of those areas.

The organisation supports three community action groups which are resident led. Each group is given a budget to improve the local communities in which they operate. The projects and activities identified are resident nominated and seek to help those within the community. This has helped to contribute to local projects such as the purchase of a minibus, refurbishment of facilities such as play areas and funding for specific activities such as art clubs.

Young people at a carpentry taster day organised by Merlin, the Princes Trust and Forest of Avon

Corporate governance report

The Board has overall responsibility for our governance framework and we comply with the provisions of the 2010 NHF Code of Governance.

A good corporate governance framework is essential for maintaining core business values and delivering strategy. As a Board, improving governance has been one of our main areas of focus over the past year. A review was undertaken during the year and following this, we updated and registered new rules, agreed a new framework for a skills based Board, and removed Board constituencies and the 'golden share' arrangements.

The Board is responsible for strategic control of Merlin, including all financial, organisational, legal and regulatory matters, and the directors meet eight times a year to enable them to discharge their duties.

In meeting our responsibilities, the Board has embedded a risk management and internal controls framework within normal management and governance processes. This approach includes the regular evaluation of the nature and extent of risks to which Merlin is exposed.

At the end of March 2015 the Board comprised the chair, vice chair and eight non-executive directors (NEDS). Details of the current directors are set out on page 32. During the year three NEDs resigned.

The appointment and replacement of NEDS is governed by a Board Recruitment and Succession Policy, the rules and the individual service contracts and terms of appointment of the directors. The maximum number of directors is 12 (including the chief executive).

Management of succession planning is fundamental to ensuring the best mix of skills, experience and innovation remain present at Board and Executive Team level. Following review, the focus is now on recruiting new members to a smaller highly skilled Board, with an emphasis on filling non-executive roles for treasury management, development and risk management.

There is a clear separation between the roles of the chair and chief executive. The chair is responsible for leadership of the Board and for ensuring that the strategic direction and objectives of the business are set. The chief executive is responsible for the day to day management of operational activities.

The Board is supported by the Audit and Risk Committee, which provides assurance that risk management, internal control and assurance processes are robust and embedded across all of Merlin's activities, and a Remuneration Commitee.

Co-regulation continues to be strengthened and developed with a new customer engagement framework implemented during the year. This centres around the Customer Assembly, supported by six customer portfolio groups, focused on shaping services and scrutinising Merlin's performance against the Homes and Communities Agency's consumer standards.

Risk management

Our framework for risk management and internal control clearly defines roles and responsibilities for the Board and management for recognising, ranking and responding to risks.

We manage and mitigate risk through our five step process.

Our five step risk management lifecycle

As a Board, we are responsible for generating, determining, monitoring and evaluating risk management policy and strategy. The Audit and Risk Committee is specifically responsible for ensuring proper arrangements exist for risk management and internal control. Management provide the Board and the Audit and Risk Committee with an overview of the risks the business faces and a more detailed review of specific risks on an ongoing basis.

During 2014-15 the Board reviewed the Homes and Communities Agency's sector risk profile report and considered whether Merlin is responding effectively to the risks the sector currently faces. Business assurance could be evidenced across most areas and where actions were required a plan was put in place. This was fully delivered by January 2015.

During 2015-16 our Board and Audit and Risk Committee will receive regular reports against the key risk metrics relating to our top strategic and financial risks throughout the year.

The system of internal control

The Board is responsible for ensuring that a sound system of internal control exists across Merlin and focuses on the significant risks that threaten Merlin's ability to meet its objectives.

The system of internal control is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information, the safeguarding of Merlin's assets, resources and interests, and compliance with applicable laws and regulations.

The key elements of the system of internal control are:

- Corporate governance arrangements which are regularly reviewed, written rules standing orders, financial regulations and delegated authorities.
- Policies and procedures for all key areas of the business which are reviewed periodically to ensure their ongoing appropriateness.
- An internal audit function, structured to deliver the Audit and Risk Committee's five-year risk-based strategic audit plan. All audit reports are reviewed by the Audit and Risk Committee, which also receives updates on the implementation of agreed audit recommendations.
- A corporate health and safety function progressing implementation of the OHSAS 18001 Health and Safety Management System.
- An embedded risk management and internal controls assurance framework which facilitates on-going management assurance and self assessment of the effectiveness of internal control and risk mitigation throughout the year.
- An anti-fraud and corruption framework supported by policies and procedures for dealing with suspected fraud and whistleblowing. Merlin participates in the National Fraud Initiative and the National Anti-fraud Network.
- Appraisal and approval by the Executive Team and the Board of all significant decisions and commitments, in accordance with Merlin's rules, standing orders and financial regulations.
- Regular performance reports on operational and financial matters are submitted to the Board quarterly.

A review of the effectiveness of the system of internal control is facilitated on an annual basis involving the Chief Executive and his Executive Team, the Audit and Risk Committee and the Board as a whole.

This internal controls framework (see next page) is on-going and has been in place for the financial year ended 31 March 2015. No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements.

Risk area	Risk description	Mitigation
Rent arrears and debt	Higher arrears and bad debts caused by economic conditions and welfare reform	There has been a continued focus on working to ensure court orders and notices are in place at set bandings. All areas have seen significant reductions in rent arrears. The net arrears figure of 1.45% is the lowest ever for Merlin. A welfare reform strategy working group is focused on preparing the business for the anticipated impacts of further welfare reform. Merlin has appointed a new Head of Income, is introducing a new Income Management Policy and has created three additional posts dedicated to income management. Work is ongoing to improve the arrears prompting system within the housing management system which will facilitate more efficient working. Merlin continues to work closely with local authorities and the Department for Work and Pensions to share knowledge.
Financial viability	Financial viability and the ongoing availability of finance	Careful cash flow management is a key mitigation in ensuring ongoing financial viability to allow Merlin to deliver its Corporate Plan. Financial planning, access to funds and treasury management of funds are key component elements of this. Financial planning is undertaken by way of cash flow forecasts looking 36 months ahead that are updated and considered monthly by the Executive Team and are reported to the Board. Similarly a 30 year plan is also updated and reviewed three times a year by the Executive Team and the Board. Key assumptions supporting the forecasts are considered annually and the plans are tested annually for various scenarios that could arise. The new funding arrangements with Lloyds and Canada Life, completed in January 2015 provide cost effective finance to support delivery of the corporate plan for the next two to three years. Funding will be fully hedged (i.e. 100% fixed) against interest rate risk at drawdown and an appropriate balance (between fixed and floating rates) will be maintained when further drawdowns are made.
Health and safety	Health and safety risks to our customers, staff and others	Merlin is committed to ensuring the health, safety and wellbeing of employees, customers and others who may be affected by work activities. During the year the strategy to implement the OHSAS18001 Health and Safety Management System continued ahead of target. Working with KPMG, an action plan to improve processes for ensuring that all properties have a valid gas safety certificate was agreed. This action plan has now been completed and there are robust controls in place to ensure continuing compliance in this area. The Board, Audit and Risk Committee and Compliance Panel continue to monitor and challenge the compliance framework in connection with health and safety risks.
Development	Risks associated with plans to redevelop existing stock and develop new homes.	Whilst Merlin will be accessing the HCA grant programme, most of the funding required to provide new homes will continue to come from debt finance. The increased borrowing requirement and the growing complexity of financial markets underlines the need for effective treasury and cash flow management and the appointment of a new Head of Treasury and investment post has been a direct response to address this particular risk. This has helped with the development of a more robust cash-flow monitoring system. With current net debt per unit at £8.8k, EUVSH currently at £32.3k per unit, and unencumbered stock of over £106.8m, Merlin has considerable asset cover to gear up with additional borrowing to support a growing development programme (even allowing for losses due to Right to Buy and demolition of out-dated properties).

Risk area	Risk description	Mitigation
Data quality	Lack of high quality, stock condition data or an appropriate investment strategy leads to a failure to invest in existing stock to ensure it meets the Decent Homes Standard.	All Merlin homes met the Decent Homes Standard at the end of March 2015. In 2015/16, 40 properties will become non-decent but works to all these properties have been included in planned programmes of work for this financial year. Stock condition validations are being carried out on at least 20% of Merlin's homes each year. Planned programmes are prepared to ensure any property that fails the standard following validation is included in a programme of works.
Independent Living Services (ILS)	Decreases in income from the support services provided to customers.	This risk is being addressed through the ILS income diversification project which is seeking to secure on-going Supporting People funds in addition to introducing enhanced Housing Benefit eligible services.
Repairs and Maintenance	Not delivering a cost effective repairs and maintenance service clearly focussed on getting repairs right first time.	A number of improvements were implemented in 2014-15 following the repairs review which included a clear focus on making and keeping appointments and the introduction of a text messaging service. Performance information is available to customers on Merlin's website and in customer magazines. The Customer Assembly and associated portfolio groups will shape the type of performance information received by involved customers supporting more effective service scrutiny.

Statement of Directors responsibilities

The Directors during the year and up to the 30 July 2015 were:

Name	Position	
Current Non-Executive Directors		Date of appointment
Andrew Frayling	Chair	19 May 2011
Mike Drew	Vice Chair	18 May 2006
Richard Penska	Chair of Audit and Risk Committee	29 November 2012
Pat Rooney	Non-Executive Director	18 May 2006
John O'Neill	Non-Executive Director	20 September 2011
John Moloney	Non-Executive Director	20 September 2011
Vivienne Horton	Non-Executive Director	29 November 2012
Loretta O'Driscoll	Non-Executive Director	21 March 2013
Mareike Schmidt	Non-Executive Director	30 January 2014
Robert Nettleton	Executive Director	24 April 2015
Non-Executives who resigned during the year		Date of resignation
Sylvia Young	Non-Executive Director	25 September 2014
Guy Reid Bailey	Non-Executive Director	25 September 2014
John Goddard	Non-Executive Director	31 March 2015
Non-Executives stepping down at 2015 AGM		
Mike Drew	Vice Chair	
Pat Rooney	Non-Executive Director	
John Moloney	Non-Executive Director	

The Executive Team during the year and up to the 30 July 2015 were:

Name	Position	
Current executives		Date of appointment
Robert Nettleton	Chief Executive	17 March 2014
Sue O'Neill	Director of Finance and Resources	30 October 2006
Laura Haynes	Director of Investment	16 December 2014
Winston Williams	Managing Director of Property Solutions	3 May 2011
Paul Coates	Director of Housing and Communities	18 May 2015
Executives who departed during the year		Date of departure
Amanda Meanwell	Operations Director	31 August 2014

Directors' conflicts of interest

Each of the Directors has a duty under the Companies Act 2006 to avoid a situation where they have or could have a direct or indirect interest that conflicts with the interests of Merlin. The Rules contain provisions for dealing with conflicts or potential conflicts. The procedures for dealing with conflicts of interest have operated effectively during the year under review.

Going concern

After reviewing and approving the budget for 2015/16 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 applications from tenants and leaseholders are accepted. All non-executive directors are also required to be shareholders for the duration of their membership of the Board.

Annual General Meeting

The Annual General Meeting will be held on 24 September 2015.

Disclosure of information to auditors.

At the date of making this report, each non-executive director confirms the following:

- So far as each non-executive director is aware, there is no relevant information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and
- Each non-executive director has taken all the steps they ought to have taken in order to make themselves aware of any relevant information needed by the auditors in connection with preparing their report and to establish that the auditors are aware of that information.

The Executive Team, L-R Paul Coates, Laura Haynes, Robert Nettleton, Sue O'Neill, Winston Williams

Appointment of external auditors

Mazars LLP have expressed their willingness to continue in office as Merlin's auditors. Accordingly, a resolution to re-appoint Mazars LLP will be proposed at the Annual General Meeting.

Statement of the Board's responsibilities

The Co-operative and Community Benefit Society Act and the Housing and Regeneration Act 2008 require the Board to prepare financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, for each financial year which give a true and fair view of the state of affairs of Merlin 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 accounting standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Merlin will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of Merlin and enables it to ensure that the financial statements comply with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2012, and the Statement of Recommended Practice published by the National Housing Federation in 2010 "Accounting for Registered Social Housing Providers."

It is also responsible for establishing and maintaining a satisfactory system of internal control and safeguarding Merlin's assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance

Independent auditors report

We have audited the financial statements of Merlin Housing Society for the year ended 31st March 2015 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of The Board and auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 33, the Board is responsible for the preparation of the financial statements and for being satisfied that they 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. This report is made solely to the Association's members, as a body, in accordance with the Co-operative and Community Benefit Societies Act 2014 and 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 its members as a body for our audit work, for this report, or for the opinions we have formed.

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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31st March 2015 and of the Association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012.

Matters on which we are required to report by exception

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

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

Mazars LLP

Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT
30 July 2015

Income and Expenditure Account

For the year ended 31 March 2015	Note	2015 £'000	2014 £'000
Turnover	3	40,263	38,560
Operating costs	3	(29,506)	(31,517)
Operating surplus	3, 5	10,757	7,043
Surplus on sale of fixed assets – housing properties	7a	928	640
Surplus/(deficit) on sale of fixed assets – non housing	7b	74	(1)
Other Items:			
Impairment of non housing asset		-	(1,102)
Interest receivable and other income	8	26	4
Interest payable and other similar charges	9	(2,890)	(2,842)
Net return on pension assets	11	114	79
Surplus for the year	24	9,009	3,821

The notes above derive from continuing operations.
The notes on pages 38 to 61 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 2015	2015 £'000	2014 £'000
Surplus for the financial year	9,009	3,821
Actuarial (loss)/gain relating to pension scheme	(4,518)	2,864
Total recognised surpluses and deficits relating to the year	4,491	6,685

Balance Sheet as at 31 March 2015

For the year ended 31 March 2015	Note	2015		2014	
		£'000	£'000	£'000	£'000
Tangible fixed assets					
Housing properties – cost	13	129,693		118,211	
Social Housing and other capital Grant	13	(2,524)		(1,712)	
			127,169		116,499
Other tangible fixed assets	14		4,284		4,586
Fixed asset investments	15		-		131
			131,453		121,216
Current assets					
Stock	16	270		260	
Debtors	17	45,236		55,992	
Investments	18	14,172		3,000	
Cash at bank and in hand		(148)		3,055	
		59,530		62,307	
Creditors: Amounts falling due within one year	19	(8,729)		(9,581)	
Net current assets		50,801		52,726	
NCA - due within one year		7,078		(1,117)	
Debtors due after one year	17	43,723		53,843	
			50,801		52,726
Total assets less current liabilities			182,254		173,942
Creditors: Amounts falling due after more than one year	20/21		83,300		73,685
Provision for liabilities	26		44,105		54,231
Net pension liability	11		6,567		2,237
			133,972		130,153
Capital and reserves					
Non-equity share capital	23		-		-
Revenue reserve	24		48,282		43,789
Merlin's funds			48,282		43,789
			182,254		173,942

The financial statements were approved by the Board on 30 July 2015 and signed on its behalf by:

Andrew Frayling
Chairman

Richard Penska
Chairman - Audit and Risk

Andrew Ledger
Company Secretary

Cash Flow Statement

For the year ended 31 March 2015	Note	2015 £'000	2014 £'000
Net cash inflow from operating activities	27	16,179	16,572
Returns on investments and servicing of finance			
Interest received		26	4
Interest paid		(2,770)	(2,842)
		(2,744)	(2,838)
Capital expenditure			
Purchase and construction of housing properties		(16,641)	(11,917)
Purchase of other fixed assets		(508)	(226)
Sales of other fixed assets		154	92
Sale of investment		131	-
Net receipts from sales of housing properties		1,524	675
Social Housing Grant - received		350	200
Sinking Funds received		24	34
		(14,966)	(11,142)
Cash flow before management of liquid resources and financing		(1,531)	2,592
Management of liquid resources			
Cash out / (in) money market deposits		(11,172)	(3,000)
Financing			
Loans received		40,000	-
Loans repaid		(30,500)	
		9,500	(3,000)
Increase/ (Decrease) in cash	28/29	3,203	(408)

Notes to the Financial Statements for the year ended 31 March 2015

1. Legal status

Merlin is registered as a community benefit society under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Registered Provider of social housing.

At 31 March 2015, there were 36 shareholding members of Merlin (31 March 2014: 41 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

Merlin's financial statements 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.

Merlin 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 Merlin Therefore, in accordance with s405 of the Companies Act 2006, group accounts have not been prepared and these financial statements represent those of the Merlin 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.

Value added tax

Merlin 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 Merlin 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 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

Merlin 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.

Merlin also participates in a defined contribution scheme where the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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 (SHG) attributable to revenue expenditure is matched with the expenditure to which it relates by crediting the income and expenditure account as part of turnover.

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.

Where grants are paid in advance, they are included in creditors until the related capital expenditure is incurred. Where the net SHG received is in excess of costs incurred it is included in current liabilities, taking into account all properties under construction. SHG

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

received for items of cost written off in the income and expenditure account is matched against those costs as part of turnover.

SHG can be recycled under certain conditions; if a property is sold or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the HCA. However, SHG may have to be repaid if certain conditions are not met and so is credited to a recycled capital grants fund which appears as a creditor until fully utilised.

Disabled Facilities Grant

Disabled Facilities Grant (DFG) is receivable form 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	50 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
Insulation	30 years
Other works	10 years

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 and fittings	5 years
Leasehold offices – refurbishment works	Over the life of the lease
Motor vehicles	4 years

Notes to the Financial Statements for the year ended 31 March 2015

Investments

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

Fixed asset investment in previous years represented 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.

Finance Cost

Arrangement fees, agency fees and related legal fees payable when entering into new loans are capitalised then charged to the profit and loss over the life of the loan. All legal fees in other finance costs are expensed in the profit and loss account as incurred.

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.

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 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 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 are essentially similar; in particular, the price is fixed and no time limit imposed. Merlin's workforce and subcontractors are subsequently employed to carry out the work over a number of years.

The underlying substance of the transactions were reflected on a gross basis; recognising the contractual position of Merlin, 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.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

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

Year ending 31 March 2015	Note	Turnover	Operating costs	Operating Surplus
		£'000	£'000	£'000
Social housing lettings	4	39,129	(28,083)	11,046
Other social housing activities				
Supporting people contracts		251	(445)	(194)
Development costs not capitalised		-	(423)	(423)
		251	(868)	(617)
Non social housing activities				
Garages		645	(291)	354
Commercial properties		238	(264)	(26)
		883	(555)	328
		40,263	(29,506)	10,757

Year ending 31 March 2014	Note	Turnover	Operating costs	Operating Surplus
		£'000	£'000	£'000
Social housing lettings	4	37,392	(30,085)	7,307
Other social housing activities				
Supporting people contracts		296	(587)	(291)
Development costs not capitalised		-	(486)	(486)
		296	(1,073)	(777)
Non social housing activities				
Garages		705	(236)	469
Commercial properties		167	(123)	44
		872	(359)	513
		38,560	(31,517)	7,043

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

4. Turnover, cost of sales, operating costs and operating surplus
Particulars of income and expenditure from social housing lettings

	Year ended 31 March 2015					Year ended 31 March 2014
	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	30,345	5,716	268	64	36,393	34,782
Service charge income	762	1,162	45	-	1,969	1,779
Charges for support services	8	604	-	-	612	691
Net rental income	31,115	7,482	313	64	38,974	37,252
Other income	142	12	1	-	155	140
Turnover from social housing lettings	31,257	7,494	314	64	39,129	37,392
Management	(6,005)	(1,822)	(123)	(20)	(7,970)	(10,141)
Services	(1,419)	(1,664)	(51)	-	(3,134)	(3,375)
Routine maintenance	(4,603)	(1,688)	(72)	-	(6,363)	(6,578)
Planned maintenance	(950)	(893)	(21)	-	(1,864)	(2,389)
Major repairs & improvements (non capitalised)	(3,014)	(587)	(20)	-	(3,621)	(3,600)
Bad debts	(153)	(13)	(7)	3	(170)	(124)
Depreciation of housing properties	(4,186)	(765)	(9)	(1)	(4,961)	(3,877)
Operating costs on social housing lettings	(20,330)	(7,432)	(303)	(18)	(28,083)	(30,084)
Operating surplus / (loss) on social housing lettings	10,927	62	11	46	11,046	7,308
Void losses	(269)	(114)	(14)	-	(397)	(274)

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

5. Operating Surplus

This is arrived at after charging/ (crediting):	2015 £'000	2014 £'000
Depreciation of housing properties	4,409	3,813
Depreciation of other tangible fixed assets	765	815
Loss on disposal of housing property components	455	-
Operating lease rentals		
- land and buildings	81	79
- vehicles	572	521
- other	13	-
Auditors' remuneration (including VAT)		
- for audit services	40	45
- for non-audit services	61	-

6. Accommodation in management and accommodation managed by others

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

	2015 Number	2014 Number
Owned and managed		
General housing – social rent	6,424	6,476
General housing – affordable rent	2	-
Supported housing and housing for older people	1,351	1,399
Low cost home ownership	40	38
Temporary social housing	39	39
Leasehold properties*	494	482
Owned and managed by others		
General housing – intermediate rent	10	-
Managed on behalf of others		
General housing – affordable rent	2	-
Total owned or managed	**8,362**	**8,434**

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

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

7 a. Surplus (deficit) on sale of fixed assets – housing properties

	2015	2015	2015	2014
	£'000	£'000	£'000	£'000
	Right to buy	Shared ownership	Total	Total
Sales Proceeds	3,316	225	3,541	2,971
Other Income	97	2	99	89
Cost of Sales	(637)	(95)	(732)	(574)
Council Claw back and Other Costs	(1,904)	(76)	(1,980)	(1,846)
Surplus (deficit)	872	56	928	640

7 b. Surplus (deficit) on sale of fixed assets other fixed assets

	2015	2014
	£'000	£'000
Sales Proceeds	119	-
Cost of Sales	(45)	(1)
Surplus (deficit)	74	(1)

8. Interest receivable

	2015	2014
	£'000	£'000
Bank interest	26	4

9. Interest payable and similar charges

	2015	2014
	£'000	£'000
Loans and bank overdrafts	2,676	2,842
Asset backed loan notes	382	-
Other finance costs	46	-
	3,104	2,842
Interest capitalised on developments under construction	(214)	-
	2,890	2,842

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

10. Employees

Average monthly number of employees expressed in full time equivalents:

	2015 Number	2014 Number
Administration	68	63
Housing, support and care	136	138
Repairs and property maintenance	225	227
	429	428
Wages and salaries	11,616	10,962
Redundancy costs	56	135
Compensation for loss of office	48	-
Social security costs	928	877
Pension costs	1,500	1,635
	14,148	13,609

The number of persons including directors whose total remuneration exceeds £60,000 per annum is as follows:

	2015 Number	2014 Number
£120,000 to £129,999	1	-
£110,000 to £119,999	-	-
£100,000 to £109,999	1	1
£90,000 to £99,999	2	2
£80,000 to £89,999	-	1
£70,000 to £79,999	-	-
£60,000 to £69,999	-	-
	4	4

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

11. Pension Scheme

Merlin participates in two pension schemes:

(1) Avon Pension Fund: Defined Benefit Final Salary Pension Scheme

The Avon Pension Fund is a multi-employer defined benefit scheme administered by Bath and North East Somerset Council under the regulations governing the Local Government Pension Scheme. The current value of the obligation exceeds the value of the assets by £6.6 million. A formal FRS17 actuarial valuation was completed as at 31 March 2015 by a qualified independent actuary.

On transfer of the employees to Merlin 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. The latest triennial actuarial valuation was carried out reflecting the position at 31 March 2013. This identified a total deficit of £918,000 in the fund with £890,000 relating to Merlin staff and the remaining £28,000 relating to staff that transferred from South Gloucestershire Council in 2007. The deficit is being honoured with repayments scheduled over the next 15 and 3 years respectively. During 2014/15, a repayment of £18,700 was paid in respect of Merlin employees and £9,900 in respect of the transferred South Gloucestershire Council staff. Contribution rates and deficit repayments are subject to the outcome of the next triennial valuation as at the 31 March 2016.

The employer's contributions to the fund by Merlin for the year ended 31 March 2015 were £1,411,000 (2014: £1,195,000) at an average contribution rate of 18.0% of pensionable salaries (2014: 14.3%). During the year, no additional payments were made in respect of Early Retirement costs.

Adjustments were also made to reflect the position at the 31 March 2015 based on the FRS17 Pension Adjustments. This resulted in a credit of £74,000 being reflected against contributions (2014: debit of £400,000).

A total of £142,000 was payable to the scheme at 31 March 2015 (2014: £187,000) and this is included in our creditors balance.

(a) Financial assumptions

The main financial assumptions used by the actuary were:

	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011
	% per annum	% per annum	% per annum	% per annum	% per annum
Discount rate	3.4%	4.6%	4.4%	5.1%	5.5%
Rate of increase in salary	3.6%	3.9%	3.9%	4.1%	4.4%
Rate of increase in pension	2.1%	2.4%	2.4%	2.6%	2.9%
Rate of inflation	2.1%	2.4%	2.4%	2.6%	2.9%

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

11. Pension Scheme (continued)

(b) 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:

	2015 No. of Years	2014 No. of Years	2013 No. of Years	2012 No. of Years	2011 No. of Years0
Current pensioner:					
Males	23.4	23.3	22.9	22.8	21.2
Females	25.9	25.8	25.9	25.7	24.1
Future pensioner retiring in 20 years:					
Males	25.8	25.7	25.2	25.1	22.2
Females	28.8	28.7	28.2	28.1	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 91 and 94 respectively.

(c) Obligations and assets

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

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Present value of funded defined benefit obligations	(42,489)	(32,150)	(30,863)	(25,406)	(20,299)
Fair value of plan assets	35,922	29,913	26,082	22,145	18,338
Deficit	(6,567)	(2,237)	(4,781)	(3,261)	(1,961)

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

11. Pension Scheme (continued)

(d) Movements in present value of defined benefit obligation

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Benefit obligation at start of year	32,150	30,863	25,406	20,299	19,453
Current service cost	1,337	1,594	1,125	944	977
Past service cost	-	-	-	-	(1,290)
Interest cost on pension scheme liabilities	1,508	1,397	1,318	1,140	1,141
Loss on curtailments	-	-	231	52	105
Actuarial (gains)/losses	7,571	(1,950)	3,018	3,049	(234)
Member contributions	540	506	413	378	359
Benefits/transfers paid	(617)	(260)	(648)	(506)	(212)
Value at end of year	42,489	32,150	30,863	25,356	20,299

(e) Movements in fair value of plan assets

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Fair value at start of year	29,913	26,082	22,145	18,338	15,006
Expected return on plan assets	1,622	1,476	1,242	1,213	1,001
Actuarial gains	3,053	914	1,789	1,409	1,324
Employer's contributions	1,411	1,195	1,141	1,313	860
Member contributions	540	506	413	378	359
Benefits/transfers paid	(617)	(260)	(648)	(506)	(212)
Fair value at end of year	35,922	29,913	26,082	22,145	18,338

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

11. Pension Scheme (continued)

(f) Analysis of the amount charged to the income and expenditure account:

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Current Service Cost	1,337	1,594	1,125	994	977
Effect of curtailments	-	-	231	52	105
Past service cost	-	-	-	-	(1,290)
Expected return on plan assets	(1,622)	(1,476)	(1,242)	(1,213)	(1,001)
Interest cost on plan liabilities	1,508	1,397	1,318	1,140	1,141
Total Operating Charge	1,223	1,515	1,432	973	(68)

These amounts are recognised as a net cost within operating costs of £1,337,000 (2014: a cost of £1,595,000) and a surplus on the return on pension assets of £114,000 (2014: deficit of £79,000) in the Income and 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 £4,518,000 (2014: gain of £2,864,000).

(g) Major categories of plan assets

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Equities	16,200	13,011	14,633	11,604	11,480
Government bonds	3,880	2,573	2,686	2,569	2,384
Other bonds	10,705	8,735	4,799	4,562	1,449
Cash/Liquidity	683	509	443	332	385
Property	2,299	1,765	1,747	1,484	1,100
Other	2,155	3,320	1,774	1,594	1,540
Fair value at end of year	35,922	29,913	26,082	22,145	18,338
Actual return on plan assets	4,675	1,461	3,030	646	1,175

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

Notes to the Financial Statements for the year ended 31 March 2015 (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:

	2015	2014	2013	2012	2011
Equities	6.5%	7.0%	7.0%	7.0%	7.5%
Corporate bonds	2.2%	3.4%	2.8%	3.1%	4.4%
Other bonds	2.9%	4.3%	3.9%	4.1%	5.1%
Cash/Liquidity	0.5%	0.5%	0.5%	0.5%	0.5%
Property	5.9%	6.2%	5.7%	6.0%	6.5%
Other	6.5%	7.0%	7.0%	7.0%	7.5%
Overall expected rate of return	4.45%	5.31%	5.51%	5.50%	6.82%

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.

(h) Amounts recognised in the balance sheet:

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Present value of funded obligations	(42,489)	(32,150)	(30,863)	(25,406)	(20,299)
Fair value of plan assets	35,922	29,913	26,082	22,145	18,338
Net liability	(6,567)	(2,237)	(4,781)	(3,261)	(1,961)

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

11. Pension Scheme (continued)

(i) Experience adjustments on scheme assets:

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Experience gains on scheme assets	3,053	914	1,789	1,409	1,324
Experience gains on scheme liabilities	-	411	-	-	-
Gains as a percentage of scheme assets	8.5%	3.1%	6.9%	6.4%	7.2%
Gains as a percentage of scheme liabilities	-	1.3%	-	-	-

(2) Royal London (previously Scottish Life): Defined Contribution Scheme

The company started to operate a defined contribution pension scheme from November 2013.

The pension cost charge representing the contributions payable by the Company to the scheme for the year amounted to £198,000 (2014: £23,000).

Contributions amounting to £25,000 (2014: £14,000) were payable to the scheme at the end of the financial year and were included in creditors.

12. Non-executive directors and executive directors

	2015	2014
	£'000	£'000
Remuneration paid to the executive directors including the Chief Executive was:		
Emoluments	409	403
Employers' pension contributions	51	44
Loss of Office	48	-
	508	447

The emoluments of the highest paid director refer to Robert Nettleton, Chief Executive. Excluding pension contributions, this was £122,000 for the year ending 31 March 2015 (2014: Sue O'Neill, Director of Finance and Resources - £106,000). The Chief Executive is an ordinary member of a defined contribution scheme operated through Royal Lomdon.

Non-executive directors receive no remuneration.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

13. Fixed assets – properties

	Land	Social housing properties held for letting	Shared owner-ship proper-ties	Social housing properties under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2014	7,692	122,760	134	736	131,322
Improvements	-	12,356	-	-	12,356
Acquisitions	275	-	-	-	275
Transfer costs	126	2,326	161	(2,613)	-
Construction costs	-	-	-	4,266	4,266
Disposals	(55)	(1,123)	(73)	-	(1,251)
At 31 March 2015	8,038	136,319	222	2,389	146,968
Depreciation					
At 1 April 2014	-	13,103	8	-	13,111
Charged in year	-	4,408	1	-	4,409
Disposals	-	(244)	(1)	-	(245)
At 31 March 2015	-	17,267	8	-	17,275
Net book value					
At 31 March 2015	8,038	119,052	214	2,389	129,693
Grants					
Social Housing and Disability Grants at 1 April 2014	(307)	(1,405)	-	-	(1,712)
Social Housing and Disability Grants recognised	-	(874)	-	(26)	(900)
Recycled Grant	17	71	-	-	88
At 31 March 2015	(290)	(2,208)	-	(26)	(2,524)
Net book value					
At 31 March 2015	7,748	116,844	214	2,363	127,169
At 31 March 2014	7,385	108,252	126	736	116,499

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 UK Limited", a subsidiary of Savills plc. The valuer is "external" and the valuation as at 31 March 2015 was £253,799,500 (2014: £215,450,500). The valuation was undertaken in accordance with the current edition of the RICS Red Book. In determining this valuation, the valuer made use of discounted cash flow methodology and key assumptions were made concerning the level of future rents, including government restrictions on future increases, voids, the level of sales and the discount rate (5.5% real). It should be noted that future growth in both capital and rental values may not occur and values can fall as well as rise. Savills also valued the properties on an open market basis, assuming vacant possession and excluding shared ownership, at £980,065,000 (2014: £947,498,000).

Bristol City Council is grant assisting to the sum of £230,000 the provision of additional units to be managed by a charity '1625 Independent People'. £76,000 of the grant is recognised in the 2014/15 accounts. The unused element is contained in grant income deferred.

Total maintenance and improvement work to our properties completed in the year was £24.2 million (2014: £23.8 million) of which £12.4 million (2014: £11.2 million) was capitalised.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

14. Other fixed assets

	Freehold Land	Freehold properties & fittings	Leasehold properties	Commercial properties	Furniture & equipment	Computer equipment	Computer software	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost									
At 1 April 2014	1,079	3,970	111	71	722	1,622	1,660	224	9,459
Additions	-	-	-	-	4	244	260	-	508
Disposals	-	-	-	-	-	-	-	(132)	(132)
Transfers	-	-	-	-	-	-	14	(14)	-
At 31 March 2015	1,079	3,970	111	71	726	1,866	1,934	78	9,835
Depreciation									
At 1 April 2014	-	771	60	19	419	1,092	1,297	113	3,771
Charged in year	-	190	22	4	120	192	202	35	765
Released on disposal	-	-	-	-	-	-	-	(87)	(87)
At 31 March 2015	-	961	82	23	539	1,284	1,499	61	4,449
Impairment									
At 1 April 2014	-	1,102	-	-	-	-	-	-	1,102
Impairment	-	-	-	-	-	-	-	-	-
At 31 March 2015	-	1,102	-	-	-	-	-	-	1,102
Net book value									
At 31 March 2015	1,079	1,907	29	48	187	582	435	17	4,284
At 31 March 2014	1,079	2,097	51	52	303	530	363	111	4,586

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

15. Fixed Asset Investment

	2015	2014
	£'000	£'000
Balance brought forward	131	141
Disposals in year	(131)	-
Insurance costs in the year	-	(10)
Balance carried forward	-	131

In previous years, 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.

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

Merlin decided to exit the Igloo scheme in February 2014 and enter into alternative insurance arrangements. As a result the investment was realised. There remains a provision in the accounts to settle outstanding claims associated with exiting the insurance arrangement.

16. Stock

	2015	2014
	£'000	£'000
Van stock	130	149
Other Stock	140	111
	270	260

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

17. Debtors

	2015	2014
	£'000	£'000
Due within one year		
Arrears of rent and service charges	2,101	1,890
Less: Provision for bad debt	(1,291)	(1,139)
	810	751
VAT debtor	131	564
Other debtors	428	393
Less: Provision for bad debt	(26)	(52)
	533	905
Prepayments and accrued income	169	493
	1,512	2,149
Due after one year		
Other debtors	43,724	53,843
Total debtors	45,236	55,992

18. Current asset investments

	2015	2014
	£'000	£'000
Money market deposits	14,172	3000

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

19. Creditors: amounts falling due within one year

	2015	2014
	£'000	£'000
Trade creditors	453	1,495
Rent and service charges received in advance	1,091	419
Deferred grant income	428	-
Other taxation and social security	388	669
Local Authority – right to buy share of proceeds	1,985	1,791
Capital creditors	545	1,953
Other creditors	170	208
Accruals	2,249	2,534
Capital accruals	1,420	512
	8,729	9,581

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

	2015	2014
	£'000	£'000
Bank loans	83,000	73,500
Deposits	22	19
Leaseholder sinking funds	190	166
Recycled Capital Grant Fund (note 21)	88	-
	83,300	73,685

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

21. Recycled Capital Grant Fund

	2015	2014
	£'000	£'000
Balance at 1 April	-	-
Additions	88	-
Interest	-	-
Balance as at 31 March	88	-

Additions amounted to £87,750 relating to two units and interest of £82 was added during the year. The entire balance of £87,832 has a maturity of more than two years.

22. Borrowings

	2015	2014
	£'000	£'000
Repayment of asset backed loan notes		
Loans repayable in more than five years	40,000	-
Repayment of bank loans:		
Loans repayable in more than five years	43,000	73,500
	83,000	73,500

Merlin has a bank loan facility of £100m secured by our residential housing property with interest payable on a quarterly and semi annual basis. As at 31 March 2015, the drawdown was £43m (2014: £73.5m old facility).

Capital market funding is secured by Merlin's residential housing property with interest payable on a semi annual basis. The loan notes are payable in 4 equal tranches of £10m in January 2045, 2049, 2052 and 2055.

At year end, 100% of debt was fixed with interest rates ranging from 3.87% to 5.90% (2014: 72% of debt was fixed with interest rates ranging from 4.54% to 5.56%).

In accordance with Merlin's accounting policies, arrangement fees are prepaid and then amortised over the life of loan.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

23. Non-equity share capital

	2015	2014
	£	£
At start of year	41	46
Cancelled during the year	(6)	(7)
Issued during the year	1	2
At end of year	36	41

Share capital at 31 March 2015 comprises 36 shares of £1 each, of which 36 were fully paid at the year end. Each member of Merlin holds a share of £1 in the organisation. 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 Merlin. Therefore, all shareholdings relate to non-equity interests and there are no equity interests in Merlin.

24. Reserves

	2015	2014
Revenue reserve	**£'000**	**£'000**
At start of year	43,789	37,104
Surplus for the year	9,009	3,821
Actuarial (loss) / gain relating to pension scheme	(4,516)	2,864
At end of year	48,282	43,789

25. Financial commitments

	2015	2014
Capital expenditure commitments:	**£'000**	**£'000**
Capital expenditure		
Expenditure contracted for but not provided in the accounts	18,356	14,453
Expenditure authorised by the Board, but not contracted	26,015	24,223
	44,371	38,676

The above commitments will be financed primarily through net operating cash inflows and borrowings available for drawdown under our existing loan facilities.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

Operating leases

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

	2015	2014
Operating leases which expire:	**£'000**	**£'000**
(i) Land and buildings, leases expiring		
Within one year	55	-
Between one and five years	281	79
Over five years	51	-
	387	79
(ii) Vehicles expiring		
Within one year	-	26
Between one and five years	617	806
	617	832

26. Provision for liabilities

	2015	2014
Major repairs provisions	**£'000**	**£'000**
At start of year	53,843	64,172
Utilised in year	(10,120)	(10,329)
At end of year	43,723	53,843

	2015	2014
Other provisions	**£'000**	**£'000**
At start of year	388	17
Utilised/ Paid in year	(147)	-
Provision for redundancies, early retirement	-	45
Insurance Provision	133	204
Other provision	8	122
At end of year	382	388
Total provisions for liabilities	44,105	54,231

The major repairs provision is for works to be undertaken to improve the housing stock transferred to Merlin from South Gloucestershire Council in 2007.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

27. Reconciliation of operating surplus to net cash inflow from operating activities

	2015	2014
	£'000	£'000
Operating surplus	10,757	7,043
Depreciation of tangible fixed assets	5,139	4,627
Accelerated write off of fixed assets	847	1
Pensions operating charge	1,337	1,595
Pension contributions paid	(1,411)	(1,195)
(Increase)/decrease in stock	(10)	(3)
Decrease/(increase) in debtors	637	(307)
increase/(decrease) in creditors	(1,117)	4,811
Net cash inflow from operating activities	16,179	16,572

28. Reconciliation of net cash flow to movement in net debt

	2015	2014
	£'000	£'000
Increase / (decrease) in cash	(3,203)	(408)
Cash flow from (decrease / increase) in money market deposits	11,172	3,000
Cash inflow/(outflow) from changes in debt	(9,500)	-
Change in net debt from cash flows	(1,531)	2,592
Net debt at 1 April	(67,445)	(70,037)
Net debt at 31 March	(68,976)	(67,445)

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

29. Analysis of net debt

	1 April 2014	Cash Flow	31 March 2015
	£'000	£'000	£'000
Cash at bank and in hand	3,055	(3,203)	(148)
Current asset investment	3,000	11,172	14,172
Debt due after one year			
Loans drawn down	(73,500)	(9,500)	(83,000)
Changes in net debt	(67,445)	(1,531)	(68,976)

30. Related parties

Non-executive directors who are tenants of Merlin are included on the list on page **32**. They are charged normal policy rents and receive no favourable treatment in any respect as a result of their directorship. Board Members who are councillors with South Gloucestershire Council are also included on the list on page 32. South Gloucestershire Council has nomination rights over tenancies for the Merlin's properties. All transactions with the council are under normal commercial terms and councillors are not able to use their position to their advantage.

31. Contingent liabilities and assets

As at 31 March 2015, Merlin has a performance bond of £1,000,000 held by Lloyds Bank Plc in relation to the deficit on the Avon Pension Fund. This arrangement ceased on 30th June 2015.

General Company Information

Our Offices
Registered Office
Riverside Court
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5-7 The Parade
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Kingswood
Romsdale
95 High Street
Kingswood
Bristol
BS15 9TR

Solicitors
The HALA Framework
Kennedy Cater
3rd Floor
6 Braham Street
London E1 8EE

Auditors
Mazars
45 Church Street
Birmingham
B3 2RT

Bankers
Lloyds Bank Plc
PO Box 72
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Gillingham
Kent
ME8 0LS

Company Secretary
Andrew Ledger

Merlin is registered under the Co-operative and Community Benefit Societies Act 2014 (No 30012R) and with the Homes and Communities Agency (No L4485)

Notes

Merlin

www.merlinhs.co.uk

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