Merlin

www.merlinhs.co.uk

15/16

FINANCIAL STATEMENTS

Welcome

Our core business is the management and maintenance of our current homes and investment in new ones

Our vision is to be a world class organisation providing homes in communities people aspire to live in

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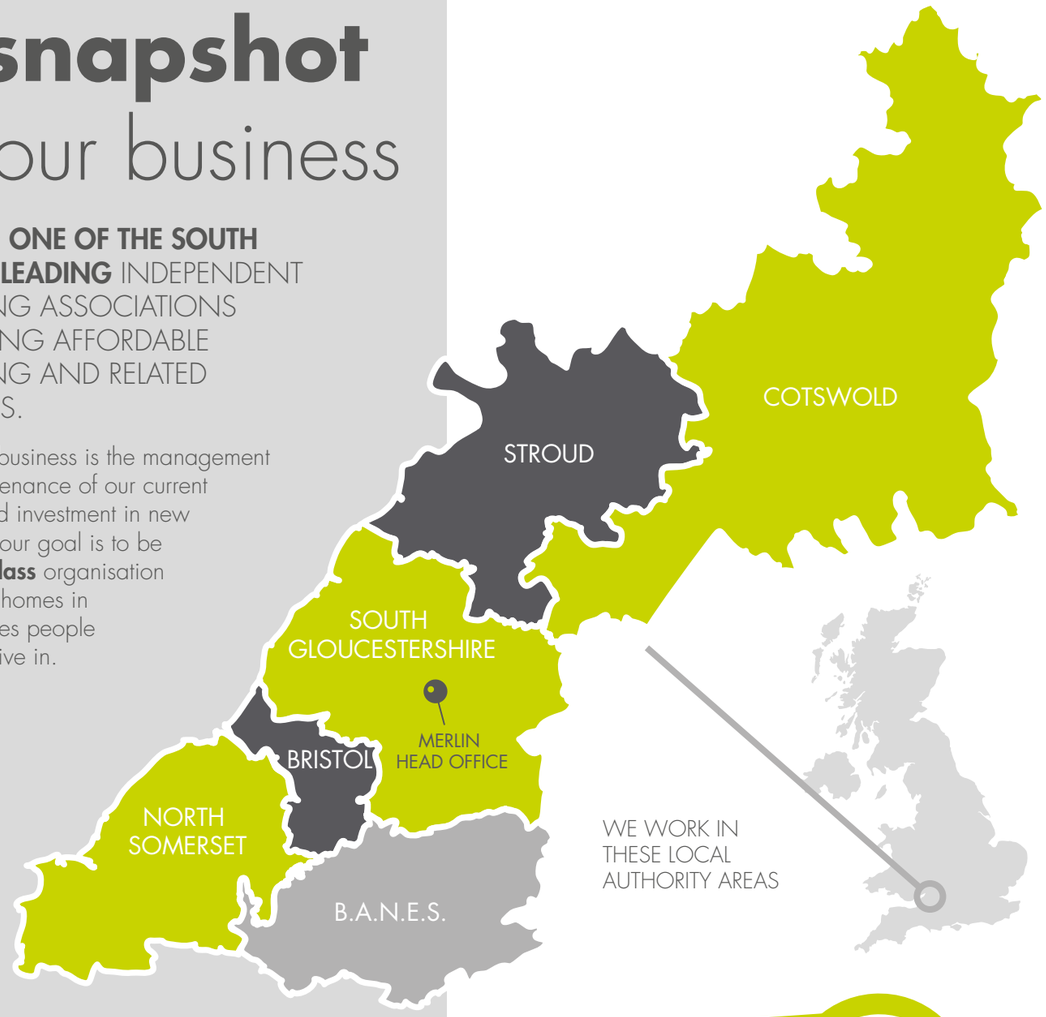
A **snapshot** of our business

WE ARE **ONE OF THE SOUTH WEST'S LEADING** INDEPENDENT HOUSING ASSOCIATIONS DELIVERING AFFORDABLE HOUSING AND RELATED SERVICES.

Our core business is the management and maintenance of our current homes and investment in new ones and our goal is to be a **world class** organisation providing homes in communities people aspire to live in.



8,500 HOMES OWNED OR MANAGED

17,600 PEOPLE LIVE IN OUR PROPERTIES

398 FTE STAFF

REPORT **STRATEGIC** REPORT

The **Highlights** of our **year**

GREATER FINANCIAL STRENGTH - MORE RESILIENCE AND OPPORTUNITIES FOR GROWTH

£10.5m
SURPLUS

£1.7m INCREASE FROM LAST YEAR

34%
OPERATING MARGIN

7% INCREASE FROM LAST YEAR

0.9%
RENT ARREARS

38% REDUCTION FROM LAST YEAR

IMPROVED SERVICES - MORE CUSTOMERS SATISFIED THAT WE ARE GETTING IT RIGHT FIRST TIME

87%
OF CUSTOMERS SATISFIED

4% INCREASE FROM LAST YEAR

22
DAY RE-LET TIME

8 DAY REDUCTION

INCREASED INVESTMENT - MORE NEW HOMES AND IMPROVED EXISTING HOMES

79
NEW HOMES

ALREADY **COMPLETED**

355
NEW HOMES

IN THE **PIPELINE**

165
REFURBISHED HOMES

MORE **SUSTAINABLE** AND ENERGY EFFICIENT

It has been a **record year** delivering our **highest ever surplus and best performance yet** against all our key metrics

Chairman's introduction

A STEP CHANGE TOWARDS BEING WORLD CLASS

I am very pleased to report a further step change in results for the year ending 31 March 2016. The results underline the importance of having clarity of purpose and delivering the right plan during what has been, and continues to be, a challenging operating environment.

We are, first and foremost, an independent housing association offering homes to people who are unable to access market housing - our core business is, and remains, the management and maintenance of our current homes and investment in new ones.

By focusing yet further on our financial discipline we have been able to increase our operating margin to 34%, up from 27% last year and 18% in the previous year. As a result we are posting our largest ever surplus of £10.5m, up from £8.8m last financial year.

Whilst we have been able to deliver a step change in our finances, I am also delighted to report customer satisfaction at 87%, up 4% in just one year. Whilst much of our focus is rightly on finances and developing new homes, we continue to believe that increasing efficiency and increasing customer satisfaction are not mutually exclusive. This year's performance is primarily the result of an absolute focus to deliver services right first time across the business.

In the year we completed 79 new homes, up from just 14 last year. As important, we have materially increased our development pipeline to 355 new homes and, in line with our business plan, we increased loan facilities by a further £25m at the end of the financial year, resulting in liquidity (cash and undrawn facilities) increasing to £90m.

Our response to the government's policy changes to the rent standard, further welfare reforms and movement away from any grant funding for rented homes was to remain absolutely committed to our core business but focus even harder on our operating costs.

By doing so we have been able to retain our future goal of 300 new homes per annum. We will continue to develop homes for rent and will increase the numbers we develop for shared ownership, all within our financial and risk framework.

The years ahead are likely to be more difficult again for some of our customers, with this government's reforms. Importantly, we are on course to hit our future goal of achieving 90% customer satisfaction, and will also continue to provide rented properties for customers under 35.

We continue to monitor further changes to the operating environment, including de-regulation, voluntary right to buy and pay to stay. The potential impacts arising from the UK's decision to leave the European Union will produce uncertainty over the short to medium term. We will thoroughly assess the impacts on our business and customers and actively manage this on an ongoing basis.

In closing I would like to express my thanks to the staff and my Board colleagues for their hard work and commitment to delivering these results. I am confident that we have the right plan in place, which we can adapt to further operating environment changes, to deliver our goals in the year ahead.

Andrew Frayling
Chairman

30 June 2016

Our **business** model

WHAT WE DO

We manage and maintain affordable homes and invest in new ones. Our vision is to be a world class organisation providing homes in communities people aspire to live in.

Our Corporate Plan 2015-2019 sets out a strategy for achieving this and it has four key objectives to meet this purpose and deliver the vision.

CONTINUOUSLY STRENGTHEN THE ORGANISATION

This requires a combination of commitment to social justice with a commercial approach. The focus is on making the right decisions for the long term. However, during the plan surpluses will increase markedly and planned efficiencies and measured risks will help achieve this objective.

Key to this is first class governance and a highly skilled workforce with strong values and behaviours, operating in a safe and supportive environment.

The primary measure of success is an 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. We understand 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 underpins future delivery.

The primary measure of success is increased customer satisfaction

DELIVER REPAIRS AND MAINTENANCE RIGHT FIRST TIME

Cost effective repairs and maintenance is the most important service we can provide for current customers.
This is recognised and clear challenging customer service targets have been set to drive improvement.
The focus is on delivering improved services to customers at a competitive price with high levels of satisfaction, achieved through keeping appointments and delivering repairs right first time.

The primary measure of success is customer satisfaction

INVEST RESPONSIBLY IN OUR CURRENT HOMES AND NEW ONES

The focus on current homes 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.
A stepped change will be delivered in the development of new homes largely funded by increased surpluses. The plan sets out sustainable targets for increasing new supply.

The primary measure of success is the delivery of new homes

Critical to delivering our Corporate Plan objectives are understanding our risks, managing our risks and delivering value.

Underpinning, and central to everything we strive to achieve are our values, set out on the next page.

Our values

We start with our customers and work backwards – customers are at the core of our business

We're open, honest and keep promises – we are accountable for what we do

We aim high – we always strive to be better, daring to be different

We value people and work together – this is how we achieve much more

The **market place**

THE MARKET FOR AFFORDABLE HOMES REMAINS STRONG ACROSS THE SOUTH WEST AND IS CHARACTERISED BY CONTINUED DEMAND AND UNDER SUPPLY.

ECONOMY

Rates of GDP growth have been lower than originally forecast for 2015/16. Across the year growth in earnings and productivity has also slowed. This Government has set a fiscal target to achieve a budget surplus by 2019/20, which is starting to look challenging.

Currently, there is material volatility and uncertainty following Britain's decision to exit the European Union. Impacts for the economy and the effects on the broader socio-political landscape are not yet fully understood and will play out over the next 12 months.

HOUSING SUPPLY

Affordable housing is very much in demand and there are over 27,000 people on the local authority housing waiting lists in our areas of development. The Government has introduced new measures to increase the supply of starter homes but there is still a shortage in affordable homes for those who are unable to buy. This is combined with the fact people are living longer and we have an ageing population. The Homes and Communities Agency is focusing funding on homes for sale, such as shared ownership.

Plans currently being progressed for local authority devolution in the West of England are expected to provide greater funding for housing and infrastructure across the areas we work in.

In October 2015 the Office for National Statistics announced that registered providers of social housing would be reclassified from private to public bodies in the national accounts. This has meant that housing association debt has been added to the figures for public sector net debt. A number of measures have been introduced as part of the Housing and Planning Bill with the view to reversing this judgement. The Bill, which received royal assent in May 2016, introduces a number of measures to promote house building and home ownership such as a streamlined planning process and releasing more public sector land for housing developments. It also includes the extended right to buy, and several changes to reduce regulation of the sector.

RENT REDUCTIONS

The government formula for rent setting has been changed and a 1% rent reduction for the next four years was introduced through the Welfare Reform and Work Act and became effective from April 2016.

WELFARE REFORM

The government's welfare reforms have been ongoing, with the introduction of Universal Credit to South Gloucestershire in January 2016. At the moment this has only been rolled out for new single claimants.

The benefit cap has been reduced for large households to £26,000 and although this only affected a handful of our customers it will be reduced again to £20,000 per household and £13,400 for single people. The new cut will affect up to 100 of our customers with larger families.

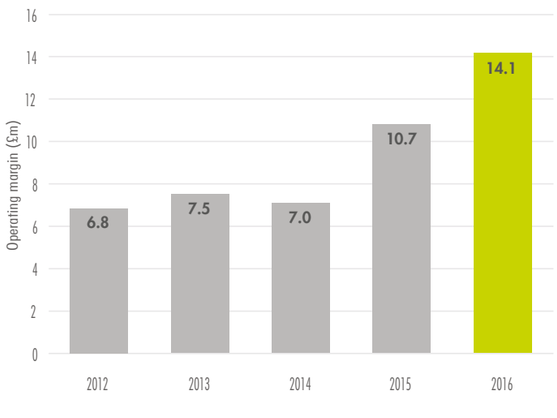
...1% rent reduction for the next four years was introduced through the Welfare Reform and Work Act and became effective from April 2016

Our **financial review**

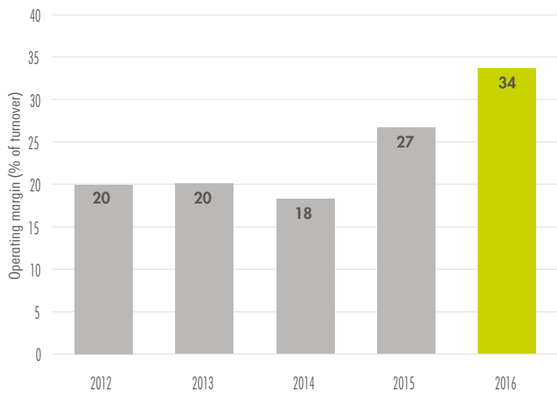
For the second year running, we have achieved the best financial results in our history. We increased revenue, operating margin, net surplus, investment capacity and return on capital employed during 2015/16. Operating surplus increased to £14.1m (2015: £10.7m), improving our operating margin from 27% to 34%. A net surplus of £10.5m (2015: £8.8m) also improved net margins, with an increase from 22% to 25%.

...we have achieved the best financial results in our history

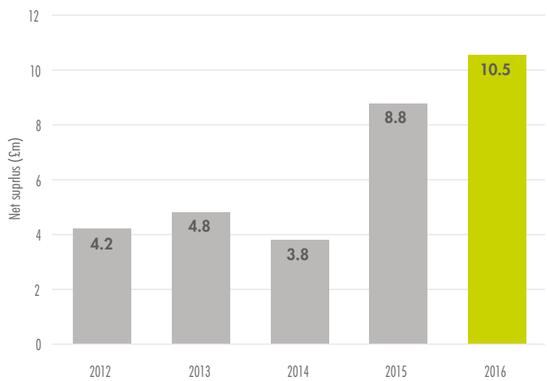
OPERATING SURPLUS



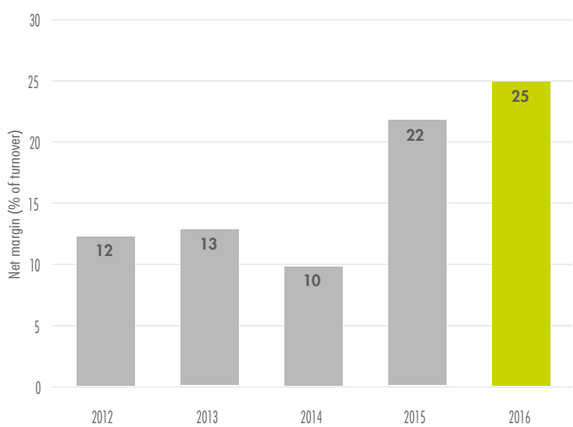
OPERATING MARGIN



NET SURPLUS

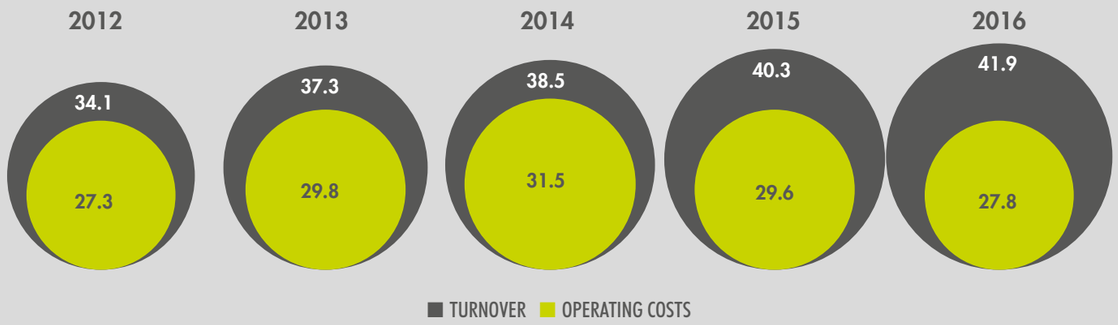


NET MARGIN



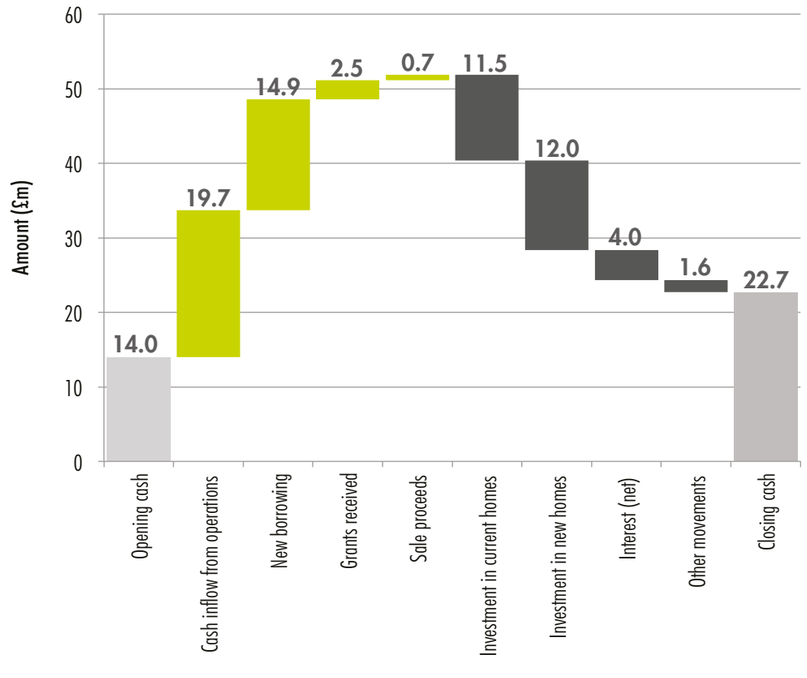
Turnover increased by 4% driven by a 2.2% annual rent increase, property re-lets at higher target rents, new homes, and the introduction of affordable rent tenancies. At the same time, the continued focus on cost control has resulted in a further £1.7m (6%) decrease in operating costs building on the reduction of £2m (6.2%) in 2015.

TURNOVER & OPERATING COST (£M)



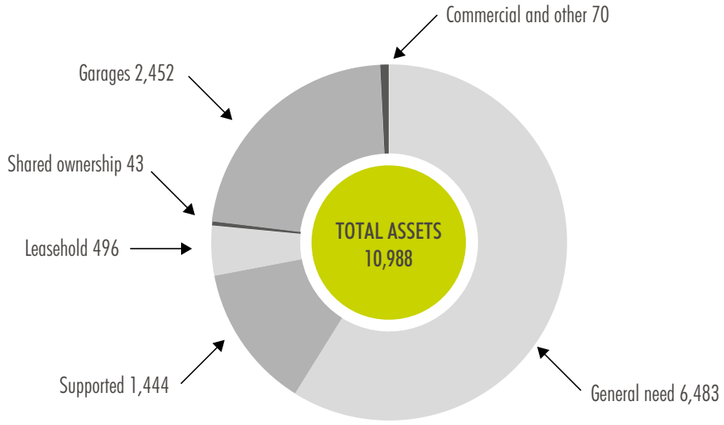
The surplus we generate is invested, along with additional borrowings, into maintaining and growing our asset base.

INVESTING IN OUR HOMES



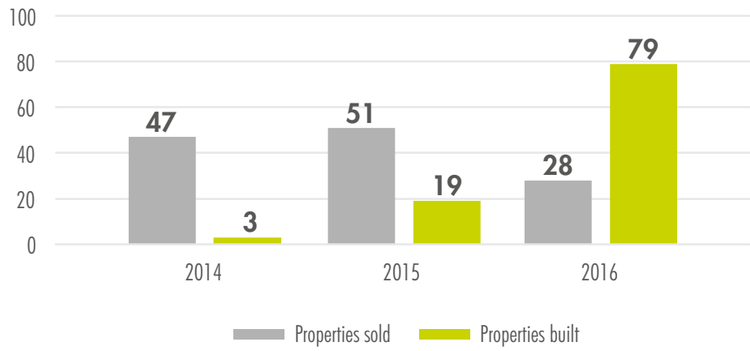
We have increased the overall number of properties in ownership and management through our development activity. Overall, we have developed 79 new properties compared to 28 sales.

OWNED AND MANAGED ASSETS



With 28 properties sold in the year (2014/15: 51), income from Preserved Right to Buy (PRTB) (26 sales) and shared equity staircasing (2 sales) was lower at £0.4m (2015: £0.9m). PRTB activity, although still higher than levels prior to the increased discounts introduced in 2012, appears to have peaked following the year on year decrease and is lower than sales predicted in 2015/16. The impact of RTB sales being extended to all of our customers is expected to lead to an increase in sales.

PROPERTY CHANGES DUE TO SALES AND DEVELOPMENT



Fixed assets (predominantly housing properties) and revenue reserves increased again bringing the total increase since 2012 to 48% and 78% respectively. Assets at net book value were 200% of the net loan value (of £75m), whilst properties on an existing use value for social housing (EUV-SH) basis were worth £254m, 339% of the net loan value.

We benefit from a VAT shelter arrangement with South Gloucestershire Council to enable recovery of VAT relating to major repairs. A provision of £35.9m is included on the balance sheet, offset by a similar debtor (due after one year). This relates to the major repairs arrangements agreed with South Gloucestershire Council at transfer, which has decreased by £7.9m in relation to work undertaken during the year.

Our pension liability reduced by £0.5m (to £6.1m). However, this is sensitive to fluctuation depending upon actuarial assumptions year on year. This actuarial valuation is based on the roll forward of the triennial valuation undertaken at 31 March 2013. The results of the next valuation are due in autumn 2016. The liability relates to two defined benefit schemes within Avon Pension Fund. These schemes were closed to new entrants in 2013 with a defined contribution scheme taking its place. However, existing members of the defined benefit scheme retain ongoing membership, and existing liabilities will require continued funding.

INCOME AND EXPENDITURE IN £M

	2012	2013	2014	2015	2016
Turnover	34.1	37.3	38.5	40.3	41.9
Operating costs	(27.3)	(29.8)	(31.5)	(29.6)	(27.8)
Operating surplus	**6.8**	**7.5**	**7.0**	**10.7**	**14.1**
Surplus on sales	0.3	0.3	0.6	1.0	0.4
Impairment - non - housing			(1.1)		
Interest receivable					0.1
Interest payable	(3.0)	(2.9)	(2.8)	(2.8)	(3.8)
Net interest on defined pension liability	0.1	(0.1)	0.1	(0.1)	(0.2)
Surplus for the year	**4.2**	**4.8**	**3.8**	**8.8**	**10.5**
Operating margin (%)	20	20	18	27	34
Surplus for the year (%)	12	13	10	22	25
Turnover increase (%)	7	9	3	5	4
Operating cost increase (%)	17	9	6	(6)	(6)

BALANCE SHEET IN £M

	2012	2013	2014	2015	2016
Total fixed assets (net)	102.1	115.4	121.2	133.2	151.6
Net current assets *	71.4	64.3	52.7	51.3	53.9
Total assets less current liabilities	**173.5**	**179.7**	**173.9**	**184.5**	**205.5**
Creditors	66.6	73.6	73.7	85.7	103.2
Provisions	70.1	64.2	54.2	44.1	36.6
Pension	3.3	4.8	2.2	6.6	6.1
Revenue reserve	33.5	37.1	43.8	48.1	59.6
Balance	**173.5**	**179.7**	**173.9**	**184.5**	**205.5**
* includes cash (or equivalent)	4.9	3.5	6.1	14.0	22.7
Owned and managed (units)	7,854	8,014	7,952	7,912	7,970
Leasehold and other (units)	471	474	482	496	496
Total owned or managed (units)	8,325	8,488	8,434	8,408	8,466
Net Debt / unit (£'000)	7.8	8.7	8.5	8.7	9.5
Reserves / unit (£'000)	4.3	4.6	5.5	6.1	7.5
Average interest cost %	4.5	4.1	3.9	3.9	4.6
Fixed assets (net) increase %	2	13	5	10	14
Revenue reserve increase %	8	11	18	10	24

Please note that figures for 2014/15 and 2015/16 are presented on an FRS102 basis.

TREASURY

We generated a net operating cash inflow of £19.7m (2015: £16.2m), primarily due to an increase in operating surplus.

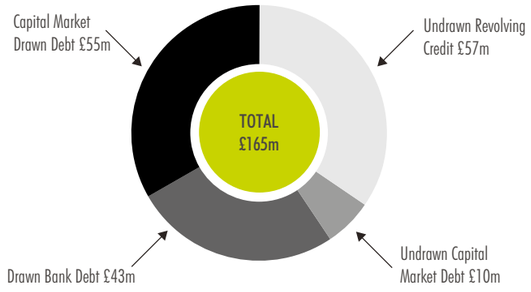
Treasury activities focus on ensuring that we have sufficient liquidity to fund our operations for a minimum of three years when making investment decisions.

Liquidity is secured from free cash flow from operations, Government grant and external lending facilities. At 31 March 2016, we had drawn loans totalling £98m (2015: £83m) and available undrawn facilities of £67m (2015: £57m). Cash equivalents held at the year-end totalled £23m (2015: £14m), leaving net debt at £75m (2015: £69m) and available liquidity at £90m (2015: £71m).

CASH AND FACILITIES AVAILABLE

We secured a £25m bond with Affordable Housing Finance PLC in March 2016, adding to a total of available cash and facilities of £90m to fund our ongoing development programme.

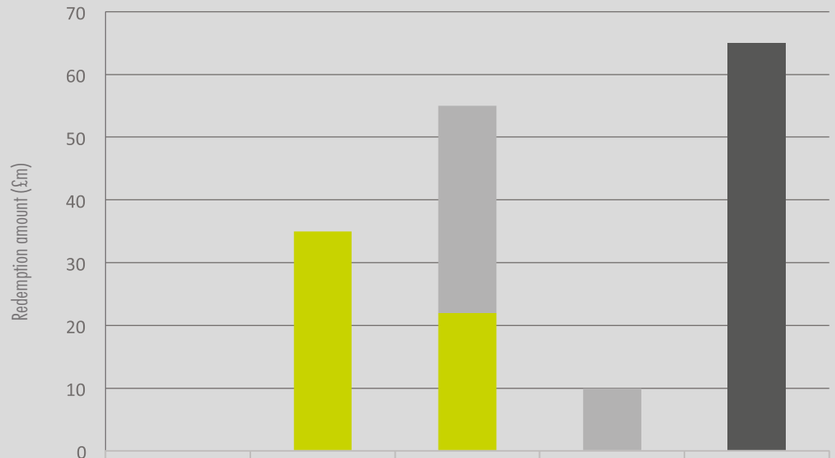
SOURCES OF LENDING



A further £25m European Investment Bank loan was completed following the year end with Affordable Housing Finance PLC.

The weighted average duration of drawn debt is 21 years. The treasury strategy ensures that we do not have to refinance material amounts of debt in any one year. The weighted average cost of drawn debt was 4.6% at 31 March 2016. A £35m revolving credit facility will need to be refinanced within four years' time (21% of loan facilities).

FACILITY REDEMPTION PROFILE



	Within three years	Between four and five years	Between five and ten years	Between ten and twenty years	Greater than twenty years
Bank Debt	0	0	33	10	0
Capital Market Debt	0	0	0	0	65
Undrawn Revolving Credit Facility	0	35	22	0	0

Performance and **value** for **money**

OUR APPROACH AND BUSINESS MODEL

We are committed to delivering more from our available resources. Our strategy rests on delivering four objectives and the results can be seen, ultimately, through our three key performance indicators. Delivering value for money is not an add-on or standalone activity. It is integral to our overall strategy and is embedded in our four key corporate objectives.

- continuously strengthen the organisation
- provide housing and related support services right first time
- deliver repairs and maintenance right first time
- invest responsibly in our current homes and new ones

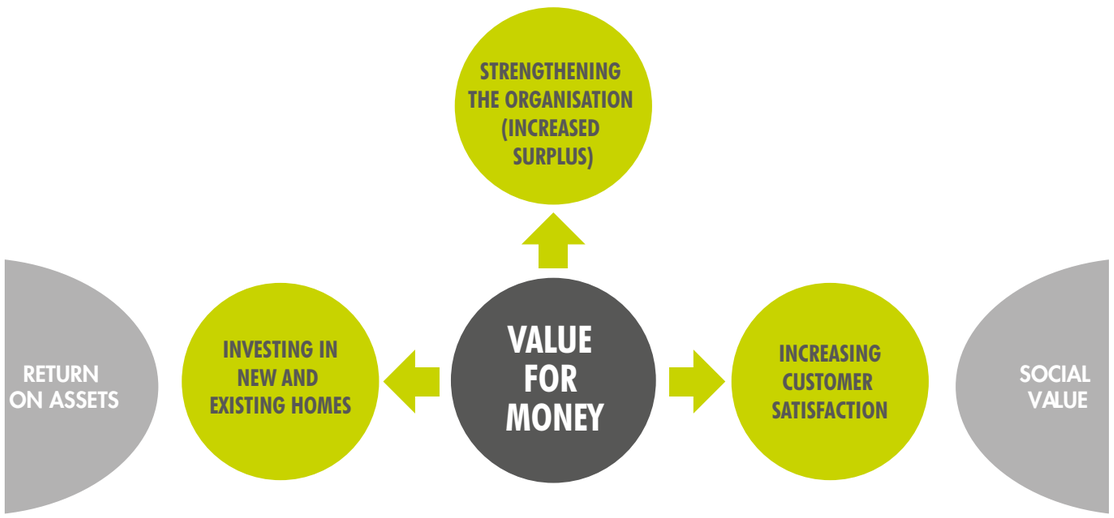
Our three key performance indicators are operating margin, customer satisfaction, and delivery of affordable new homes. Alongside this we seek to optimise the return on our assets and the social value from the work we do.

...we seek to optimise the return on our assets and the social value from the work we do

To understand our absolute value for money performance, we measure the costs of delivering our services and compare these with other organisations. We have set targets in our Corporate Plan to align us with being a world class organisation by 2019/20. Our delivery against these will evidence not only improved value for money performance but will see us ranked amongst the best for delivering services that provide our customers with excellent value for money and will enable us to maximise our financial capacity to deliver a new homes development programme of 300 units a year by 2019/20.

The Board monitors our Corporate Plan 2015-2019 and performance throughout the year and continually challenges it in light of changes in our operating environment and any current and anticipated risks that might affect us.

Our sector's regulatory framework requires us to meet the value for money standard and includes a requirement to prepare an annual self-assessment report to our residents and shareholders setting out how we comply with the standard and our plans and priorities for future improvements. This report sets out our progress to date together with our plans for the future.



OUR PERFORMANCE

As a Board, we are clear that we must be financially strong to enable an agile response to the challenges in our external environment. The increased austerity measures impacting on our sector in the form of decreasing rents and reduced benefit caps, announced following the emergency budget in July 2015, provided an imperative to re-consider our efficiency plans. The rent decrease alone reduces our income by £13m over the next four years. We decided that we should both accelerate and add to our efficiency plans to ensure that we can weather the impact of these changes, and continue to deliver our Corporate Plan without negatively impacting on our development plans.

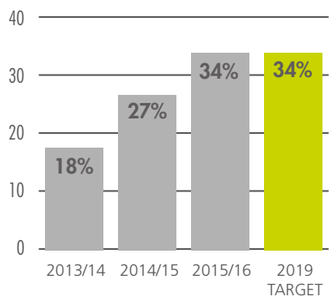
We decided that we should both accelerate and add to our efficiency plans to ensure that we can weather the impact of these changes

We have responded positively and successfully to this, and we are delighted by the improvements in each of our three primary metrics for measuring value for money, moving us towards our 2019 Corporate Plan targets.

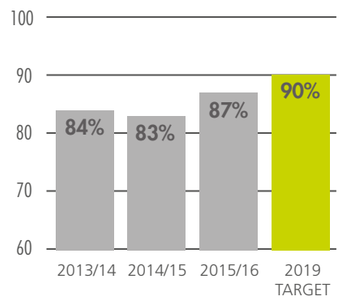
Our performance and value for money assessment has considered our progress in delivering plans and meeting targets for each of our four strategic objectives and also how these are impacting on improving our return on assets and delivering social value. It also sets out where we can improve further, our plans for 2016/17 having regard for how our performance benchmarks against other housing associations, and allows our stakeholders to hold us to account.

OUR KEY PERFORMANCE INDICATORS

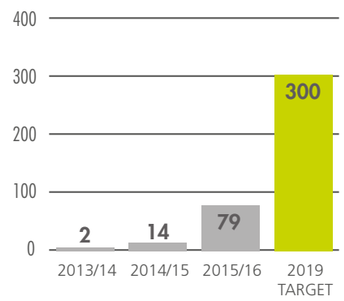
Increased operating margin



Improved customer satisfaction



More new homes



STRENGTHENING THE ORGANISATION

We report another stepped change in strengthening the organisation, increasing further our financial capacity for growth and providing greater resilience to address the risks facing our business. We have increased our surplus by £1.7m (19%), and are now delivering top quartile operating and net margins of 34% and 25% respectively, exceeding budget by 5%.

	Actual 13/14	Actual 14/15	Target 15/16	Actual 15/16	Target 16/17	Target 18/19
Surplus (£m)	3.8	8.8	8.1	10.5	10.8	11
Net surplus %	10	22	20	25	25	21
Operating margin %	18	27	29	34	33	34
Overheads as % of turnover	9.0	8.9	8.8	8.0	8.0	8.5
Void loss %	0.8	1.0	0.8	0.5	0.8	0.8
Average days to re-let each void property	23	30	18	22	18	14
Current tenant arrears (%)	1.8	1.4	1.6	0.9	1.30	2.5
Average interest cost (%)	3.9	3.9	4.6	4.6	4.3	3.8
Interest cover % (EBITDA)	437	396	427	513	500	488
Net debt per unit owned (£000)	8.5	8.8	10.9	9.5	12.1	14.7

Performance data changed in line with housemark definition, to exclude hostel accommodation

KEY: Where Housemark benchmarking figures exist, we use this key to indicate our position to housing associations located outside of London with more than 2500 units.

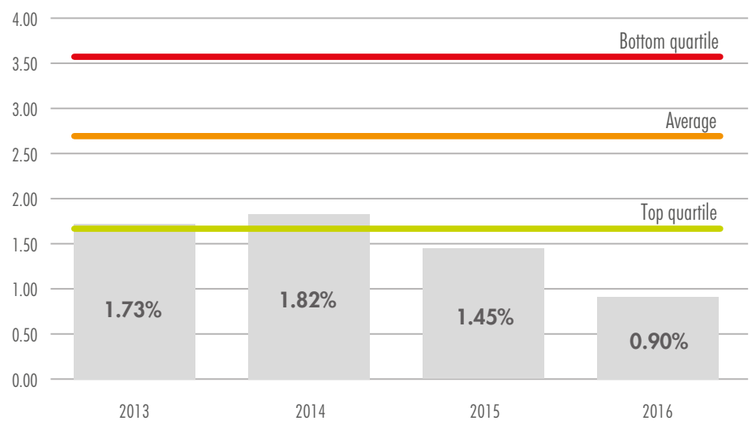
Top quartile **Upper middle quartile** **Lower middle quartile** **Bottom quartile**

We maintained our management costs at the same level as we set out in last year's report and delivered against our planned reduced budget of £1m for maintenance.

Across the business we reduced staffing by 31 FTE's resulting from vacancy management and departmental realignments (administration 2, housing and support 11, and repairs and property maintenance 22), enabling us to increase efficiency whilst at the same time increasing customer satisfaction.

Alongside this, the increased investment in adding to our Income Team last year continues to be effective with current tenant arrears reducing again from 1.45% in March 2015 to just 0.9% at the end of March 2016, increasing money collected of £220k. This positions us as one of the top performers across the country (Housemark top quartile: 1.69%) and reflects the excellent performance management approach we have in this area.

CURRENT TENANT ARREARS



Performance on re-lets was challenged considerably by the Board following a deteriorating performance in the previous financial year 2014/15 and a clear action plan to improve performance was instigated. Although we didn't meet our target of 18 days, there has been significant improvement with the number of days taken to re-let properties reducing from 30 to 22 days. The associated rent lost due to properties being void reduced to 0.5%, moving us to top quartile performance and saving us £139k on social housing lettings. In November, we implemented a new management structure to improve the voids service yet further with a clear goal to deliver our target of 18 days in 2016/17 and 14 days in 2018/19.

In last year's report we stated that we would increase our investment capacity. Additional facilities of £25m were secured in March and a further £25m following the year end, enabling investment in more than 400 new homes and also ensuring we met our investment capacity and liquidity headroom targets. Average interest rates on borrowings drawn increased to 4.6% as expected following the refinancing of our loans in 2015.

This compares to the sector average of 4.5% (Housemark 2014) and will reduce further as we draw down borrowing from recent facilities secured at lower rates.

Our values and vision are the subject of continual focus through strong leadership and a values based approach to management

Our people are key to unlocking our capacity. Our values and vision are the subject of continual focus through strong leadership and a values based approach to management. In last year's report we set out that our Leadership Programme would be underway. We are now one year into this programme and are starting to see the benefits of this investment in an improved performance and values-driven culture with The Great Places to Work survey reporting a 28% increase in staff being satisfied that management convey a clear view of where the organisation is going and how it is going to get there.

In 2016/17 our key goal is to deliver a 33% operating margin, driving optimal use of resources to achieve our intended outcomes.

Our key goal will be achieved through:

- reshaping our independent living service (£230k)
- restructuring our assisted gardening service (£130k)
- rationalising further our office accommodation (£150k)
- greater productivity in our repairs and maintenance services driven by internal contracts and savings in material costs (£340k)

HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME

Success in improving our value for money performance is marked not just by our increased surplus and new affordable homes delivery but also with an improved rate of customer satisfaction. We are clear that efficiencies and customer satisfaction are not mutually exclusive. In order to improve customer satisfaction and provide housing and related support right first time, two things are vital: effective management of our homes, and real customer involvement in the shaping and scrutiny of our services.

In last year's report we recognised that there was work to do in this area, ensuring significant focus in our Corporate Plan. One year on, we are delighted to have exceeded our target and delivered a 4% improvement, from 83% to 87% in overall customer satisfaction. This is a significant achievement and moves us closer to securing our aim to deliver world class customer service by 2019.

Underlying our overall customer satisfaction increase, we have recorded improvements in satisfaction with neighbourhoods, rent, views taken into account, cleaning and grounds maintenance services, complaint handling, getting hold of the right person and antisocial behaviour. A number of pieces of work have contributed to this such as increasing our use of Local Lettings Plans and new cleaning and grounds maintenance contracts.

One year on, we are delighted to have exceeded our target and delivered a 4% improvement, from 83% to 87% in overall customer satisfaction

The main area of concern for the board during the past year has been our performance in respect of Anti-Social Behaviour (ASB). Satisfaction with ASB continued to deteriorate for the first nine months of the year, but had started on an upward trend by year-end following a significant review.

In last year's report we set a goal to strengthen our Customer Assembly and Portfolio Groups (our co-regulation structure), to ensure customers had greater influence in shaping and scrutinising services. Two of our Portfolio Groups have progressed very well during the year, whilst progress has been less good in the other two. The board remains extremely supportive of the Customer Assembly and Portfolio Groups.

Linked to this, we recognised in last year's report that our complaints handling should be better and determined to increase related satisfaction from 54% to 65%. During the year we strengthened our management of complaints which has resulted in satisfaction with complaint handling (71%) exceeding target (65%). This was a 17% increase compared to the previous year and further improvements are expected in 2016/17.

	Actual 13/14	Actual 14/15	Target 15/16	Actual 15/16	Target 16/17	Target 18/19
Satisfaction with overall service provided %	84	83	84	87	87	90
Satisfaction with neighbourhood %	88	88	89	89	89	89
Satisfaction with complaint handling %	25	54	65	71	75	80
Housing management cost/home £	336	350	340	328	315	330

KEY: Where Housemark benchmarking figures exist, we use this key to indicate our position to housing associations located outside of London with more than 2500 units.
Top quartile **Upper middle quartile** **Lower middle quartile** **Bottom quartile**

The Board recognises that there is further work to do in order to achieve the ambition set out within the Corporate Plan but is delighted with the excellent progress made in the last year. There has been a clear focus on providing services right first time and importantly, this has been achieved whilst also reducing operating cost. During the past 12 months, the cost of housing management per home has reduced from £350 to £328. This decrease is a result of a reduction in staffing levels and reduced costs from prioritising key service areas. Through effective leadership and focused effort we have reduced operating expenditure whilst improving customer satisfaction, a significant achievement.

Through effective leadership and focused effort we have reduced operating expenditure whilst improving customer satisfaction, a significant achievement.

In 2016/17 we will start to redefine how customers will interact with us in 2020, appoint a dedicated project team to lead our 2020 project and start the procurement of new software that supports the delivery of world class services. By March 2019, 50% of all non-emergency contact will be digital.

In 2016/17 our key goal is to provide housing and related support services right first time, reducing the cost of housing management per home to £315 whilst improving overall customer satisfaction so that we meet our Corporate Plan target of 90% by March 2019 at the latest. This will be achieved by:

- reducing our Independent Living Service's operating cost by £230k
- focusing further on our ASB service to improve satisfaction by 25% to 65%
- increasing service charge income by £150k for 2017/18 through improved management practices
- implementing a new risk based approach to delivering the neighbourhood management service and making increased use of local lettings plans

DELIVER REPAIRS AND MAINTENANCE RIGHT FIRST TIME

	Actual 13/14	Actual 14/15	Target 15/16	Actual 15/16	Target 16/17	Target 18/19
Satisfaction with home %	82	83	84	86	86	90
Satisfaction with repairs %	78	80	81	83	83	90
Decent homes failures %	0.4	0	0	0	0	0
Responsive repairs and voids cost per home £	1,112	1,066	1,000	1,018	950	880

KEY: Where Housemark benchmarking figures exist, we use this key to indicate our position to housing associations located outside of London with more than 2500 units.

Top quartile **Upper middle quartile** **Lower middle quartile** **Bottom quartile**

Satisfaction with our repairs service is a key driver of overall customer satisfaction and we have therefore set ourselves a stretching target to be top quartile in comparison to our peers by March 2019. We are pleased to see a 3% improvement this year, which exceeded our target and recognises the changes we have implemented, particularly around our appointments service, where we kept 97% of all appointments made (2015: 90%). We have also improved timeframes for completing aids and adaptations and are now delivering 85% of works within target time compared with only 64% in 2014/15. Despite this year's improvements, benchmarking indicates that our customers are less satisfied with our repairs service than customers of other housing associations and we still have considerably more to do to improve satisfaction with repairs from 83% to 90% by 2018/19.

Although we reduced repair and void costs during the year, we did not meet our target of £1,000 per home and our costs continue to be more expensive benchmarked to others. We continue to work towards driving down the cost of our repairs service which remains a priority. We have developed a suite of responsive repairs contracts with our in-house provider, outlining agreed key performance indicators, which includes a reduction in the day-to-day repairs cost to £100 per repair in 2015/16.

In July 2015, a project commenced to deliver a programme of multiskilling training to repairs operatives. Once completed, this project will improve the number of repairs completed 'right first time' by utilising multiskilled operatives rather than single trade operatives.

In 2016/17 our key goals are to deliver repair and maintenance services right first time, reduce costs to £950 per home, and maintain customer satisfaction above 83%. This will be achieved by:

- implementing a new materials contract procured in early 2016, expected to deliver savings of £125k
- developing workflows and roll out in line with the new contract framework between client and service provider with the aim of streamlining processes to significantly improve productivity and efficiency
- reducing day to day repairs to £90 per repair
- ensuring the appropriate use of stock and streamlining existing stock required by operatives to carry out repairs 'right first time'

We will continue to utilise our workforce efficiently and effectively, reducing duplication and providing improved clarity on the maintenance specifications being delivered through these services. We aim to provide a consistent, compliant and efficient service to our customers in the next year.

INVESTING RESPONSIBLY IN OUR CURRENT HOMES AND NEW ONES

OPTIMISING THE RETURN ON OUR ASSETS

The Board recognise the importance of having an asset management strategy which provides a framework for maximising the value extracted from our assets. We achieve this through the provision and investment in our existing accommodation and the adoption of an investment led approach to the development of new homes.

This year we have developed a bespoke module in our asset planning system, which has enabled us to electronically upload stock condition data and develop automated servicing programmes.

At the macro level, the financial performance of the business measured by return on capital employed (ROCE) demonstrates improvement. Over the last three years, our capital employed (assets less current liabilities) has increased by 8% while our operating surplus has increased by 89% as we have focused on financial discipline.

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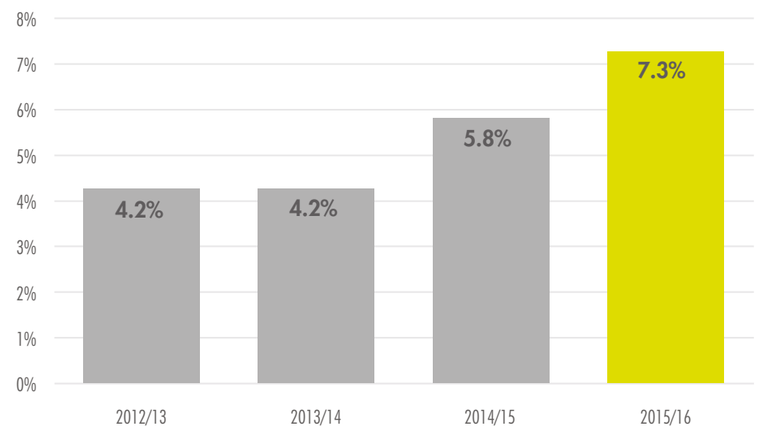
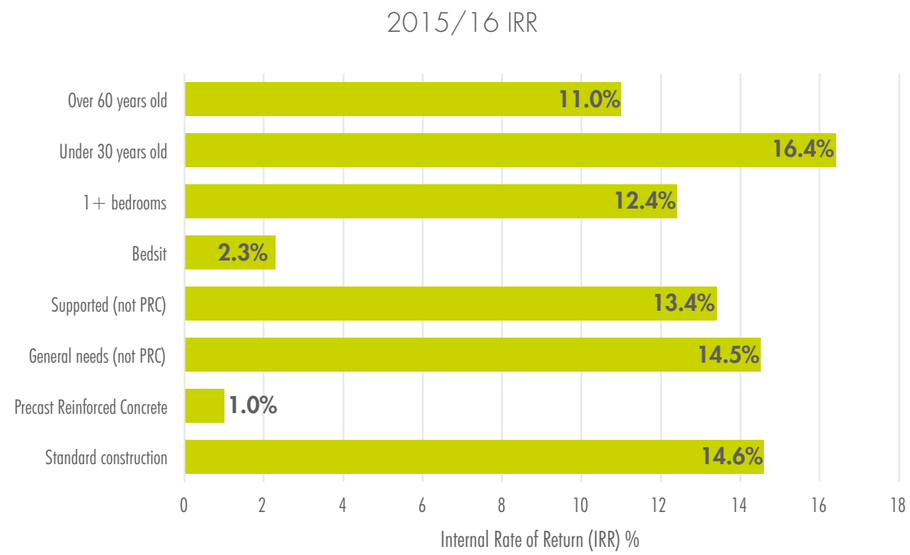
We utilise data from our asset management system in conjunction with other financial data to produce an asset by asset model that allows us to calculate the worth of individual assets (net present value modelling) and their relative worth (internal rate of return). In the coming year, we plan to build on this financial data with other indicators of sustainability to give a more rounded picture of asset performance, not just a financial one.

In previous years, our finance driven model has highlighted specific areas of our stock where performance is poor. We have used this data to direct our investment to either remodel or redevelop those assets. There are two main strands to this work – our Pre-Reinforced Concrete (PRC) properties and our sheltered schemes. A review of our model shows that these assets, as a group, still form the bulk of our performance outliers.

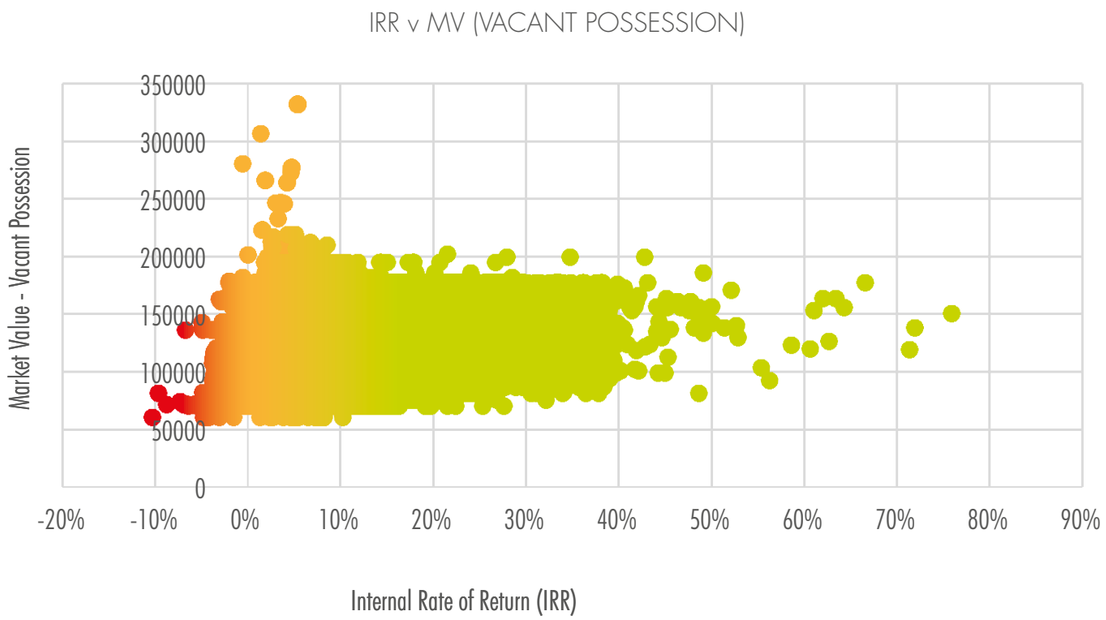
RETURN ON CAPITAL EMPLOYED





Our ability to actively manage our assets through sale and reinvestment has been hampered by the restrictive nature of the conditions of our transfer agreement with South Gloucestershire Council, whereby we were required to share any proceeds of sale. However, in April 2016, through continued excellent partnership working we have now negotiated a position enabling us to retain the capital receipts secured from the sale of any vacant dwellings so long as we reinvest the proceeds into new build homes. This not only manages out some of the assets that do not generate a return, but also provides resources to invest in much needed new development. All proceeds generated via this route will be reinvested in new affordable homes.

As shown below we have a proportion (6%) of properties that have a negative internal rate of return. These mainly relate to our sheltered schemes and PRC properties. Our approach is to review all properties as they become vacant to take a view on the most appropriate course of action for that property. In the vast majority of cases, that will be to re-let but given the agreement outlined above, we anticipate disposing of around ten properties this year, reinvesting fully the receipts into new affordable homes.



INVESTING IN OUR CURRENT ASSETS

We recognise the financial and customer benefits associated with reducing the number of contractors delivering our services and, during 2015/16, we reduced our supply chain.

We have strengthened our procurement processes including a revised contracts register which links to our Asset and Liabilities register.

	Actual 13/14	Actual 14/15	Target 15/16	Actual 15/16	Target 16/17	Target 18/19
Homes refurbished/remodelled	156	41	187	165	167	Under review

Seventeen percent of our portfolio relates to PRC homes. These homes have an inherently limited lifespan, poor thermal qualities and pose both challenges and opportunities for us. Our strategy for these homes is one of either redevelopment or refurbishment. During 2015/16, our refurbishment programme continued and completed its third phase of 146 units, totalling £3.6m bringing the completed number of refurbished PRC properties to 296. Refurbishment work extends the lifespan of these homes for at least 30 years and includes external wall insulation, which, along with other key attributes, will contribute to improving the SAP energy rating for each home from 38 to as high as 77, making an immense impact on social and environmental value, and helping our customers to both reduce heating costs and live in improved conditions. The third phase commenced in June 2016.

This strategy, and in particular the proportion of PRC homes due for redevelopment, is currently being reconsidered following a reduction in grant availability.

Further progress has also been made implementing and reviewing the 'Sheltered Modernisation Project' that arose from the stock review undertaken in 2011. The first scheme was completed in 2014 and the second of the four schemes identified for remodelling was completed in January 2016 at a cost of £1.2 million, resulting in 19 units including 8 bedsits being remodelled to provide 15 high quality, sustainable 1 and 2 bedroom homes. The final two schemes are due to commence on site in 2016/17.

In order to deliver a step change in the average thermal efficiency of our homes and to reduce running costs for our customers, we have begun the next stage of our overarching affordable warmth strategy. Originally, we had intended to install air source heat pumps along with solar photovoltaic panels to approximately 64 homes experiencing fuel poverty in non-gas locations. To ensure that these resources achieved the maximum overall benefit, we prioritised the homes based on a number of critical measures which included their energy efficiency rating (SAP) and client group. However, following changes to the feed-in-tariff, the contract was re-procured and has delivered 50 air source heat pump systems resulting in high customer satisfaction and a significant cost saving of £70,000.

we prioritised the homes based on a number of critical measures which included their energy efficiency rating (SAP) and client group

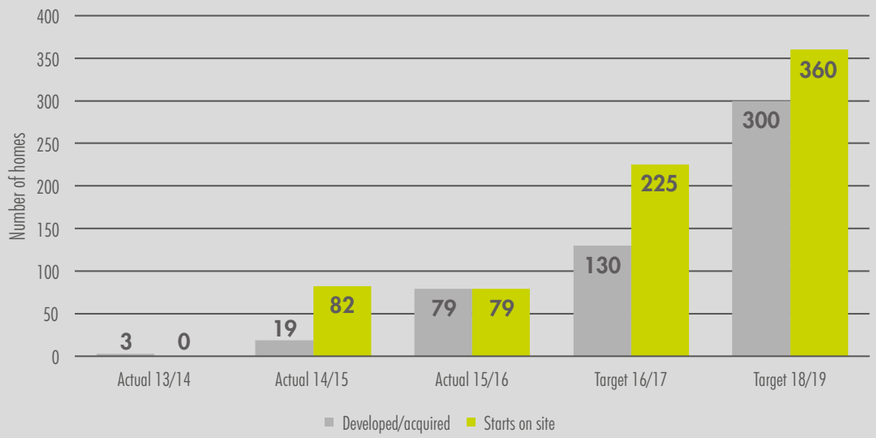
DEVELOPMENT OF NEW HOMES

Financial strength combined with an investment led asset management strategy enables us to continue to increase the level of growth in our development activities.

	Actual 13/14	Actual 14/15	Target 15/16	Actual 15/16	Target 16/17	Target 18/19
Homes developed	2	14	67	79	130	300
Homes acquired	1	5	-		-	-
Starts on site	-	82	180	79	225	360

During 2015/16, we delivered 79 new affordable homes, which was slightly ahead of our development strategy target, from a baseline of 14 in the previous year. However, the rate of start on sites has been delayed but will be completed during quarter one of 2016/17. A further pipeline of 355 homes has already been secured to deliver our target of 725 new homes between 2015 and 2019, and we will be increasing our focus on start on site timings.

DEVELOPMENT PROGRESS



We have utilised our existing asset base efficiently and achieved the redevelopment of a redundant scheme known as Newleaze House into family accommodation. Our first PRC redevelopment scheme is also progressing well on site, with customers due to move in to 39 new homes during the summer of 2016. We also added to our already successful affordable homes grant funding with an additional £2.5m secured in 2015/16 through the Continuous Market Engagement (CME) process, which will enable the delivery of a further 82 affordable homes.

Consistent with our strategy to expand our area of operation, we have secured and delivered our first new homes in Bristol and Bath, and as planned we have strengthened our Development and Sales team to further generate new business opportunities and shape processes around development, sales and disposals.

With a growing development programme, Oakbrook Homes, a wholly owned subsidiary of Merlin was formed in October 2015 to provide design and build services more cost effectively for us from 2016/17.

Our treasury policy and strategy was reshaped during the year to support our planned development programme and to provide a prudent level of headroom above this. £25m of readily available facilities was executed by the year end and a further £25m in May 2016.

£25m of readily available facilities was executed by the year end and a further £25m in May 2016

Our solid and improving financial results makes us well placed to manage the risks we face and continue to sustainably grow our business further. In light of this, the Board will be considering our financial capacity to inform an updated development strategy during 2016/17.

Our key goal for 2016/17 is to continue investing in our existing homes and develop new ones. This will be achieved by:

- developing 130 new affordable homes
- creating further subsidy for subsidised homes, a net capital receipts target of £0.5m has been established to extract value from existing and underutilised assets which will facilitate the future delivery of affordable homes.
- introducing new contracts for both the Aids and Adaptations works and Mechanical and Engineering programmes, ensuring we deliver a consistent, customer focused and cost effective approach to our asset investment.
- Implementing a sustainability model and reviewing our asset management strategy.

A further pipeline of 355 homes has already been secured to deliver our target of 725 new homes between 2015 and 2019

SOCIAL VALUE

We have a strong social purpose and invest in our communities and support them to maximise the life chances of the people who live in them. This important part of our work is both directly funded by us and complemented by external funding from a range of organisations.

We are focused on three themes:

- Knowing our communities and understanding impact
- Skills and employment
- Building community resilience

KNOWING OUR COMMUNITIES AND UNDERSTANDING IMPACT

As an organisation we have invested our time, money and intelligence to strengthen our knowledge of communities and their needs and aspirations. Through our insight work we have a good understanding of need, aspiration and the impact of our work and are able to support communities, reduce inequalities and target our work and that of partners on agreed priorities.

Financial inclusion

The link between our insight and investment work and our response to Welfare Reform is strong. Welfare Reform has been identified by the Board as one of our strategic risks and through our Welfare Reform Strategy and Action Plan we have developed solutions which strongly align with data and intelligence in order to deliver tailored services to customers.

The success of our work can be measured by the lowest number of evictions ever being carried out in a financial year – six – whilst also producing our lowest ever arrears figures at 0.9% for the end of the financial year, which is also one of the best results nationally.

Health and wellbeing

We identified that satisfaction across our services was 10% lower for people living with ill mental health. Insight data shows us that 23% of customers are living with some form of ill mental health so we recognised that this was a challenge we needed to understand and respond to. We have been successful in delivering a number of projects, including a mental health conference called 'Happy, Okay, Sad', which allowed us to gain valuable insight from our customers.

Our work has resulted in the satisfaction gap closing by 3% for this customer group and we will continue to build on this during 2016/17. Additionally, we have recently won funding, totalling £117k to deliver a Wellbeing College across South Gloucestershire in conjunction with specialist partners.

Environment and sustainability

We plan to develop 130 sustainable new homes in 2016/17, which typically have lower running costs and less of an impact on the environment than our existing homes. Additionally, in order to improve the thermal efficiency of homes and drive down heating bills we have refurbished nearly 300 pre-reinforced concrete (PRC) homes, with a further 167 to be completed in 2016. Feedback from customers shows they are spending up to a third less on heating than in their previous property. The refurbishment work has also provided an aesthetic lift to our communities.

SKILLS AND EMPLOYMENT

As a business we recognise that helping our customers into work and training is one of the best ways we can support them to maximise their life opportunities. One of our priorities is to develop a new service that will support our customers into work and training and help mitigate the impact of Welfare Reform on our business.

Our challenge is to increase staff training and educational skills in response to unemployment. Roughly 20% of our customers are unemployed and a further 40% have no qualifications. In the past, we have referred them on to other services rather than helping address issues directly. In the future we will need to strengthen our own response.

Employment, education, skills and training

We are a significant local employer as 54% (224) of our staff live in South Gloucestershire and 5% (21) are tenants. We also have nine apprentices, 71% of whom are from the South Gloucestershire area.

We have strengthened our procurement processes which include specific clauses requiring the contractor to support our work. Examples include supporting our employment and skills work through work placements, supporting customers with DIY training days, discount cards to purchase materials for DIY and funding to support other community projects.

BUILDING COMMUNITY RESILIENCE

Most of our residents (88%) consider their neighbourhood a good place to live. Our neighbourhood services aim to support this sense of neighbourhood and we share a common aim of empowering and promoting the community and working in partnership with specialists to do this. We still have work to do in developing our own volunteering programme, as we want to deliver £25k worth of staff volunteering by 2017.

Community safety

Our work is aligned to the Local Authority's six priority neighbourhoods. All services and projects are focused on supporting the community to improve key indices linked to employment and training, educational attainment, health and wellbeing and community safety. During the past 12 months our work with partners has resulted in one priority neighbourhood being deregistered from the programme given the progress made. This is a significant outcome.

Community partnership

Working in partnership with the community is a cornerstone of our work. A great deal of our work is coordinated by our Community Action Groups which are led by customers. Through a devolved budget each CAG receives £15k which is used to award community grants in their own areas. Small grants of up to £2k are awarded to local community projects. Each project aims to deliver sustainable benefits rather than one off activities. Last year we supported 23 community projects with our small grants programme.

Our community partnership work also includes maximising the use of community resources. During the past 12 months we have supported our community assets to deliver a range of local projects including debt and money advice, food banks and the Dreamscheme. All projects benefit from rent free arrangements (a total value of £30k) to deliver important pieces of work that would not be delivered otherwise.

Most of our residents (88%) consider their neighbourhood a good place to live

Specialist community projects

Our work extends beyond traditional services and includes a short term response service which supports up to 60 customers at any one time who are experiencing a crisis, this could include a recent period of ill health or bereavement. The aim of this preventative service is to offer a more intensive level of help for around six weeks while the crisis is alleviated. The service is well received by customers, the Local Authority and the NHS.

Additionally, we manage two hostels which support homeless and young people to live independently - support work includes help to sustain and maintain the home, managing conflict, improving health and wellbeing, personal budgeting skills and accessing employment, training and education.

Over the past 12 months 795 residents have benefited directly from our social value work and we have invested over a quarter of a million pounds in this important area of our business.

How we **manage risk**

AUDIT & RISK COMMITTEE REPORT

OVERVIEW FROM THE CHAIRMAN

Our Audit & Risk Committee has increased in its effectiveness through the year, along with the role it plays in risk management. We have overseen good progress maintained towards the achievement of the OHSAS Health & Safety Standard and have remained vigilant in receiving regular assurance reports in areas of concern. Throughout the year the Committee has received and reviewed key risk reports from across the organisation, as well as ensuring that fundamental and significant internal control improvements have been completed.

We have responded positively to the PwC review of Risk Governance and Business Assurance and have taken an active role in supporting the Board to formulate the Key Strategic Risk Register. The committee has re-shaped its meetings and focus in order to provide the necessary attention to fundamental corporate priorities. Committee business, and risk management arrangements particularly, will be enhanced by the recent appointment of a Chief Risk Officer.

The changing legislative, political and financial landscape that we are now operating in, along with our increased development and growth ambition presents an increased desire to proactively manage risks and opportunities. It is therefore important that this Committee continues to strengthen its contribution, ensure it is properly advised and supported, and continues to examine key risks and challenge the effectiveness of mitigation and operational controls.

ROLE AND PERFORMANCE OF THE COMMITTEE

The Audit and Risk Committee has responsibility for ensuring proper arrangements exist for financial reporting, internal and external audit, risk management and internal control, as delegated by the Board. The Committee met four times during the period and is composed of five independent non-executive directors.

Meetings were also attended by the Executive Team, Company Secretary and Internal Audit. Representatives from the business and external audit colleagues regularly make presentations. During the period two changes to membership took place. Committee member John Moloney left the Board in September 2015, and we welcomed a new committee member James Healy on 28 January 2016. The annual committee effectiveness review confirmed the committee continues to operate effectively. The Committee agreed to move to meeting six times a year in 2016/17.

Committee business, and Risk Management arrangements particularly, will be enhanced by the recent appointment of a Chief Risk Officer

Richard Penska
Chair of Audit and Risk Committee

30 June 2016

MATTERS CONSIDERED BY THE AUDIT AND RISK COMMITTEE

The committee considers a suite of risk and assurance information at each meeting to support their monitoring of risk exposures and the control environment across the business, including;

- Oversight of risk and audit reviews, outcomes and action tracking
- Approving risks, metrics and key controls for key strategic risks
- Review of Financial Statements for Board approval
- Annual quality assessment of the internal and external audit functions
- Approval of annual audit plans and strategy
- Annual review of the system of internal control
- Approval of key policies

The committee requested specific reports from senior management and external sources, including;

- Gas servicing – independent assurance from KPMG regarding implementation and progress of actions arising from their 2014 audit
- FRS 102 – assessing financial impact arising from transition to new reporting standards
- Data integrity – annual external audit review
- Procurement strategy for repairs and maintenance
- Business area risk reviews – considering current, emerging risks and opportunities
- Thematic papers on data quality, insurance arrangements, pensions and HCA development grants

KEY STRATEGIC RISKS

During this period the Board considered the current and emerging threats to the sector and our strategic objectives. The key strategic risks, set out on the next page, are subject to executive, risk management, Audit & Risk Committee and Board scrutiny on an ongoing basis.

CONTINUOUSLY STRENGTHEN THE ORGANISATION

Liquidity & funding – insufficient liquidity or a breach of covenants undermines our progressive development strategy. We maintain a prudent liquidity position that provides for committed cash flow items over a 36 month time horizon, and a level of headroom above this. Financial capacity metrics, including primarily the minimum 36 month net cash requirement, are monitored on a monthly basis. Our 30 year financial plan sets out our long term viability and includes stress testing on a range of scenarios. Current and future loan covenants are met at appropriate levels.

Government policy – uncertainty over policy direction can reduce our ability to effectively plan within the year and in the medium term, impacting on the achievement of the corporate plan. Whilst the end of year national debt target was broadly met, the UK's Q1 growth figures were less than expected. We recognise there is a potential for further austerity measures in 2017, unless Government moves on its budget surplus target.

Pensions – the defined benefit schemes, closed to members in December 2013, remain subject to significant volatility due to long term demographic and economic changes, and exposure to this financial risk remains high. We obtain valuations every six months to monitor the deficit position and are reviewing the available options in the first half of 2016/17.

Information technology – maintaining resilient and secure systems and infrastructure is central to the operation of our business; supporting a mobile workforce and the services we supply to customers. During 2015/16 there have been no breaches of our ICT security and our systems have suffered very little down time. We will continue to invest in security and benchmark with the industry. Innovating our use of technology and replacing legacy systems is part of a strategic programme being initiated during 2016/17.

Data quality – poor data quality leads to inaccuracies in reporting which result in sub-optimal decision making. Data management remains a high priority for us. An approved framework for customer and property data is in place, with a supporting improvement plan for data quality, accuracy and completeness being delivered during 2016/17.

PROVIDING HOUSING AND RELATED SUPPORT SERVICES RIGHT FIRST TIME

Welfare reform – the impact of universal credit and direct payments leading to a significant increase in rent arrears and negative impacts on income is being proactively managed. Central to our response is our income management policy and a new welfare reform strategy. Key steps have been taken to strengthen our processes and to assess the potential impacts of an increased volume of Universal Credit applicants over time, subsequent impacts of the benefits cap and on our current and prospective customers' affordability and ability to sustain tenancy.

Customer services – external financial conditions may drive a reduction in organisational costs but also negatively impact service delivery to customers, a deterioration in customer satisfaction and / or regulatory intervention or enforcement. A comprehensive internal performance management regime is in place alongside a co-regulation framework. This framework allows customers to scrutinise performance, hold the business to account, be involved in key decision making as well as identifying reductions in satisfaction at the earliest possible stage. The framework meets the HCA consumer standard requirements and expectations.

Safeguarding – if we fail to respond promptly to concerns about the neglect or abuse of young people or vulnerable adults they are put at further risk. All relevant staff have a DBS check on appointment. Checks are repeated at least every three years. Safeguarding training is delivered for all staff within three months of joining us. Managers ensure that our safeguarding policy, a mandatory read for relevant staff, is understood and adhered to through one to ones and team meetings. Our safeguarding database records all referrals, details of liaison, communication and outcomes.

DELIVER REPAIRS AND MAINTENANCE RIGHT FIRST TIME

Repairs not completed right first time – delivering repairs and maintenance in a customer focused, efficient and cost effective manner is the most important service we can provide. During the year we introduced a comprehensive suite of new contracts between our Property Investment and Property Solutions departments. These contracts set very clear expectations around the repairs and maintenance service with clarity around responsibility, accountability and required levels of performance.

INVEST RESPONSIBLY IN OUR CURRENT HOMES AND NEW ONES

Development – rises in local construction costs can result in failure to deliver service development programmes and / or deliver new homes programmes. The successful delivery of investment programmes is predicated on strong project management, regular reviews and close monitoring of performance and trend analysis. Cost volatility is proactively addressed in a variety of contractual arrangements specific to each type of development and risk assessment and monitoring of contractors suitability and performance. All opportunities are appraised using Board approved financial parameters.

Health and Safety – this means failure to manage safety, health and environmental compliance resulting in harm to employees or others, and loss to the business through enforcement by relevant authorities. We aim to achieve certification to the OHSAS18001 H&S management standard by the end of 2016/17. During 2015/16 we focused on improving our in house compliance training programme; inspection regimes; and health management for our operational staff. We have introduced software systems to improve centralisation and recording of compliance related documentation. Assurance reporting is embedded and is subject to regular review by Executive and Non-Executive Directors.

Non-compliance with HCA's consumer standards – Poor data management can lead to failure to meet the HCA's consumer standard causing serious detriment to customers. During 2015/16, our Compliance and Data Management team continued to implement a suite of regular reports to provide assurance to Executive and Non-Executive Directors. In addition, we have a rolling internal and external audit programme which reviews key risk areas. These include fire, legionella, asbestos and electrical safety. Gas is considered a key focus area and therefore quarterly internal audits and two external audits were completed and reported to the Audit and Risk Committee. During the year we continued embedding OHSAS 18001 across all compliance areas such as gas, asbestos, fire and legionella.

Page 43 gives further details of how we are managing and mitigating risk using a five step risk management lifecycle

CORPORATE GOVERNANCE

Good governance

Good governance is the foundation of a successful organisation. The Board is committed to achieving the highest standards of corporate governance in its oversight of the delivery of our strategies, objectives, risk management and values. Together with our committees, the Customer Assembly, Portfolio Groups and Community Action Groups, the Board make sure that we start with our customers and work backwards, ensuring that customers are at the core of our business and at the forefront of our strategy and service.

A board of eight non-executive directors plus the Chief Executive currently governs the organisation, with day-to-day management delegated to the Executive Team. Each non-executive director of the Board holds one fully paid share of £1 in the organisation, which is cancelled on leaving the role. Executive Team members hold no interest in our share capital, and, with the exception of the Chief Executive, are not members of the Board.

MERLIN BOARD

Andrew Frayling
Chair

Appointed: May 2011

Vivienne Horton
Deputy Chair

Appointed: November 2012

Loretta O'Driscoll

Appointed: March 2013

Richard Penska
Chair of Audit and Risk Committee

Appointed: November 2012

James Healy

Appointed: September 2015

Colin Dennis

Appointed: September 2015

John O'Neill

Appointed: September 2011

Mareike Schmidt

Appointed: January 2014

Robert Nettleton
Executive Director and Chief Executive
Appointed: April 2015

NON EXECUTIVES WHO LEFT THE BOARD DURING THE YEAR
John Moloney *(resigned September 2015)*
Mike Drew *(retired September 2015)*
Pat Rooney *(retired September 2015)*

OAKBROOK HOMES LTD (DORMANT)
John O'Neill (Chair) – Non executive director *(appointed September 2015)*
Mareike Schmidt – Non executive director *(appointed September 2015)*
Robert Nettleton – Executive director *(appointed September 2015)*
Sue O'Neill – Executive director *(appointed September 2015)*

EXECUTIVE TEAM
Robert Nettleton – Chief Executive *(appointed March 2014)*
Sue O'Neill – Director of Finance and Resources *(appointed October 2006)*
Laura Haynes – Director of Investment *(appointed December 2014)*
Paul Coates – Director of Housing and Communities *(appointed May 2015)*
Winston Williams – Managing Director of Property Solutions *(resigned December 2015)*

COMPANY SECRETARY
Andrew Ledger

REGISTERED OFFICE
Riverside Court
Bowling Hill
Chipping Sodbury
Bristol BS37 6JX

ADVISERS AND BANKERS
External Auditors:
Mazars LLP
45 Church Street
Birmingham B3 2RT

Principal Banker:
Lloyds Bank Plc
PO Box 72
Bailey Drive
Gillingham Business Park
Gillingham
Kent ME8 0LS

OUR STRUCTURE

Merlin Housing Society Limited - Charitable
A registered society under the Co-operative and Community Benefit Societies Act 2014 - Registered Society number 30012R - Homes and Communities Agency number L4485

Oakbrook Homes Ltd - Non Charitable
A private company limited by shares - for the provision of design and build services

Our Board approved the formation of a company to provide design and build services during the year. Oakbrook Homes Ltd was first registered in October 2015 and agreements between Merlin and Oakbrook Homes were approved by the Board and Oakbrook Homes' Board in March 2016 prior to the development of new homes through the wholly owned subsidiary in 2016/17.

BOARD MEMBERSHIP DETAILS, REMUNERATION AND MEETING ATTENDANCE

Name and remuneration details	Board	Audit and Risk Committee	Remuneration Committee	Board meeting attendance
Andrew Frayling £6250	Chair		•	10 out of 10
Vivienne Horton £3500	Deputy Chair		Chair	9 out of 10
Richard Penska £3500	•	Chair	•	9 out of 10
John O'Neill £2250	•	•		9 out of 10
Mareike Schmidt £2250	•	•		10 out of 10
Loretta O'Driscoll £2250	•	•		8 out of 10
Colin Dennis £2250	•			5 out of 6
James Healy £2250	•	•		6 out of 6
Robert Nettleton £0	•			10 out of 10
Mike Drew £0	Deputy Chair		Chair	3 out of 4
Pat Rooney £0	•			2 out of 4
John Moloney £0	•	•		4 out of 4

Notes: *Remuneration is pro-rated from 1 October 2015 when it commenced The Chief Executive receives no remuneration in respect of being a member of the Board*

The current economic, regulatory and political environment presents an increasingly complex challenge and therefore we need a strategic, committed and experienced Board. The Board commissioned an external review of its performance both individually and collectively for 2015/16. The report concluded that the Board has changed significantly during the past year with notable improvements identified and that the two new board members, recruited during the year, have strengthened the financial skills of the board. Continuing to build on this, recruitment for a board member with development skills (large scale housebuilding) will be undertaken in 2016/17 in line with the Board recruitment policy and also succession planning for the Chairman will commence.

DELEGATION

The focus of the Board is on our strategy and it also has responsibility for overseeing performance and risk management. The Board delegates certain governance responsibilities to committees, through its standing orders, which have their own approved terms of reference. Day-to-day performance management is delegated to the Executive Team.

Two committees supported the Board and governance arrangements during the year.

- Audit and Risk Committee - responsible for overseeing internal audit, external audit, the effectiveness of internal controls, monitoring and challenging management on its identification and mitigation of risk, and reviewing the financial statements and financial performance.
- Remuneration Committee - responsible for advising the Board on Executive remuneration, and Board or committee appointments.

The minutes of committees are reported at each Board meeting.

RISK MANAGEMENT

We manage and mitigate risk through our five step risk management lifecycle as outlined below.

1. Recognising the risk
We identify risks to the achievement of our objectives through Board risk workshops where we consider current and emerging risks in the internal and external operating environment that might create new threats or opportunities.

Business functions also undertake risk assessment activity throughout the year.

2. Ranking the risk
We assess our exposure to each risk in terms of likelihood and potential impact on a 4 point scale.

We also look to put in place metrics to assess the level of risk which allows us to consider the risk in the context of our risk appetite.

3. Respond to the risk
We define a mitigation strategy for each risk which may feature a combination of approaches including risk treatment or risk transfer.

4. Review the risk
The effectiveness of our mitigation strategies are monitored via our corporate risk and performance management system as part of our risk management and internal control framework.

5. Report and monitor

Our risk management and internal control framework is also used to provide assurance reporting to the Executive and the Board. This allows the Board to assess the effectiveness of our risk responses and to consider whether mitigation is successful. Monthly, quarterly and annual risk and control reporting is in place.

RISK GOVERNANCE

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.

The Board are responsible for generating, determining, monitoring and evaluating risk management policy and strategy.

The Audit & Risk Committee is specifically responsible for ensuring proper arrangements exist for risk management and internal control as delegated by the Board.

The Corporate & Risk Panel is made up of our Executive Team, the Repairs General Manager and the Chief Risk Officer. This panel is responsible for evaluating emerging risks and opportunities and considering the adequacy of our responses to current and emerging risks.

Managers and staff, the first line of defence, provide assurance about our risks as risk and control owners.

Our risk team and internal auditors act as the second and third lines of defence.

A **statement** of the **Board's responsibilities**

The Board is responsible for preparing the report of the Board and the financial statements in accordance with applicable law and regulations. Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the organisation and of the income and expenditure for that period.

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

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

The Board is responsible for keeping proper books of accounts that disclose with reasonable accuracy at any time the financial position of the organisation and enables them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard and to prevent and detect fraud and other irregularities.

Financial statements are published on our website, **www.merlinhs.co.uk**, in accordance with UK legislation governing the preparation and dissemination of financial statements. This may vary from legislation in other jurisdictions. The Board's responsibilities extend to the maintenance and integrity of the corporate and financial information on the website.

SYSTEM OF INTERNAL CONTROL

The Board is responsible for ensuring that a sound system of internal control exists and focuses on the significant risks that threaten our ability to meet our 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 our 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 and operations, which are reviewed periodically to ensure their ongoing appropriateness.
- Appraisal and approval by the Executive Team and the Board of all significant decisions and commitments, in accordance with our rules, standing orders and financial regulations.
- 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.
- Regular performance reports on operational and financial matters are submitted to the Board monthly.
- A financial framework supported by financial regulations, policies and procedures.
- An annual budget / six month reforecast approved by the Board and monitored monthly.
- A 30 year plan updated and considered by the Board at least three times a year, including stress testing a range of scenarios.
- A treasury management policy for managing liquidity, interest rate and counterparty risks, monitored monthly and submitted to the Board on a quarterly basis.
- An anti-fraud and corruption framework supported by policies and procedures for dealing with suspected fraud and whistleblowing. We participate in the National Fraud Initiative and the National Anti-fraud Network.
- An internal audit function, structured to deliver the Audit & Risk Committee's five-year risk-based strategic audit plan. All audit reports are reviewed by the Audit & 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.

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 & Risk Committee and the Board as a whole.

The internal controls framework is on-going and has been in place for the financial year ended 31 March 2016. No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements.

ACCOUNTABILITY TO CUSTOMERS

The Customer Assembly and Portfolio Groups form the core of a co-regulation framework of involved residents and key operational staff. The Independent Chair of the Assembly has a direct link to the Board attending meetings four times a year. Customer Assembly has a scrutiny function within its role to review key services which directly affect customers. Customer Assembly oversees the work of other customer groups including the four Portfolio Groups, reviews information on complaints and receives inspection reports from the Scrutiny Group.

DIVERSITY EQUALITY AND INCLUSION (DEI)

We are committed to an active DEI policy from recruitment and selection, through training and development, appraisal and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices will be objective, free from bias and based solely on work criteria and individual merit. We are responsive to the needs of our employees, customers and the community at large.

We fairly consider any employment applications made by disabled people. We also try to continue employing staff who become disabled during their employment. In the last year, the percentage of staff from a black or minority ethnic background was 1.8%, the percentage of female staff was 46.5%, and the percentage of disabled staff was 2.7%.

GOING CONCERN

After making enquiries, the Board has a reasonable expectation that the organisation has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these financial statements.

STATEMENT OF COMPLIANCE

During the year we continued to follow best practice with regard to corporate governance and, where appropriate, used all reasonable endeavours to comply with the 2010 National Housing Federation code of governance. In May 2016 the Board adopted the NHF Promoting Board Excellence for Housing Associations - 2015 edition. During the year our compliance with the NHF Code of Governance has been subject to internal review. The Board is pleased to report full compliance with the code.

The Board also certifies that we adhere with all relevant law. Following a robust self-assessment process, the Board is satisfied that it has received adequate and externally validated assurance that we meet the Governance and Financial Viability standard in this regard.

The Board has approved a modern slavery act transparency statement for 2015/16 which has been published on our website **www.merlinhs.co.uk**.

The operating and financial review and Board report have been prepared in accordance with applicable reporting standards and legislation.

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.

GENERAL MEETING

The Annual General Meeting (AGM) of Merlin Housing Society Limited will be held on 28 July 2016.

EXTERNAL AUDITORS

All of the current Board members have taken the steps that they ought to have taken to ensure they are aware of any information needed by auditors for the purposes of their audit, and to establish that the auditors are aware of that information. The Board members are not aware of any relevant audit information of which the auditors are not aware. Mazars have expressed their willingness to continue in office as our auditors. Accordingly a resolution to reappoint them as auditors will be proposed at the forthcoming annual general meeting.

By order of the Board

Andrew Frayling
Chairman

Date: 30 June 2016

Independent **auditor's** report

YEAR ENDED 31 MARCH 2016

We have audited the financial statements of Merlin Housing Society for the year ended 31 March 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Reserves 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), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

RESPECTIVE RESPONSIBILITIES OF THE BOARD AND AUDITOR

As explained more fully in the Statement of the Board's Responsibilities set out on page 44, 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 entity's members, as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the entity'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 entity 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

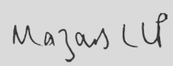
In our opinion the financial statements:

- give a true and fair view of the state of Merlin's affairs as at 31st March 2016 and of Merlin's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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;

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



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

Date: 7 July 2016

Statement of Comprehensive Income

For the year ended **31 March 2016**

	Note	2016	2015
		£'000	£'000
Turnover	3	41,960	40,301
Operating expenditure	3	(27,847)	(29,561)
Operating surplus	3, 5	14,113	10,740
Gain on disposal of property, plant and equipment – housing fixed assets	7a	359	928
Gain on disposal of property, plant and equipment – non housing	7b	46	74
Other Items:			
Interest receivable	8	66	26
Interest payable and financing costs	9	(4,049)	(2,987)
Net surplus		**10,535**	**8,781**
Actuarial gain/(loss) in respect of pension scheme	12	994	(4,272)
Total comprehensive income for the year		**11,529**	**4,509**

Statement of Changes to Reserves

As at **31 March 2016**

	Note	2016	2015
Revenue reserve		£'000	£'000
At 1 April 2015		48,069	43,560
Total comprehensive income for the year		10,535	8,781
Actuarial gain/(loss) in respect of pensions		994	(4,272)
At 31 March 2016		**59,598**	**48,069**

Statement of Financial Position

As at **31 March 2016**

	Note	2016		2015	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible assets – housing	13	147,345		128,885	
Tangible assets – other	14	3,618		3,849	
Intangible assets	15	605		435	
			151,568		133,169
Current assets					
Inventories	16	248		376	
Debtors	17	38,168		45,236	
Investments	18	434		-	-
Cash and cash equivalents	18	22,747		14,024	
		61,597		59,636	
Creditors: Amounts falling due within one year	19	(7,671)		(8,339)	
Net current assets			53,926		51,297
Total assets less current liabilities			**205,494**		**184,466**
Creditors: Amounts falling due after more than one year	20		103,208		85,725
Provision for liabilities					
Pension provision	12	6,068		6,567	
Provisions	26	36,620		44,105	
			42,688		50,672
Capital and reserves					
Share capital	24	-		-	
Revenue reserve		59,598		48,069	
Merlin's funds			59,598		48,069
			205,494		**184,466**

The financial statements were approved by the Board on 30 June 2016 and signed on its behalf by:

Andrew Frayling
Chair - Board

Richard Penska
Chair - Audit and Risk

Andrew Ledger
Company Secretary

Statement of Cash Flows

For the year ended **31 March 2016**

	Note	2016	2015
		£'000	£'000
Net cash generated from operating activities	27	19,708	15,230
Cash flow from investing activities			
Purchase of property plant and equipment		(24,426)	(16,120)
Purchase of intangible assets		(246)	(259)
Proceeds from the sale of tangible assets		703	1,678
Grants received		2,555	779
Investment (purchased)/realised		(434)	131
Interest received		66	26
		(21,782)	(13,765)
Cash flow from financing activities			
Interest paid		(4,061)	(2,727)
New loans		15,367	39,731
Finance lease payments		(9)	
Repayment of borrowings		(500)	(30,500)
		10,797	6,504
Net increase in cash and cash equivalents		8,723	7,969
Cash and cash equivalents at beginning of year		14,024	6,055
Cash and cash equivalents at end of the year		**22,747**	**14,024**

The results above derive wholly from continuing operations. The notes on pages 52 to 81 form part of these financial statements.

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 2016, there were 36 shareholding members of Merlin (31 March 2015: 36 members).

2. Accounting policies and areas of significant judgement and estimates

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 in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102). The statements comply with the Statement of Recommended Practice for Accounting by registered social landlords (SORP 2014) and the Accounting Direction for Private Registered Providers of Social Housing 2015. Merlin is a public benefit entity, as defined in FRS102 and applies the relevant paragraphs prefixed 'PBE' in FRS102.

The financial statements are presented in Sterling (£).

STATEMENT OF COMPLIANCE

This is the first year that Merlin has prepared its financial statements in accordance with FRS102. Accordingly, the financial information as at 1 April 2014 (being the date of transition) and for the year ended 31 March 2015 have been restated for material adjustments on adoption of FRS102 in the current year. For more information see note 32.

GOING CONCERN

Merlin's business activities, its current financial position and the factors likely to affect it future development are set out within the strategic report. Merlin has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with day to day operations. Merlin has a long-term business plan which shows that it is able to service these debt facilities while continuing to comply with lenders' covenants.

On this basis, the Board has a reasonable expectation that Merlin has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 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.

SIGNIFICANT JUDGEMENTS

Preparation of the financial statements requires management to make significant judgements. The following are the significant management judgements made in applying the accounting policies of Merlin that have the most significant effect on the financial statements.

IMPAIRMENT

From 1 April 2016, Merlin has reduced social housing rents by one per cent per annum and will continue to do so in each year until 2019/20 in accordance with the Housing and Planning Act 2016. Despite cost efficiency savings and other changes to the business, compliance with the new rent regime has resulted in a loss of net income for certain social housing property. This is a trigger for impairment.

As a result, we estimated the recoverable amount of Merlin's housing properties as follows:

(a) Determined the level at which the recoverable amount is to be assessed. Merlin used category and size of provision as the level for assessing impairment

(b) Estimated the recoverable amount of the cash-generating unit

(c) Calculated the carrying amount of the cash generating unit and

(d) Compared the carrying amount to the recoverable amount to determine if an impairment loss has occurred.

Based on this assessment we calculated the depreciated replacement cost of each asset category using appropriate construction costs and land prices. Comparing this to the carrying amount of each asset category, we made no impairment charge against our property.

ESTIMATION UNCERTAINTY

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

USEFUL LIVES OF DEPRECIABLE ASSETS

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to decent homes standards which may require more frequent replacement of key components. Accumulated depreciation at 31 March 2016 was £25.0m.

DEFINED BENEFIT OBLIGATION (DBO)

Management's estimates of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analysed in note 12). The liability at 31 March 2016 was £6.1m (2015: £6.6m)

RECOVERABLE AMOUNT OF TRADE AND RENTAL DEBTORS

Trade and rental debtors are included at undiscounted cost net of a provision for bad debts. Total trade and rental debtors at 31 March 2016 was £3.1m (2015: £2.7m) with a provision of £1.2m (2015: £1.3m) made to offset potentially uncollectable amounts. Actual collection may vary from the amounts included.

BASIS OF CONSOLIDATION

During the year, Merlin set up a wholly owned trading subsidiary (Oakbrook Homes Ltd) that will be used for design and build services. Oakbrook had no transactions during 2015/16 so no consolidation is required. Therefore, no group accounts have been produced.

TURNOVER

Turnover comprises:

a. Rental income from tenants receivable for the period
b. Income from shared ownership first tranche sales
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

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Rental income is deferred to a future period where it does not relate to the current period. Income from first tranche sales is recognised at the point of legal completion of the sale. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with South Gloucestershire Council.

TAXATION

Merlin is considered to pass the tests set out in Paragraph 1 Schedule 6 of the 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.

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.

INTEREST PAYABLE AND FINANCING COSTS

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are calculated using the effective interest rate which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined on the basis of the carrying amount of the financial liability at initial recognition. Under the effective interest method, the amortised cost of a financial liability is the present value of future cash payments discounted at the effective interest rate and the interest expense in a period equals the carrying amount of the financial liability at the beginning of a period multiplied by the effective interest rate for the period.

Interest is capitalised on borrowings to finance the development of qualifying assets to the extent that it accrues in respect of the period of development if it represents

a) Interest on borrowing specifically financing the development programme after deductions of related grants received in advance;

b) A fair amount of interest on borrowings of the association as a whole after deduction of SHG received in advance to the extent they can be deemed to be financing the development programme.

Arrangement fees, agency fees and related legal fees payable when entering into new loans are capitalised then charged to the statement of comprehensive income over the life of the loan via the effective interest method.

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 net interest cost (interest on pension liabilities less interest on plan 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 and net interest costs are recognised in the statement of comprehensive income with any re-measurements of assets and liabilities being recognised in the other income section of the Statement of Comprehensive Income.

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

GOVERNMENT GRANTS

Government grants include grant received from the Homes and Communities Agency (the HCA), local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals model.

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

Government grants received for housing properties are subordinated to the repayment of loans by agreement with the HCA. Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

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 held against the asset and released over its useful life.

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

AMORTISATION OF GRANT

Merlin adopts the accruals model for government grants and the performance model as required by SORP 2014. Grants are amortised on a straight line basis with the principle annual rates consistent with the asset the grant is used to fund:

Social housing grant	100 years
Disabled facilities grant	30 years
ECO grant (EWI)	30 years

HOUSING PROPERTIES

Housing properties are principally properties available for rent and are stated at historic cost less accumulated depreciation and any accumulated impairment loss.

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 statement of comprehensive income.

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 on a straight line basis 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 land	No deprecation charge
Structure	100 years
Roofing	50 years
Bathrooms	30 years
Doors	30 years
Electrics	30 years
Heating systems	30 years
Insulation	30 years
Windows	30 years
Lifts	25 years
PV panels	25 years
Kitchens	20 years
Boilers	15 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 recognised as operating expenditure.

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 (RTB) sales are shared with South Gloucestershire Council. On completion of a RTB, the full proceeds are credited to the statement of comprehensive income and the share payable to the Council is treated as a cost of sale.

The first tranche proportion of unsold shared ownership units are held on the statement of financial position as inventory until they are sold.

OTHER TANGIBLE FIXED ASSETS

Other tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

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
Freehold property refurbishments	15 years
Furniture and fittings	5 years
IT hardware	5 years
IT software	5 years
Other equipment	5 years
Motor vehicles	4 years
Leasehold offices – refurbishment works	Over the life of the lease

INTANGIBLE FIXED ASSETS

Intangible fixed assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is provided evenly on the cost of intangible assets to write them down to their estimated residual values over their expected useful lives. The principal annual rate used for intangible assets is:

IT software	5 years

INVESTMENTS, CASH AND CASH EQUIVALENTS

Investments is a money market deposit via a trustee account with the Housing Finance Company which isn't available overnight.

Cash and cash equivalents incudes petty cash, bank accounts, overnight bank deposit and overnight money market funds.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised when

INVESTMENTS, CASH AND CASH EQUIVALENTS

Investments is a money market deposit via a trustee account with the Housing Finance Company which isn't available overnight.

Cash and cash equivalents incudes petty cash, bank accounts, overnight bank deposit and overnight money market funds.

FINANCIAL INSTRUMENTS

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

FINANCIAL LIABILITIES CARRIED AT AMORTISED COST

These financial liabilities include interest bearing loans and borrowings. Non-current debt instruments which meet the necessary conditions in FRS102 are initially recognised at fair value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method with interest related charges recognised as an expense in finance costs in the statement of comprehensive income. Discounting is omitted where the effect of discounting is immaterial.

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the group. All other leases are classified as operating leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring the surplus or deficit. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

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

INVENTORIES

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.

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

Year ended **31 March 2016**

	Turnover	Cost of Sales	Operating Costs	Operating Surplus
	£'000	£'000	£'000	£'000
Social housing lettings (note 4)	39,696	-	(25,702)	13,994
Other social housing activities				
Frist tranche shared ownership sales	486	(418)	-	68
Supporting people contracts	253	-	(412)	(159)
Independent living contracts	609	-	(816)	(207)
	1,348	(418)	(1,228)	(298)
Non social housing activities				
Garages	631	-	(286)	345
Commercial properties	285	-	(213)	72
	916	-	(499)	417
	41,960	(418)	(27,429)	14,113

Year ended **31 March 2015**

	Turnover	Cost of Sales	Operating Costs	Operating Surplus
	£'000	£'000	£'000	£'000
Social housing lettings (note 4)	38,517	-	(27,371)	11,146
Other social housing activities				
Support contracts	251	-	(387)	(136)
Independent living contracts	611	-	(803)	(192)
Development costs not capitalised	-	-	(423)	(423)
	862	-	(1,613)	(751)
Non social housing activities				
Garages	645	-	(292)	353
Commercial properties	277	-	(285)	(8)
	922	-	(577)	345
	40,301		(29,561)	10,740

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

Particulars of income and expenditure from social housing lettings

For the year ended **31 March 2016**	General needs housing	Supported housing and housing for older people	Temporary social housing	Low cost home ownership	Total	Year ended 31 March **2015** Total
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	31,117	5,862	219	67	37,265	36,356
Service charge income	780	1,242	50	1	2,073	1,968
Amortised government grants	30	6	-	-	36	38
Other income	302	19	1	-	322	155
Turnover from social housing lettings	32,229	7,129	270	68	39,696	38,517
Management	(5,718)	(1,623)	(33)	(20)	(7,394)	(7,470)
Services	(1,585)	(1,458)	(41)	-	(3,084)	(2,887)
Routine maintenance	(4,128)	(1,493)	(88)	(7)	(5,716)	(6,365)
Planned maintenance	(375)	(1,160)	-	(1)	(1,536)	(1,855)
Major repairs and improvements (non capitalised)	(2,580)	(397)	(15)	-	(2,992)	(3,620)
Bad debts	24	12	(6)	-	30	(168)
Depreciation of housing properties	(4,041)	(956)	(12)	(1)	(5,010)	(5,006)
Operating costs on social housing lettings	(18,403)	(7,075)	(195)	(29)	(25,702)	(27,371)
Operating surplus on social housing lettings	13,826	54	75	39	(13,994)	(11,146)
Void losses	(157)	(84)	(14)	(2)	(257)	(397)

5. Operating Surplus

The operating surplus is arrived at after charging:

	2016	2015
	£'000	£'000
Depreciation of tangible assets - housing	4,566	4,409
Depreciation of tangible assets - other	423	306
Amortisation of intangible assets	155	202
Loss on disposal of housing property components	574	455
Operating lease rentals		
• land and buildings	115	81
• vehicles	616	572
• other	12	13
Auditors' remuneration (excluding VAT)		
• for audit services	23	33
• for non-audit services	32	51
Total audit services	55	84

6. Asset in management and managed by others

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

	2016 Number	2015 Number
Owned and managed		
General housing – social rent	6,392	6,424
General housing – affordable rent	45	2
General housing – intermediate rent	31	-
Supported housing and housing for older people	1,444	1,436
Low cost home ownership	43	40
Leasehold properties	496	494
Owned and managed by others		
General housing – intermediate rent	15	10
Managed on behalf of others		
General housing – affordable rent	-	2
Total accommodation owned and managed	8,466	8,408
Other assets owned and managed		
Commercial property and other assets	70	70
Garages	2,452	2,453
Total assets owned and managed	10,988	10,931

7a. Surplus on sale of fixed assets – housing

	Right to buy 2016	SO staircasing 2016	Total 2016	Total 2015
	£'000	£'000	£'000	£'000
Sales Proceeds	2,474	122	2,596	3,541
Other Income	53	2	55	99
Cost of Sales	(420)	(12)	(432)	(732)
Council repayment	(1,773)	(87)	(1,860)	(1,980)
Surplus	334	25	359	928

7b. Surplus on sale of fixed assets – other

	2016	2015
	£'000	£'000
Sales Proceeds	62	119
Cost of Sales	(16)	(45)
Surplus	46	(74)

8. Interest receivable

	2016	2015
	£'000	£'000
Bank interest	66	26

9. Interest payable and financing costs

	2016	2015
	£'000	£'000
Bank loans and overdrafts	2,403	2,751
Capital market loans	1,578	335
Net interest on defined benefit liability (note 12)	200	70
Other finance costs	216	45
	4,397	3,201
Interest capitalised on developments under construction	(348)	(214)
	4,049	2,987
Capitalisation rate used to determine the finance costs capitalised during the period	4.85%	4.85%

10. Staff costs - Average monthly number of employees expressed in full time equivalents

	2016	2015
Administration	70	68
Housing and support	125	136
Repairs and property maintenance	203	225
	398	429

The basis of the calculation of the full time equivalent was 37 hours per week equating to one full time equivalent.

	2016	2015
	£'000	£'000
Wages and salaries	10,681	11,616
Social security costs	905	928
Redundancy costs	295	56
Compensation for loss of office	29	48
Pension costs	1,895	1,500
	13,805	14,148

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

	2016 Number	2015 Number
£140,000 to £149,999	2	-
£130,000 to £139,999	-	1
£120,000 to £129,999	1	1
£110,000 to £119,999	1	1
£100,000 to £109,999	-	1
£90,000 to £99,999	-	-
£80,000 to £89,999	1	-
£70,000 to £79,999	1	2
£60,000 to £69,999	6	5
	12	11

	2016	2015
	£'000	£'000
Remuneration paid to the executive directors including the Chief Executive was:		
Emoluments	510	409
Employers' pension contributions	57	51
Loss of Office	29	48
	596	508

11. Executive and non-executive directors

	2016	2015
	£'000	£'000
Remuneration paid to the non-executive directors was:		
Emoluments	25	-
	25	-

The remuneration of the highest paid director refers to Robert Nettleton, Chief Executive. Salary for the year ending 31 March 2016 was £129k (2015: £122k) and performance related pay was £9.7k (2015: 0). The Chief Executive is an ordinary member of a defined contribution scheme operated through Royal London. The pension scheme is funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements. A contribution by Merlin of £10k (2015: £10k) was paid in addition to the personal contributions of the Chief Executive.

12. Pension Scheme

Merlin participates in two pension schemes:

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

The Avon Pension Fund (APF) 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 most recent formal actuarial valuation was completed as at 31 March 2013 and rolled forward, allowing for the different financial assumptions required under FRS102, to March 2016 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 £918k in the fund with £890k relating to Merlin staff and the remaining £28k 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 2015/16, a repayment of £64.5k was paid in respect of Merlin employees and £10.7k 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 which will be available towards the end of 2016.

The employer's contributions to the fund by Merlin for the year ended 31 March 2016 were £1,356k (2015: £1,411k) at an average contribution rate of 23.6% of pensionable salaries (2015: 17.1%). Estimated employers' contributions to the APF during the accounting period commencing 1 April 2016 are £1,472k.

Adjustments were also made to reflect the position at the 31 March 2016 based on the FRS102 Pension Adjustments. This resulted in a debit of £268k being reflected against contributions (2015: credit of £74k).

A total of £135k was payable to the scheme at 31 March 2016 (2015: £142k) and this is included in our creditors balance.

(a) Financial assumptions

The main financial assumptions used by the actuary were (all figures - % per annum):

	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Discount rate	3.6	3.4	4.6	4.4	5.1
Rate of increase in salary	3.5	3.6	3.9	3.9	4.1
Rate of increase in pension	2.0	2.1	2.4	2.4	2.6
Rate of inflation	2.0	2.1	2.4	2.4	2.6

(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:

	2016 Years	2015 Years	2014 Years	2013 Years	2012 Years
Current pensioner:					
Males	23.5	23.4	23.3	22.9	22.8
Females	26.0	25.9	25.8	25.9	25.7
Future pensioner retiring in 20 years:					
Males	25.9	25.8	25.7	25.2	25.1
Females	28.9	28.8	28.7	28.2	28.1

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.

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Present value of funded defined benefit obligations	(42,604)	(42,489)	(32,150)	(30,863)	(25,406)
Fair value of plan assets	36,536	35,922	29,913	26,082	22,145
Deficit	(6,068)	(6,567)	(2,237)	(4,781)	(3,261)

(d) Movements in present value of defined benefit obligation

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Benefit obligation at start of year	42,489	32,150	30,863	25,406	20,299
Current service cost	1,624	1,337	1,594	1,125	944
Past service cost	-	-	-	-	-
Interest cost on pension scheme liabilities	1,443	1,508	1,397	1,318	1,140
Loss on curtailments	-	-	-	231	52
Remeasurements (liabilities)	(2,880)	7,571	(1,950)	3,018	3,049
Member contributions	418	540	506	413	378
Benefits/transfers paid	(490)	(617)	(260)	(648)	(506)
Value at end of year	42,604	42,489	32,150	30,863	25,356

(e) Movements in fair value of plan assets

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Fair value at start of year	35,922	29,913	26,082	22,145	18,338
Interest on plan assets	1,243	1,407	1,476	1,242	1,213
Remeasurements (assets)	(1,886)	3,299	914	1,789	1,409
Employer's contributions	1,356	1,411	1,195	1,141	1,313
Member contributions	418	540	506	413	378
Benefits/transfers paid	(490)	(617)	(260)	(648)	(506)
Administration expenses	(27)	(31)			
Fair value at end of year	36,536	35,922	29,913	26,082	22,145

(f) Analysis of the amount charged to the statement of comprehensive income:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Current Service Cost	1,624	1,368	1,594	1,125	994
Effect of curtailments	-	-	-	231	52
Past service cost	-	-	-	-	-
Expected return on plan assets	-	-	(1,476)	(1,242)	(1,213)
Interest cost on plan liabilities	-	-	1,397	1,318	1,140
Net interest cost	200	70	-	-	-
Administrative expenses	27	31	-	-	-
Total Operating Charge	1,851	1,469	1,515	1,432	973

These amounts are recognised as a net cost within operating costs of £1,624k (2015: £1,368) and a net interest cost of £200k (2015: £70k) in the statement of comprehensive income. The total amount recognised in the other income section of the statement of comprehensive income in respect of actuarial re-measurements is a gain of £994k (2015: loss of £4,272k).

(g) Major categories of plan assets

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Equities	15,126	16,200	13,011	14,633	11,604
Government bonds	2,265	3,880	2,573	2,686	2,569
Other bonds	11,874	10,705	8,735	4,799	4,562
Cash/Liquidity	365	683	509	443	332
Property	2,631	2,299	1,765	1,747	1,484
Other	4,275	2,155	3,320	1,774	1,594
Fair value at end of year	36,536	35,922	29,913	26,082	22,145
Actual return on plan assets	(644)	4,675	1,461	3,030	646

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

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

The pension cost contributions payable by Merlin to the scheme for the year amounted to £163k (2015: £198k).

Contributions amounting to £31k (2015: £25k) were payable to the scheme at the end of the financial year and were included in creditors.

13. Tangible assets – housing

	Land	Social Housing properties held for letting	Shared ownership properties	Social Housing properties under construction	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2015	7,929	134,110	140	4,093	146,272
Improvements	208	9,900	43	-	10,151
Completed assets	1,575	2,215	122	-	3,912
Completed assets transferred from under construction	-	4,165	-	(4,165)	-
Transfer between categories	-	(309)	-	444	135
Construction costs	-	-	-	9,316	9,316
Disposals	(57)	(742)	-	-	(799)
At 31 March 2016	9,655	149,339	305	9,688	168,987
Depreciation and impairment					
At 1 April 2015	-	17,371	14	-	17,385
Charged in year	-	4,564	1	-	4,565
Transfer	-	(4)	-	-	(4)
Released on disposal	-	(304)	-	-	(304)
At 31 March 2016	-	21,627	15	-	21,642
Net book value					
At 31 March 2016	9,655	127,712	290	9,688	147,345
At 31 March 2015	7,929	116,739	126	4,093	128,887

Our housing properties are valued in the statement of financial position 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 valuation as at 31 March 2016 for loan security purposes was £253.6m (2015: £253.8m). 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 £1,031.9m (2015: £980.1m).

Total maintenance and improvement work to our properties completed in the year was £21.6m (2015: £24.2m) of which £9.9m (2015: £12.4 m) was capitalised.

14. Tangible assets - other

	Freehold Land	Freehold properties and fittings	Leasehold properties	Commercial properties	Furniture and equipment	Computer equipment	Vehicles	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2015	1,079	3,969	111	71	726	1,867	79	7,902
Additions	-	-	10	-	157	98	-	265
Disposals	-	-	-	-	(2)	-	(39)	(41)
Transfers	-	16	-	(27)	36	(93)	(2)	(70)
At 31 March 2016	1,079	3,985	121	44	917	1,872	38	8,056
Depreciation								
At 1 April 2015	-	960	83	23	539	1,283	61	2,949
Charged in year	-	89	23	3	125	168	15	423
Transfer	-	7	-	(7)	4	-	-	4
Released on disposal	-	-	-	-	(2)	-	(38)	(40)
At 31 March 2016	-	1,056	106	19	666	1,451	38	3,336
Impairment								
At 1 April 2015	-	1,102	-	-	-	-	-	1,102
Impairment	-	-	-	-	-	-	-	-
At 31 March 2016	-	1,102	-	-	-	-	-	1,102
Net book value								
At 31 March 2016	1,079	1,827	15	25	251	421	-	3,618
At 31 March 2015	1,079	1,907	28	48	187	582	18	3,849

The net book value of other tangible fixed assets includes £44k (2015: £0) in respect of assets under finance leases.

15. Intangible assets

	Computer software
	£'000
Cost	
At 1 April 2015	1,934
Additions	294
Transfers	31
Disposals	-
At 31 March 2016	2,259
Amortisation	
At 1 April 2015	1,499
Charged in year	155
Eliminated on disposal	-
At 31 March 2016	1,654
Net book value	
At 31 March 2016	605
At 31 March 2015	435

16. Inventories

	2016	2015
	£'000	£'000
Properties held for sale	56	106
Van stock	140	130
Other Stock	52	140
	248	376

17. Debtors

	2016	2015
	£'000	£'000
Due within one year		
Arrears of rent and service charges	2,007	2,101
Less: Provision for bad debt	(1,171)	(1,291)
	836	810
Government grant debtor	439	-
VAT debtor	29	131
Other debtors	616	428
Less: Provision for bad debt	(34)	(26)
	1,050	533
Prepayments and accrued income	415	169
	2,301	1,512
Due after one year		
Major repairs provision debtor	35,867	43,724
Total debtors	38,168	45,236

18. Investment, cash and cash equivalent

	2016	2015
	£'000	£'000
Investments	434	-
Cash and cash equivalents	22,747	14,024

Investments is a money market deposit via a trustee account with The Housing Finance Corporation that isn't available overnight. Cash and cash equivalents includes petty cash, current account balances, overnight bank deposit and overnight money market funds.

19. Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Trade creditors	480	998
Rent and service charges received in advance	1,413	1,091
Other receipts in advance	-	428
Deferred grant income (note 21)	78	34
Other taxation and social security	379	388
Local Authority – right to buy share of proceeds	1,767	1,985
Capital creditors	53	-
Other creditors	168	170
Accruals	2,367	2,879
Capital accruals	948	366
Finance lease (note 23)	18	-
	7,671	8,339

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

	2016	2015
	£'000	£'000
Financial Instruments (note 23)	97,738	82,731
Deferred grant income (note 21)	5,118	2,694
Recycled Capital Grant Fund (note 22)	88	88
Deposits	20	22
Leaseholder sinking funds	218	190
Finance lease (note 23)	26	-
	103,208	85,725

Borrowings are presented net of all fees incidental to executing the loan facilities and after the effective interest method accrual.

21. Deferred grant income

	2016	2015
	£'000	£'000
Balance at 1 April 2015	2,728	2,517
Grant received in the year	2,502	249
Released to income in the year	(34)	(38)
Balance as at 31 March 2016	5,196	2,728
Amounts to be released within one year	78	34
Amounts to be released in more than one year	5,118	2,694
	5,196	2,728

22. Recycled Capital Grant Fund

	2016	2015
	£'000	£'000
Balance at 1 April 2015	88	-
Additions	-	88
Interest	-	-
Balance as at 31 March 2016	88	88

There were no additions during the year. The entire balance of £88k has maturity of more than one year and is planned to be used in 2016/17.

23. Financial Instruments

Financial assets – measured at undiscounted amounts receivable

	2016	2015
	£'000	£'000
Rent arrear and other debtors (note 17)	3,091	2,660

Financial liabilities – measured at amortised cost
Loans payable

	2016	2015
	£'000	£'000
Within one year or on demand	-	-
One year or more but less than two years	-	-
Two years or more but less than five years	-	-
Five years or more	97,738	82,731
	97,738	82,731
Loan at nominal value	98,000	83,000
Arrangement/financing fees	(1,054)	(921)
Effective interest adjustments	792	652
	97,738	82,731

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

All loans (£98m) are secured by a fixed charge over Merlin's residential properties. Loans include £43m of bank loan and £55m of capital market loans. Interest is paid on a quarterly and semi-annual basis at interest rates ranging from 2.7% to 5.5% (2015: 3.9% to 5.5%).

At 31 March 2016, Merlin had undrawn facilities of £67m (2015: £57m).

Obligations under finance leases

	2016	2015
	£'000	£'000
Due within one year	18	-
Due after one year	26	-
	44	-

The obligations under finance leases are repayable by equal instalments in less than five years and relate to photocopiers.

Financial liabilities – measured at undiscounted amounts payable

	2016	2015
	£'000	£'000
Trade and other creditors (notes 19/20)	12,659	11,333

24. Share capital

	2016	2015
	£	£
At start of year	36	41
Cancelled during the year	(3)	(6)
Issued during the year	3	1
At end of year	36	36

Share capital at 31 March 2016 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.

25. Financial commitments

Capital expenditure commitments:

	2016	2015
	£'000	£'000
Capital expenditure		
Expenditure contracted for but not provided in the accounts	19,110	18,356
Expenditure authorised by the Board,but not contracted	31,248	26,015
Contracted	-	-
	50,358	44,371

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

Operating leases

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

	2016	2015
Payments due:	**£'000**	**£'000**
Within one year	696	747
Between one and five years	849	1,532
Over five years	10	22
	1,555	2,301

26. Provision for liabilities

Major repairs provisions

	2016	2015
	£'000	**£'000**
At start of year	43,723	53,843
Utilised in year	(7,855)	(10,120)
At end of year	35,868	43,723

Other provisions

	2016	2015
	£'000	**£'000**
At start of year	382	388
Utilised/ Paid in year	(191)	(147)
Provision for redundancies, early retirement	147	-
Insurance Provision	-	133
Office accommodation	172	-
Other provision	242	8
At end of year	752	382
Total provisions for liabilities	36,620	44,105

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

27. Cash flow from operating activities

	2016	2015
	£'000	**£'000**
Surplus for the year	10,535	8,781
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	4,999	4,689
Amortisation of intangible assets	155	202
Decrease / (increase) in inventories	128	(9)
Decrease / (increase) in trade and other debtors	352	635
Increase / (decrease) in trade and other creditors	90	(1,754)
Pension costs less contributions payable	(68)	(12)
Carrying amount of tangible fixed asset disposals	-	847
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	(351)	(1,002)
Government grants utilised in the year	(142)	(38)
Interest payable	4,076	2,917
Interest received	(66)	(26)
Net cash generated from operating activities	19,708	15,230

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

	2016	2015
	£'000	**£'000**
Increase / (decrease) in cash and cash equivalents	8,723	7,969
Cash flow from (decrease / increase) in current asset investments	434	-
Cash inflow/(outflow) from changes in debt	(15,000)	(9,500)
Change in net debt from cash flows	(5,843)	(1,531)
Net debt at 1 April	(68,976)	(67,445)
Net debt at 31 March	(74,819)	(68,976)

29. Analysis of net debt

	1 April 2015	Cash flow	31 March 2016
	£'000	£'000	£'000
Cash at bank and in hand	14,024	8,723	22,747
Current asset investment	-	434	434
Debt due after one year			
Loans drawn down	(83,000)	(15,000)	(98,000)
Changes in net debt	(68,976)	(5,843)	(74,819)

30. Related parties

Non-executive directors who are tenants of Merlin are included on the list on page 63. 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 42. South Gloucestershire Council has nomination rights over tenancies for the Society's properties. All transactions with the council are under normal commercial terms and councillors are not able to use their position to their advantage.

31. Fixed asset investments

Merlin have a £1 ordinary share investment (100% of the company's shares) in Oakbrook Homes Ltd; a design and build company. There were no transactions during the year and hence no effect on the surpluses or net assets of the Group.

32. Transition to Financial Reporting Standard 102

This is the first year that Merlin has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS102 was therefore 1 April 2014. As a consequence of adopting FRS102, a number of accounting policies have changed to comply with that standard. In carrying out the transition to FRS102, Merlin has not applied any of the optional exemptions as permitted by Section 35 of FRS102.

Restated consolidated statement of financial position

	1 April 2014	31 March 2015
	£'000	£'000
Original revenue reserves	43,789	48,282
Holiday pay accrual	(241)	40
Effective interest calculation	0	(12)
Grant amortisation	70	38
Property depreciation	(60)	(48)
Pension	0	(246)
Corrected on restatement	-	15
Restated revenue reserves	43,558	48,069

Note, the pension adjustment is applied to the pension reserve which offsets the revenue reserves, so is not duplicated in the revenue reserve figure disclosed.

Restated surplus

	31 March 2015
	£'000
Original surplus on ordinary activities	9,009
Holiday pay accrual	40
Effective interest calculation	(12)
Grant amortisation	38
Property depreciation	(48)
LGPS Pension costs	(246)
Restated surplus	8,781

Explanation of changes

1. HOLIDAY PAY ACCRUAL

A provision is now made for entitlement to holiday at the year-end which has not been taken by employees. This has been calculated based on payroll records and totalled £241k as a liability in opening reserves.

2. GRANT AMORTISATION AND PROPERTY DEPRECIATION

Grants were previously netted off the cost of the related asset. Under FRS102, government grants must be accounted for using the accruals model or the performance model. As the association accounts for its properties at cost, it has adopted the accruals model for government grants, as required by SORP 2014. Non-government grants are accounted for under the performance model.

Under the accruals model, the government grants have been allocated to the related assets and amortised over the useful economic life of those assets. The unamortised amount is held within deferred income, split between < 1 year and > 1 year. A total of £2,835k of capital grant has been recognised before amortisation, with £152k of this (which was previously directly netted against assets) now included as specifically identified grant. After amortisation of £107k, the net amortised grant recognised in opening reserves is £2,728k.

With the FRS102 treatment of grant it no longer offsets property costs when calculating depreciation. This resulted in an increase to property depreciation of £60k on 1 April 2014 and £48k for the year to 31 March 2015. Of this £14k arose from correction to Eco grant which had initially been added as a negative asset.

3. DEFINED BENEFIT PENSION SCHEME

Under FRS102 the expected return on assets is replaced with 'interest on assets'. This is the interest on assets held at the start of the period and cash flows occurring during the period, calculated using the discount rate at the start of the year. Interest cost and expected return on assets are replaced with 'net interest cost'. This is calculated as interest on pension liabilities less the interest on assets. Administration expenses are now recognised as a separate item within the pension cost. The overall effect has been an increase in expenses charged on the Statement of Income by £246k for the period ended 31 March 2015, with a corresponding decrease to pension reserves. The employer's liability is unchanged. An analysis of the changes is provided below.

Analysis of changes	Old GAAP £'000	FRS102 £'000	Difference £'000
Interest on pension liabilities	(114)	-	114
Current service cosr adjustment	(74)	(43)	31
Net interest cost	-	70	70
Adminstration expenses	-	31	31
Total	(188)	58	246

4. EFFECTIVE INTEREST CALCULATION

Merlin's bank borrowing is now accounted for using the effective interest method which adjusts carrying value for initial transaction costs and exactly discounts estimated future cash payments over the life of the instrument, providing the figures for regular interest charges throughout the life of the loan. Merlin's previous loans were refinanced at 12 January 2015 and the FRS102 calculations have been applied from that date. During the financial year 2014/15 this resulted in an increase to interest costs of £27k and a reduction to amortisation of separately capitalised loan costs of £15k. Movements in the Consolidated Statement of Financial Position involved removal of an interest accrual of £625k, adjustment of separately capitalised loan refinancing costs of £906k against loan balances resulting in a net increase of £269k to the balance of long term loans at 31 March 2015.

Other Adjustments arising on transition to FRS102

In addition to the transition adjustments identified above which affect the surplus for the financial year, the following adjustments have arisen which have had no effect on net reserves or Statement of Comprehensive Income but which have affected the presentation of these items on the Statement of Financial Position.

The main items are:

(a) Computer software, with a net book value of £363k at 1 April 2014, has been reclassified from tangible to intangible assets as required under FRS102. This has no effect on Merlin's net assets nor on the surplus for the year, except that the previous depreciation charge in now described as amortisation.

(b) Statement of cash flows

Merlin's cash flow statement reflects the presentation requirements of FRS102, which is different to that prepared under FRS1. In addition the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS1 definition is more restrictive.

Merlin

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