MERLIN HOUSING SOCIETY LIMITED

Financial Statements

for the year ended 31 March 2021

Co-operative and Community Benefit Society
Registration Number 30012R

Regulator of Social Housing
Registration Number L4485

Bromford.

Merlin Housing Society Limited

Financial Statements
For the Year Ended 31 March 2021

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Bromford Assured Homes Plc.

Board Members as at 31 March 2021:

The Board members who served from 1 April 2020 up to the date of approval of these financial statements were as follows:

	Position	Appointment/Retirement Date	Meetings Attended 2020/21
Stephen Dando	Independent Non-Executive Director Chair	Appointed 24 November 2015 Appointed chair 1 April 2020	15/15
Vivienne Horton	Vice Chair and Senior Independent Director	Appointed 2 July 2018	15/15
Helen Adlard	Independent Non-Executive Director	Appointed 2 January 2019	7/9
Richard Bird	Independent Non-Executive Director	Appointed 2 July 2018	14/15
Lee Gibson	Executive Director of Finance	Appointed 1 August 2016 Resigned 31 March 2021	15/15
Robert Nettleton	Chief Executive	Appointed 31 December 2018	15/15
Richard Penska	Independent Non-Executive Director	Appointed 2 July 2018	13/15
Neil Rimmer	Independent Non-Executive Director	Appointed 2 July 2018	15/15
Sarah Simpson	Independent Non-Executive Director	Appointed 1 April 2020	15/15
Jerry Toher	Independent Non-Executive Director	Appointed 1 April 2020	13/15
Charles Hutton-Potts	Independent Non-Executive Director	Appointed 1 April 2021	-

Company Secretary	Appointment/Retirement Date
Sarah Beal	Appointed 2 July 2019

Advisors:

EXTERNAL AUDITORS:

BEEVER AND STRUTHERS
ST GEORGE'S HOUSE
215-219 CHESTER ROAD
MANCHESTER, M15 4JE

BUSINESS ASSURANCE PROVIDER:

PRICEWATERHOUSECOOPERS LLP
2 GLASS WHARF
BRISTOL BS2 0FR

BANKERS:

LLOYDS BANK PLC
25 GRESHAM STREET
LONDON
EC2V7HN

TAXATION ADVISOR:

DELOITTE LLP
FOUR BRINDLEY PLACE,
BIRMINGHAM,
B1 2HZ.

Registered office:

Riverside Court, Bowling Hill,
Chipping Sodbury
Bristol
BS37 6JX

Merlin Housing Society Limited

The Directors' Report
For the year end 31 March 2021

The Board of Merlin Housing Society Limited ('**MHS**') is pleased to present its annual report and financial statements for the year ended 31 March 2021.

Who are we and what do we do?

MHS is a subsidiary of Bromford Housing Group Limited ('**BHG**'). Merlin is a Registered Provider of Social Housing and a Registered Society under the Co-operative and Community Benefit Societies Act 2014. Together, BHG and its subsidiaries are known as '**Bromford**'.

Bromford exists to provide affordable homes for people who can't access market housing. We believe in providing safe, secure and warm homes, but we're ultimately a people business. Not only do we care about what happens to people that live in a Bromford home, we want people to thrive.

That's why our purpose is simple and honest. ***We invest in homes and relationships so people can thrive.***

Bromford is a housing group – one that owns almost 45,000 homes; has individual relationships with more than 100,000 customers; has a very strong balance sheet. All this is only possible because of the 1,800 people who work for the organisation.

MHS's principal activities are the ownership and management of rental and shared ownership properties and the development of new properties for sale and rent.

Our Board – who are they and what do they do?

BHG is the parent company of MHS. Under Bromford's Governance Framework, MHS delegates matters of governance and financial authority to the BHG Board (The Board).

The BHG Board's role is to **set and uphold Bromford's strategy and values** and to make sure that **effective leadership** and **sufficient resources** are in place for Bromford to achieve its strategic aims and objectives. The Board monitors and tests **performance** in relation to approved plans and budgets and is also responsible for determining risk appetite, to make sure good governance and decision-making is taking place. It promotes and supports our probity and values and makes sure that there are succession plans for Board members and the senior team. Bromford's day-to-day leadership is delegated to the Chief Executive.

Bromford's statement of strategy (published on our website) describes our 'DNA' **(Fig. 1)**. Our DNA is what we stand for and the behaviours, qualities and values that represent what it means to **Be Bromford.**

Fig. 1. Bromford DNA

The Directors' Report
For the year end 31 March 2021

Board composition, meetings, decisions and delegations

The BHO Board operates as a unitary Board.

From the 1 April 2020, our Board comprised ten members – two Executive Directors (our Chief Executive and Executive Director of Finance (resigned 31 March 2021) and eight NEDs.

NEDs are recruited for their skills and experience and are appointed for an initial term of three years. Reappointment following the initial term is not automatic and NEDs are required to satisfy continuing independence and performance-related criteria before they are appointed for a second, three-year term. Any term beyond six years is subject to rigorous annual review which takes into account the need to progressively refresh the Board.

NEDs are offered ongoing training, support and access to independent professional advice to enhance their decision-making and help them discharge their duties effectively.

The time commitment required from NEDs is currently between 12 and 15 days per annum. The other significant commitments of the Chair, Steve Dando and NEDs were disclosed to the BHG Board before appointment and are summarised in the BHG Annual Report and Accounts.

Board effectiveness

All Board members are expected to contribute to a culture of clear and open debate. This is to promote informed and prudent decision-making and members are expected to keep developing and refreshing their knowledge and skills so they can continue to make positive contributions to Board discussions.

Each year the Board carries out a formal evaluation of Board, committee, and individual director performance. At least every three years, as recommended by the code, this evaluation is facilitated by an external advisor to provide an independent perspective. There was an independent review of governance effectiveness in 2018 and the chair carried out an internal review in 2019. As there had been a significant amount of change within the Board over the last 12 months, Altair were asked to carry out a further external review at the end of 2020. The findings were very positive:

- the Board is seen as effective and governs appropriately with individuals understanding their roles and responsibilities;
- the governance structure and framework provide assurance to the Board and third-party assurance is sought where this is seen as necessary;
- the updated skills matrix shows that there are no major skills gaps on the Board.

Despite the findings in the report, the Board were concerned that the recommendation to reduce the size of the Board membership in November would create a skills gap and it was agreed that a further NED be appointed to take up office in November.

Our senior independent director carried out a review of the chair's performance.

Board and Committee Decision-making

The Bromford Housing Group (BHG) operates a group structure with coterminous boards across the four main entities – the parent – BHG and the main operating subsidiaries Bromford Housing Association, Bromford Home Ownership (BHO), and Merlin Housing Society. The membership of all entities is the same except for BHO where two members, Vivienne Horton and Richard Penska are not members. This is in line with our Group Conflicts of Interest Policy and protects the charitable interests of BHG, BHA and MHS. All members of the board, executive, and non-executive make decisions by working together and achieving a general consensus.

To retain control of key decisions and to provide a clear division of responsibility between the running of the Board and the running of the business, the Board and the other Registered Providers in the group, have identified 'reserved matters' that only those Boards can approve.

Other matters have been delegated to the committees by the Boards. Any matters outside of these delegations fall within the chief executive's responsibility and authority.

The Board and each committee receive sufficient, reliable, and timely information in advance of meetings and are provided with or are given access to all the necessary resources and expertise to enable them to undertake their duties in an effective manner.

The Board is scheduled to meet 10 times a year. During 2020 to 2021, and in response the Covid-19 pandemic, have met remotely and more frequently. From April to September 2020, they have had an additional meeting each month receiving an update on the coronavirus response. The annual strategy setting event was held in December.
Each Board meeting has a planned agenda, which allows enough time to discuss both strategic and operational matters and includes consideration of performance and risk management.

Each Board committee meets as many times as necessary to discharge their duties and responsibilities under their terms of reference. For reports from our committees, refer to the Bromford Housing BHG Annual Report and Accounts .

The Board and committees can seek advice to support them in their decision making.

Value for Money

Ensuring Value for Money for our customers and our group is ingrained in our culture enables us to deliver our Strategy, and to enable customers to thrive. Our value for money statement is published within our Group financial statements.

Statement of compliance with the regulatory standards

Our regulator, the Regulator of Social Housing (RSH), publishes a regulatory framework and regulatory standards. The regulatory standards comprise of the economic standards (namely the governance and financial viability, value for money and rent standards) and the consumer standards (namely the tenant involvement and empowerment, home, tenancy and neighbourhood and community standards).

One of the core economic standards is governance and financial viability. This requires Registered Providers (RPs) to have effective governance arrangements in place that deliver their aims, objectives and intended outcomes for tenants and potential tenants in an effective, transparent and accountable manner. It also requires RPs to manage their resources effectively, to make sure their viability is maintained whilst ensuring that social housing assets are not put at undue risk.

As part of being regulated by the RSH, Bromford has been given a rating for governance, as assessed against the governance and financial viability standard. Following an In-depth Assessment carried out by the RSH in 2019, Bromford maintains a G1 governance and V1 financial viability rating, the highest ratings on the scale throughout the financial year ended 31 March 2021.

The Board is committed to ensuring that we comply with our legal and regulatory responsibilities, including the Modern Slavery Act 2015. Bromford's modern slavery statement is available on the website.

Each year the RSH requires RPs to assess their compliance with the governance and financial viability standard and provide assurance to customers and stakeholders that the RSH specific expectations are being complied with.

We have undertaken an annual review of compliance. The Board is assured that Bromford is compliant with the regulatory framework including the governance and financial viability standard and its accompanying code of practice.

Statement of compliance with our code of governance

The Bromford Housing Group has adopted the UK Corporate Governance Code 2018 (the UK code). The UK code reflects our commercial outlook, focus on achieving the highest possible standards of accountability and transparency, and our desire to position ourselves alongside other high-achieving organisations, regardless of sector.

To support implementation of the code it has adopted a group wide Governance Framework and Delegations Framework that set out how the Group and each subsidiary registered provider will conduct its business in this respect. The Governance Framework and Delegations Framework include matters reserved for the Board and delegations to the group wide committees. This ensures that information from the Committees also reaches the Board of each subsidiary registered provider where appropriate. In this way the provisions of the UK Corporate Governance Code are met by Bromford Home Ownership Limited.

As we do not have shareholders in a conventional sense; some aspects of the UK code do not apply to us. However, we strongly support the objectives that this section aims to achieve, and this is reflected in the open and transparent way we deal with our partners and stakeholders. Merlin Housing Society does have legacy shareholders and continues to hold an annual general meeting.

The UK Corporate Governance Code 2018 applies for our financial year 2020 to 2021.

Each year the Board reviews compliance with the UK code and during the financial year ended 31 March 2021, we consider that Bromford has complied with all relevant principles and provisions of the UK Corporate Governance Code 2018.

Risk management and internal control

Risk Overview

Applying the principles of risk management effectively allows Bromford to create value, by enabling us to take informed opportunities whilst protecting value by reducing the uncertainty of achieving our strategy. Our Board has overall responsibility for ensuring the group has appropriate systems for managing risk.

We operate a five-step risk management process. These steps are designed to identify problems before they occur, so that risk management activity may be planned and invoked as needed to mitigate impacts on achieving our strategy.

The process aims to manage, rather than eliminate risk. Our Board defines clear statements and tolerances that set out the type and amount of risk we are prepared to assume as we deliver our strategy. This informs our strategy for responding to risks and determines the controls we put in place to manage them.

Regular reporting to Board highlights any movement in the assessment of key risks and provides assurance that systems for managing risk remain effective.

In this last year, our risk and business continuity frameworks have been tested as we responded to challenging and uncertain times with the changing impacts of the Covid-19 pandemic and uncertainty attached to Brexit. They have proved effective throughout in enabling us to maintain core services with an absolute focus on the safety and wellbeing of our customers and colleagues and have kept our Board appraised and assured.

How we manage our risks

Bromford operates a three lines of defence model, ensuring clear separation between risk and control ownership (first line), oversight, support and challenge (second line), and audit assurance (third line).

Business units use the risk management frameworks to help them manage risks in line with our defined risk appetite. Assurance is provided by the first line through its managerial and supervisory activities.

Our second line functions set the frameworks for managing risk and provide guidance and challenge to the first line through a business partnering model. This is supported by risk and compliance reviews and reporting which gives assurance that risks are being managed in line with our risk appetite.

Internal audit provide independent, objective assurance to management and the Board over the effectiveness of first and second lines and is independent of our executive management. This includes an agreed programme of reviews which highlight any areas where risks are not being managed within our appetite or where we may need to re-calibrate our appetite in the context of internal and external changes.

Additional assurance is provided from external sources, such as external audit, technical specialists, and regulatory checks.

Risk appetite

Our Board have defined clear risk appetite statements and metrics central to the core elements of our strategy. These set out the type and amount of risk we are prepared to take to five key enterprise risk types as we deliver our strategy, plans and run our day-to-day operations. These are integral to our corporate decision making and dialogue.

We measure and monitor our exposures within agreed tolerances, with forward looking risk indicators and triggers in place.

We manage our responses to risks and opportunities with a clear understanding of risk appetite and capacity.

	Averse	Minimal	Balanced	Open	Embracing
Legal and regulatory Our risk appetite is minimal, as we will do everything that is reasonably practicable to ensure compliance and is averse with respect to landlord asset compliance and health and safety risks.					
Operational Our appetite is balanced as whilst we will explore new options for providing our services, we remain focused on operating our business to ensure a minimal level of disruption to our customers, brand and reputation.					
Financial risk Our appetite is balanced, as we will not accept risks which threaten our financial viability, but we will be open to diverse investment options.					
Development/commercial Our appetite is open as we seek to remain competitive in the marketplace whilst proactively seeking new opportunities for sustainable growth both in the short and longer term.					
Strategic risk As an innovative business our appetite is open as we have set ambitious plans and have multiple channels for delivery to achieve the targets set.					

Our risk appetite and capacity

Our Board approved risk appetite statements and tolerances remain integral to our corporate decision-making processes and the actions we take in managing our business and overall strategy

We remain true to our attitude towards management of actual and potential risks arising from serious detriment, the health and wellbeing of our customers and colleagues, legal and regulatory risk and have similarly focussed allocation of resource and investment in areas such as regulatory reporting, information security and business continuity planning

We have seen our capacity for risk being translated in earnest most recently in how we have responded to the coronavirus pandemic, and how we manage and monitor our risk profile, mitigation and opportunities activity through into the recovery and beyond

We continue to share our risk appetite position with our global investors and UK stakeholders.

Our principal risks

Bromford is exposed to the principal risks as set out below. Key risks are determined by the Board, and appetite and tolerances set. The risks and indicators are monitored on a monthly basis by the Board. Business risks are monitored for emerging threats and operational trends with escalation through executive forums, Audit and Risk Committee and then to Board.

Below we set out the profile of risks for Bromford.

Emerging risks

In addition to the principal risks monitored by the Board, the business monitor operational risks which are reported through the governance channels to highlight new and growing threats.

Across the group we have a dependency on third parties and counterparties to deliver our strategic objectives. The ongoing uncertainty attached to Brexit combined with Covid-19 has seen challenges across partner providers and specifically our supply chain. Whilst mitigations have ensured no disruption to services to date, we expect the impacts to continue into 2021 to 2022. This is being monitored as a 'material operational risk' by Board.

Following the tragic events of Grenfell, across the sector we are seeing a hardening market for Professional Indemnity Insurance in construction. Whilst we do not expect the risk to materialise in the year, with ongoing insurance cover in contract, the risk is being tracked by the Audit and Risk Committee, with Bromford joining with other providers to actively engage the insurance sector in these discussions.

Health and safety	**Direction of travel:** Stable	**Link to Strategy:** Homes that enable
Risk	Our approach to health and safety lacks robust controls and oversight. This results in death, injury, or harm caused to colleagues, customers, contractors, or members of the public.	
Mitigation strategies	**Changes in year**	
Health and safety management systems follow the concepts of ISO 45001, with regular reporting and oversight across dedicated business groups, Audit and Risk Committee and Board and independent assurance sought from technical experts throughout the year.	Integrated health and safety management application launched across Bromford. Health and safety management systems were adapted to take account of new covid secure measures, with the primary objective to keep colleagues and customers safe.	

Customer involvement and engagement	**Direction of travel:** Improving	**Link to Strategy:** Our relationship with customers
Risk	Failure to effectively engage our customers will result in homes and relationships that fail to meet their needs.	
Mitigation strategies	**Changes in year**	
Our coaching approach, combined with a number of involved customer networks, ensures the voice of the customer is heard with the customer and communities' model subject to an annual effectiveness review, reported to Board.	Work has commenced to introduce a brand-new feedback platform for customers. Both the customer inclusion networks, and coaching models moved to remote operation during lockdown.	

Financial planning and performance	**Direction of travel:** Improving	**Link to Strategy:** Future ready
Risk	Our financial and resilience planning and/or monitoring fails to mitigate substantial macro-economic or political events.	
Mitigation strategies	**Changes in year**	
Robust financial planning, stress testing scenarios and resilience plans are in place, incorporating plausible macro-economic and political impacts, with close tracking at forum, committee and Board level against the financial framework and golden rules.	Despite market uncertainty, and the UK incurring a downgrade from the credit rating agency, Bromford maintained its A2 stable Moody's rating. Secured our first ESG linked financing deal, as we launch our Sustainability Finance Framework	

People	**Direction of travel:** Stable	**Link to Strategy:** Enabling colleagues
Risk	A lack of skilled colleagues who are thriving in their role will impact our ability to achieve our objectives. This may be due to a failure to recruit, retain and/or motivate engaged colleagues.	
Mitigation strategies	**Changes in year**	
A clear strategy with values-based recruitment and embedding of our DNA ensures we retain and attract colleagues aligned to our purpose, with data and insight on recruitment, leavers, movers, and our engagement survey tracked in year.	Commenced a new leadership development programme to create brilliant leadership. Wellbeing offering adapted and promoted throughout the pandemic to ensure colleagues were supported to thrive in challenging circumstances.	

Development and market sales		Direction of travel: Worsening	Link to Strategy: Growing the business
Risk	We fail to deliver our new homes and market sales aspirations. Rising costs, market downturn, competition in the market and/or a lack of opportunity could impact our ability to deliver against plan.		
Mitigation strategies		**Changes in year**	
A dedicated forum considers opportunities against strategy to ensure compliance with business policy, tracks programme delivery and monitors the external market for potential impacts.		The combined challenges of Covid-19 and Brexit saw a temporary halt on construction and sales through April and May. Ongoing impacts across market and supply chain are being managed.	

Data governance		Direction of travel: Stable	Link to Strategy: Future ready
Risk	Poor data governance or data architecture leads to inaccuracies in customer, financial, asset, or other key data and consequent service/compliance failures and sub optimal decision making.		
Mitigation strategies		**Changes in year**	
Data Governance Framework based on the ISO/IEC 38505 standards with a dedicated data governance group to assess business practice, monitor risks and improvement plans and provide assurance reporting to Audit and Risk Committee and Board.		Ongoing transformation activity is supporting extensive data cleansing activity and increased PowerBI reporting to provide transparency over data quality.	

Cyber security and network controls		Direction of travel: Stable	Link to Strategy: Future ready
Risk	Lack of robust network controls and security protocols. This results in susceptibility to denial of service attacks, hacking, and unauthorised access.		
Mitigation strategies		**Changes in year**	
Information security management systems aligned to ICO/EIC 27000 standards, with oversight through business forums and Audit & Risk Committee reporting.		New chief information officer role appointed Following roll out in 2019 to 2020, ongoing programme of vulnerability and penetration testing drove reduced security and vulnerability threats.	

Business continuity		Direction of travel: Improving	Link to Strategy: Future ready
Risk	Failure to have effective business continuity, ICT disaster recovery, and major incident plans that are regularly tested. This may result in adverse and significant operational, financial, reputational, and legal and regulatory impacts.		
Mitigation strategies		**Changes in year**	
Business continuity frameworks follow the guidance within ISO 22301, with regular reporting and oversight across dedicated business groups, Audit and Risk Committee and Board.		Both Bromford and third-party plans have been thoroughly tested in year in response to business disruption events and have supported maintenance of services.	

Environmental and sustainability		Direction of travel: Improving	Link to Strategy: Future ready
Risk	Inability to respond to carbon reduction requirements by 2025 in our new and existing homes. This may result in material financial implications, regulatory intervention, and reputational damage.		
Mitigation strategies		**Changes in year**	
A roadmap has been developed to illustrate route to targets, which is monitored and tracked through the Sustainability Group.		A sustainability group has been established, who have launched the Sustainability Finance Framework and will track carbon footprint reporting and progress to targets for the group.	

One of the Board's key responsibilities is to make sure that Bromford has a system of internal controls in place that robustly manages the operational and strategic risks that threaten our business model, future performance, solvency and liquidity.

Internal control

The Audit and Risk Committee (the committee) monitors and reviews the effectiveness of the internal control system, conducts an annual effectiveness review and reports the findings to the Board. The system of internal control is designed to manage rather than eliminate risk, to prevent and/or detect fraud and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control, including risk management, for the year to 31 March 2021, and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material misstatement or loss, which require disclosure in the financial statements.

Internal audit

The committee has overseen the conclusion of internal audit plan. The committee works closely with the externally appointed internal auditor, who report directly to the chair of the Audit and Risk Committee. Throughout the year, the committee carefully monitored the progress of the internal audit function. The committee approves the work of internal audit annually and specifically approving any changes to the audit plan through regular quarterly updates. The scope of work takes account of the function's own assessment of risks, the input of first and second line management and the Audit and Risk Committee itself.

Significant issues considered by the Audit and Risk Committee for the year ended 31 March 2021

Significant issues were discussed with management and the external auditor in January 2021 when the Audit and Risk Committee reviewed the *Audit Plan and Strategy for the year,* and at the conclusion of the audit, when the financial statements were reviewed in July 2021.

The committee also considered all relevant reports and findings presented by the external auditor, and also the adequacy of management's response. In addition, the committee reviewed the external auditor's independence, objectivity and effectiveness of the audit.

The audit plan and strategy for the year identified the key audit matters which are considered below.

Key audit matter	Committee response
Loan Covenants and Treasury Management	The Group has borrowing, which includes undrawn facilities (predominantly revolving credit facilities), with stand alone interest rate swaps for periods up to 2032 to manage market-to-market exposure. These have been categorised as non-basic and are measured at fair value. Management gave assurances that loan covenant positions remain compliant with funder requirements and that long term financial plans support that the Group is able to avoid breaching loan covenants, even in a stressed scenario. The committee was satisfied with the outcomes and management responses.
Property Sales	The Group generate proceeds from sales of existing homes, first tranche low-cost home ownership and outright sales. The impact of COVID-19 has resulted in lower-than-expected sales achieved, which could impact on recoverability of stock. Management gave assurances to the committee that appropriate assumptions and judgements had been used, with year-end sales figures exceeding re-forecast assumptions. The committee was satisfied with the assurances received, noting the margins and surplus achieved.
Pensions	Bromford partakes in two LGPS pensions schemes and the Bromford defined pension scheme. As at 31 March 2021 the valuations of the schemes rely on a number of actuarial assumptions, which are approved by Bromford. Management gave assurances to the committee that the actuaries used appropriate assumptions which were based on the most recent valuations and are derived on a consistent basis, year on year. The external auditor presented the audit testing of the pension's assets and liabilities. The committee was satisfied that the appropriate assumptions and disclosures have been applied to the pension's liabilities presented in the financial statements.

The Directors' Report
For the year end 31 March 2021

In addition to fulfilling its key responsibilities the committee reviewed the following topics

Area of focus	Committee action
Covid-19 response	At the start of the year the key risk register was adapted to reflect the impacts and mitigations in response to the Covid-19 pandemic. Through risk profile and assurances, the committee tracked the businesses response and maintenance of services throughout the pandemic. In addition, an internal audit was commissioned in the year to assess the business response, gaining assurance of a continued focus on the safety and wellbeing of customers and colleagues and maintenance of our critical services.
Brexit preparedness	Following on from activities through 2019 to 2020 the committee received updates against actions plans, tracking risks and mitigations linked to the end of the transition period. The committee noted the reports and were satisfied with the actions taken.
Transformation governance	With a large transformation programme underway, the committee requested a report on governance and risk management in the programme. This was presented in September 2020. The committee were satisfied with the proposals and agreed ongoing assurance regarding data cleansing.
Fire safety review	Following heavy assurance through 2018 to 2019 and 2019 to 2020, the committee requested an update on business preparedness for the revised Fire Safety Bill. A report was presented in February 2021 which detailed actions taken and next steps. The committee noted the report.
Appointment of external auditor	The committee tracked the progress of the successful appointment of a new external audit provider, with the committee chair a member of the interview panel. The committee noted the scoring methodology used and received assurance that robust handover would mitigate any risk to audit timescales.
Information security and resilience	Following an update to the information security framework at the start of the year, the committee received updates throughout the year on the outcomes of penetration and vulnerability testing, the committee noted that good progress had been made.
Value for Money benchmarking	The committee received a report on Value for Money, benchmarking current performance against historical performance and that of peers. The report showed a deteriorating trend across Bromford and the sector, but with group strengths on reinvestment and supply of new homes. The committee were satisfied with management proposals in place and planned to improve Bromford's position over the medium term.
Internal review plan	Reviewing and approving the schedule of internal review activity being undertaken by the risk and health and safety business assurance function.
Trading updates	Receiving and approving Bromford market trading updates.

Financial review (5-year summary)

Income and Expenditure £'000s	2017	2018	2019	2020	2021
Turnover	43,728	46,492	53,540	74,119	72,852
Operating costs and cost of sales	(28,019)	(30,194)	(35,195)	(50,198)	(43,795)
Surplus on disposal of assets	1,489	3,213	1,407	4,588	1,857
Change in valuation of investment properties	-	-	-	713	529
Operating surplus	17,198	19,511	19,752	29,222	31,443
Gift on acquisition	-	-	60,669	-	-
Net interest charge and other finance costs and fair value adjustments	(4,202)	(4,404)	(4,460)	(9,211)	(9,910)

Merlin Housing Society Limited

The Directors' Report
For the year end 31 March 2021

Surplus for the year after taxation	**12,996**	**15,107**	**75,961**	**20,011**	**21,533**

Statement of Financial Position £'000s	2017	2018	2019	2020	2021
Housing properties at cost less depreciation	168,722	202,731	417,873	448,781	464,577
Other tangible fixed assets, intangible fixed assets, investments and long-term debtors	4,512	29,850	34,352	18,999	20,570
Net current assets	56,634	46,870	4,336	48,091	53,252
Total assets less current liabilities	229,868	279,451	456,561	515,871	538,399
Loans due after one year	(114,188)	(150,958)	(163,142)	(163,232)	(162,979)
Unamortised grant	(6,414)	(7,971)	(10,760)	(11,176)	(11,411)
Other long term liabilities and provisions	(41,479)	(33,482)	(122,188)	(156,789)	(156,260)
Total net assets	67,787	87,040	160,471	184,674	207,749
Total reserves	67,787	87,040	160,471	184,674	207,749

Income and expenditure

The surplus for the financial year was £21.5m (2020: £20.0m). The majority of income 91.6% (2020: 86.3%) is derived from rents and service charges and we are not dependent upon income from asset disposals.

Rental income

We aim to maximise rental income within a customer affordability framework. Performance on bad debts and arrears remains strong despite the difficult economic conditions.

Shared Ownership

Shared ownership sales income for the year was £6.1m (2020: £10.2m). We sold 60 homes at an average 100% sales value of £246k (2020: 94 homes, 100% value: £246k). The average first tranche share sold reduced to 41% (2020: 44%).

Costs

Cost control is a core deliverable across the business. Our social housing letting operating margin of 43.6% (2020: 34.4%) and overall operating margin after asset sales of 43.6% (2020: 39.4%) remain strong. The focus on operating margin is a central part of our Value for Money framework, evidencing not just the cost of what we do but its effectiveness and the outcomes we achieve for our customers.

Over the last year we have seen a decrease of £3.8m (8.7%) in our total operating costs per the Statement of Comprehensive Income from £43.6m in the previous year to £39.8m this year.

Disposals

Disposals are not a material feature in our financial results. Disposal profits in the year were £1.9m (2020: £4.6m). The decrease is due to our student housing portfolio being disposed of in the previous year generating £4.0m in profit.

Balance sheet

Fixed assets

Details of the movements in fixed assets during the year are set out in note 11 to the financial statements.

Sales exposure

We have no completed shared ownership units at the year end (2020: £1.9m).

Investment in our homes

This year we invested £16.8m in major repair and refurbishment programmes (2020: £13.0m) and £10.4m in new homes (2020: £29.0m).

Effects of material estimates and judgments within these financial statements

- On an annual basis we review for potential **impairment of non-financial assets;** following the review no impairment was required.
- We have accounted for depreciation of assets on a straight-line basis; the depreciation basis is reviewed regularly for the each class of asset, and no changes were required.
- All of Merlin's **debt financial instruments** are classified as basic;

Further details of key estimations can be found within our accounting policies on pages 26 to 28.

Treasury

Treasury activity is undertaken at group level. However, Merlin continues to have specific entity related loans and covenants. The following table highlights the position for key measures for Merlin.

	2020-21	2019-20
Borrowing	£306m	£306m
Undrawn facilities	£190m	£290m
Cash and cash equivalents	£63.3m	£48.6m
Fixed rate borrowing	100%	100%
Cost of borrowing	3.4%	3.4%
Interest cover covenant	2.9 times	2.1 times
Gearing (covenant calculation)	47%	52%
Debt per unit	£18k	£20k

Cash and liquidity

Rigorous control of cash is a key focus for us. Operating cash flow was again strong at £56.2m (2020: £31.0m) and represents 177% of operating surplus, an excellent cash conversion performance. Cash balances are invested at group level with Merlin holding £63.3m (2020: £48.6m) at year-end.

Facilities and funding

External loans of £163m (2020: £163m). Facilities have remained stable over the year. Intra-group on-lending also remained stable at £143m (2020: £143m). At the year-end, £190m of revolving facilities with Lloyds were undrawn.

Undrawn facilities are RCFs which provide flexibility and assist in mitigating the cost of carry on excess funds. We use fixed rate borrowings to manage our exposure to increases in interest rates and 100% of our drawn borrowings are at fixed rates (2020: 100%) to lock in low interest rates.

The average cost of borrowing is 3.4% (2020: 3.4%). This has remained consistent with the prior year.

Covenants

We have been moving to a situation where the majority of covenants are based on Group numbers and are broadly consistent in their composition. We have considerable capacity on both our interest cover and asset gearing covenants and they do not limit our activities.

2. Operating performance

Operational performance against targets is monitored at Group level and a summary is included within the Annual Report and Accounts of BHG – which are available on the Bromford website www.bromford.co.uk.

3. Value for money (VfM)

Details of Bromford's VfM performance are summarised in the Annual Report and Accounts of BHG – which are available on the Bromford website www.bromford.co.uk. The Regulator for Social Housing metrics for Merlin as a stand alone entity are shown below.

Sector metrics

Ref	Metric Name	2017	2018	2019	2020	2021
1	Reinvestment %	14.0%	18.0%	14.9%	8.1%	5.2%
2A	New supply delivered (Social housing units) %	1.00%	2.3%	2.3%	2.5%	1.7%
2B	New supply delivered (Non-social housing units) %	0.0%	0.0%	0.0%	0.0%	0.0%
3	Gearing %	44%	43%	53%	52%	47%
4	EBITDA MRI	195%	300%	321%	212%	267%
5	Headline Social housing cost per unit (£000s)	4.00	3.74	2.80	3.53	3.08
6A	Operating Margin (social housing lettings) %	35.3%	35.3%	35.2%	34.4%	43.4%
6B	Operating Margin (overall) %	33.6%	35.0%	36.9%	33.2%	34.4%
7	ROCE	7.1%	7.0%	4.3%	5.7%	5.8%

The metrics show another strong performance with operating margins at 43.4% for social housing lettings (2020: 34.4%) and 34.4% overall (2020: 33.2%).

Reinvestment reduced as less development work occurred due to delays arising from COVID, also being a factor of new supply delivered reducing from 2.5% to 1.7%. Gearing decreased slightly while interest cover increased to 268% (2019: 212%) driven by a higher year on year depreciation charge due to previous years investment.

Headline social housing cost per unit reduced compared to 2020 as a result of lower overall spend due to the pandemic.

Public benefit entity

As a public benefit entity, MHS has applied public benefit entity 'PBE' prefixed paragraphs of FRS102.

Statement of Compliance with the 2018 Statement of Recommended Practice (SORP)

The Board confirms that the Strategic report contained within this Board report has been prepared in accordance with the principles set out in Para 4.7 of the 2018 SORP for Registered Social Housing Providers.

Statement of Board's responsibilities in respect of the Annual Report and the financial statements

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

Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Directors' Report
For the year end 31 March 2021

The financial statements are required by law to give a true and fair view of the state of affairs of the Association and of the income and expenditure of the Association for that period.

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

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable 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 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The directors have decided to prepare voluntarily a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Board are also responsible for preparing a Strategic Report and a Board Report that complies with that law and those regulations.

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

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Board to assess the Association's position and performance, business model and strategy.

Going concern

In preparing the financial statements, the Board members have reviewed the Association's financial plan for 2021/24 and has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. The Board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Viability statement

As required by the provisions of the UK Corporate Governance Code, the Board has undertaken an assessment of the future prospects of the Association taking into account its current position and principal risks, including changes arising from year two of the Coronavirus pandemic.

This assessment was made using the following core business processes:
Thirty year business plan (the 'plan') – the Board reviews each iteration of the plan during the year as part of its strategic planning process, the most recent business plan was approved in May 2021 by the Board. This process includes detailed stress testing of the plan which involves flexing a number of assumptions underlying the forecast both individually and together under particular scenarios.

Risk management – as set out in the risk section of the strategic report, Bromford has a structured approach to the management of risk and the principal risks identified are reviewed regularly by the Board.

Liquidity – based on the output of the plan and regular reforecasting of cashflows the Board reviews the liquidity position of the group ensuring funding is secured in accordance with Bromford's treasury policy. Current available cash and unutilised loan facilities are over £500m which gives significant headroom for committed spend and other forecast cash flows that arise.

In undertaking this assessment, a period of three years has been selected. For the initial year of this three year period there is a greater level of certainty because detailed annual budgets are prepared and regularly reforecast. Monthly cashflow forecasts are reviewed by the Board covering a rolling 36 month period and are used to ensure sufficient facilities are in place. While reducing, the largest single area of spend remains the development programme and the bulk of the committed programme completes within this timeframe. Whilst development spend and required facilities are planned over a longer term than three years, the period chosen ensures that Bromford is viable beyond its usual development commitment timeframe.

On the basis of this and other matters considered and reviewed by the Board during the year, the Board has reasonable expectations that MHS will be able to continue in operation and meet its liabilities as they fall due over the three year period used for this assessment.

Information for auditors
We the members of the Board who held office at the date of approval of these Financial Statements as set out above confirm, so far as we are aware, that there is no relevant audit information of which the Association's auditors are unaware. We have taken all the steps that we ought to have taken as Board members to make ourselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Appointment of Auditor
Beever and Struthers were appointed as Bromford's external auditors in the financial year.

This report was approved for issue by the Board on 20 July 2021 and signed on its behalf by:

Steve Dando

Chair

Independent Auditor's Report to Merlin Housing Society Limited

Opinion
We have audited the financial statements of Merlin Housing Society Limited (the Association) for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves and the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies in note 1. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:
- give a true and fair view of the state of the Association's affairs as at 31 March 2021 and of the Association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the 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 2019.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We were first appointed as auditor of Merlin Housing Society Limited by the Board for the period ending 31 March 2021. The period of total uninterrupted engagement for the Association is for one financial year ending 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Association in accordance with, UK ethical requirements including the FRC Ethical Standard. No non-audit services prohibited by that standard were provided.

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £1,473,336, determined with reference to a benchmark of Turnover (of which it represents 2%). We consider turnover to be the most appropriate benchmark, and more appropriate than a profit-based benchmark as the Association is a not-for-profit organisation and the focus is on turnover rather than any surpluses, which are reinvested in the Association.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £73,667, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Key Audit Matters

Recoverability of stock and work in progress

<u>The risk – significant risk medium value</u>
The Association recorded turnover from properties developed for first tranche shared ownership sale of £6.1m (2020: £10.1m). Other property sales (such as staircasing, RTB and asset disposals) generated a surplus of £1.9m (2020: £4.6m). At 31 March 2021, the Association held no unsold properties within current assets (2020: £1.9m). Work in progress in relation to properties being developed for sale but still under construction at 31 March 2021 totalled £0.6m (2020: £1.3m).
Refer to page 32 (accounting policies) and page 45 (financial disclosures).

<u>Our response</u>
Our procedures included the following tests of detail:

- **Test of detail:** Agreeing the calculation of the surplus on sale for a sample of sales in the period**.**
- **Assessment of recoverability:** For a sample of development schemes, we reviewed the carrying value of the Association's stock and work-in-progress at the year-end including the financial appraisals of each scheme. This included testing on a sample basis the expected profitability of the current schemes, and reviewing post-year end sales of properties held in stock at 31 March 2021.

Our results

We found no evidence that the year end balance of stock and work in progress is overstated at the year end.
Our review of schemes under development did not identify any indication of work in progress that required provision or impairment write down.
We found no errors in the calculation of surplus on sale of properties.

Valuation of defined benefit pension obligations

The risk – significant risk high value

The Association participates in one defined benefit pension scheme, the Avon Pension Fund. The actuaries of the scheme valued the pension liabilities for Section 28 of FRS 102 purposes, the net pension liability on this scheme at 31 March 2021 is £11,287k.

The financial statements disclose the assumptions used by the Association in completing the valuation of the pension deficit and the movements. The effect of these matters is that we determined that post-retirement benefits obligation has a high degree of estimation uncertainty.

Refer to page 33 (accounting policies) and pages 53-57 (financial disclosures).

Our response

Our procedures included the following:

- **Assessing the credentials of the scheme's actuaries:** We reviewed the credentials of the scheme actuaries to assess that they are one of the small number of experienced, skilled advisors appointed to undertake the pension scheme valuations, as we place reliance on the their valuation.
- **Confirmation of value:** We challenged, with the support of our own actuarial expert, the key assumptions and actuarial methodology applied, including the discount rate, inflation rate and mortality/life expectancy.
- **Test of detail:** We agreed the relevant accounting entries and disclosures in the financial statements to the report prepared by the scheme actuaries.

Our results

We confirmed that the assumptions used in the calculation of the balances in the financial statements are within reasonable parameters and are in line with the recommendations of the scheme's actuaries. We are satisfied that whilst there is some uncertainty in relation to the pension scheme valuation due to the current economic conditions, this does not impact on the truth and fairness of the financial statements.

Treasury management and going concern

The risk – significant risk high value

The Association posted a full year surplus of £21.5m before actuarial movements on pension schemes (refer to page 26 (accounting policies) and page 22 (financial disclosures)).
At 31 March 2021 the Association had borrowings of £163.1m (refer to pages 33-34 (accounting policies) and page 47 (financial disclosures)).
The risk is that the Association might have insufficient liquidity to finance its significant development programme, or might breach a funding covenant set out within the agreements in place with a range of funders.

Our response

Our procedures included the following:

- **Assessment of recoverability:** Reviewed the Association's 2021/22 budget and longer term financial forecasts, and the underlying assumptions, to assess the Association's ability to service and repay the debt. We also reviewed the stress testing performed by the Association on its long term financial plan.
- **Confirmation of value:** Agreed loan balances to the accounting records and to external confirmation from the funders.
- **Test of detail:** Tested the detailed calculations for loan covenant compliance prepared by management, both for the year ended 31 March 2021 and projected future performance.

Our results

Our audit work concluded that all loan covenants were comfortably met at 31 March 2021. We confirmed that the Association held cash reserves of £63.3m at 31 March 2021, and had undrawn loan facilities of £190.0m at that date. The Association also has access to on lending from Bromford Housing Group Limited, which held cash reserves of £169.1m at 31 March 2021, and had undrawn loan facilities of £337.7m at that date. This available funding equates to approximately 26 months of Group operating expenditure and is sufficient to meet committed capital expenditure at 31 March 2021.

Forecast performance at 31 March 2022 shows a similar position, with Group gearing and interest cover forecast to be 37.3% and 295% respectively, against covenant limits of 67% and 110% respectively. Across a range of stress testing scenarios, including those linked to COVID-19, the Group remains comfortably within its funding covenants.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Strategic Report, other than the financial statements and our Auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

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

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Association's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in these respects.

Responsibilities of the Board
As explained more fully in the Statement of Board's Responsibilities set out on page 14, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

In identifying and addressing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of laws and regulations that affect the Association, focusing on those that had a direct effect on the financial statements or that had a fundamental effect on its operations. Key laws and regulations that we identified included the Co-operative and Community Benefit Societies Act, the Statement of Recommended Practice for registered housing providers: Housing SORP 2018, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2019, tax legislation, health and safety legislation, and employment legislation.
- We enquired of the Board and reviewed correspondence and Board meeting minutes for evidence of non-compliance with relevant laws and regulations. We also reviewed controls the Board have in place, where necessary, to ensure compliance.
- We gained an understanding of the controls that the Board have in place to prevent and detect fraud. We enquired of the Board about any incidences of fraud that had taken place during the accounting period.
- The risk of fraud and non-compliance with laws and regulations and fraud was discussed within the audit team and tests were planned and performed to address these risks. We identified the potential for fraud in the following

areas: laws related to the construction and provision of social housing, recognising the nature of the Association's activities and the regulated nature of the Association's activities.
- We reviewed financial statements disclosures and tested to supporting documentation to assess compliance with relevant laws and regulations discussed above.
- We enquired of the Board about actual and potential litigation and claims.
- We performed analytical procedures to identify any unusual or unexpected relationships that might indicate risks of material misstatement due to fraud.
- In addressing the risk of fraud due to management override of internal controls we tested the appropriateness of journal entries and assessed whether the judgements made in making accounting estimates were indicative of a potential bias.

Due to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing fraud or non-compliance with laws and regulations and cannot be expected to detect all fraud and non-compliance with laws and regulations.

Use of our report

This report is made solely to the Association, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and Section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association for our audit work, for this report, or for the opinions we have formed.

Lee Cartwright
For and on behalf of Beever and Struthers Chartered Accountants, Statutory Auditor
St Georges House
215 Chester Road
Manchester
M15 4JE

Date:

Statement of Comprehensive Income
For the year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Turnover	**2,3**	**72,852**	74,119
Cost of sales	**2**	**(3,996)**	(6,589)
Operating costs	**2**	**(39,799)**	(43,609)
Gain on revaluation of investment properties	**13**	**529**	713
Gain on disposal of property assets	**32**	**1,857**	4,588
Operating surplus	**5**	**31,443**	29,222
Interest receivable	**6**	**24**	40
Interest and financing costs	**7**	**(9,987)**	(9,345)
Gift Aid		**52**	94
Surplus before tax		**21,532**	20,011
Taxation	**10**	**1**	-
Surplus for the year after tax		**21,533**	20,011
Actuarial gain	**34**	**1,542**	4,192
Total comprehensive income for the year		**23,075**	24,203

The notes on pages 26 to 58 form an integral part of these financial statements

The association's results relate wholly to continuing activities.
There were no recognised gains and losses other than those included in the Statement of Comprehensive Income.

The financial statements on pages 22 to 58 were approved and authorised for issue by the Board on 20 July 2021 and were signed on its behalf by:

Steve Dando
Chair

Robert Nettleton
Chief Executive

Sarah Beal
Company Secretary

Statement of Financial Position
As at 31 March 2021

	Notes	2021 £'000	2020 £'000
Fixed Assets			
Tangible fixed assets - housing properties	11	**464,577**	448,781
Investment properties	13	**14,586**	14,057
Tangible fixed assets - other	14	**5,942**	4,770
Intangible Fixed Assets	15	**42**	76
		485,147	467,684
Assets: amount receivable after more than one year			
Debtors	17	**-**	96
Current Assets			
Stocks	16	**848**	3,553
Trade and other debtors	17	**8,469**	13,817
Investments	18	**2,495**	1,181
Cash and cash equivalents	19	**63,297**	48,634
		75,109	67,185
Creditors: Amounts falling due within one year	20	**(21,857)**	(19,094)
Net current assets		**53,252**	48,091
Total assets less current liabilities		**538,399**	515,871
Creditors - Amounts falling due after more than one year			
Loans	21	**(162,979)**	(163,232)
Deferred Capital Grant	22	**(11,411)**	(11,176)
Other Creditors	21	**(144,070)**	(144,001)
		(318,460)	(318,409)
Provisions for liabilities			
Pension liability	34	**(11,287)**	(12,260)
Other provisions	24	**(903)**	(528)
Total net assets		**207,749**	184,674
Reserves			
Called up share capital	25	**-**	-
Income and Expenditure Reserve		**205,773**	182,698
Restricted Reserve		**1,976**	1,976
Total reserves		**207,749**	184,674

The notes on pages 26 to 58 form an integral part of these financial statements

The financial statements on pages 22 to 58 were approved and authorised for issue by the Board on 20 July 2021 and were signed on its behalf by:

Steve Dando, Chair

Robert Nettleton, Chief Executive

Sarah Beal, Company Secretary

Merlin Housing Society Limited

Statement of Changes in Reserves
As at 31 March 2021

	Restricted reserve	Income and Expenditure Reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2019	1,976	158,495	**160,471**
Surplus for the year	-	20,011	**20,011**
Actuarial gain on defined benefit scheme	-	4,192	**4,192**
Total comprehensive income for the year	-	24,203	**24,203**
Balance at 31 March 2020	1,976	182,698	**184,674**
Surplus for the year	-	21,533	**21,533**
Actuarial gain on defined benefit scheme	-	1,542	**1,542**
Total comprehensive income for the year	-	23,075	**23,075**
Balance at 31 March 2021	1,976	205,773	**207,749**

The notes on pages 26 to 58 form an integral part of these financial statements

Merlin Housing Society Limited

Statement of Changes in Cashflows
As at 31 March 2021

	2021		2020	
	£'000	**£'000**	£'000	£'000
Net cash generated from operating activities (note 28)		**56,182**		31,033
Cashflow from investing activities				
Purchase of tangible fixed assets - new housing properties	**(15,615)**		(31,942)	
Purchase of tangible fixed assets - other	**(1,644)**		(9,962)	
Purchase of tangible fixed assets - existing housing properties	**(12,417)**		(77)	
Purchase of intangible fixed assets	**(4)**		(80)	
Transfers to investments	**(1,292)**		(5)	
Proceeds from sale of investments	**-**		11,997	
Grants (paid)/received	**(148)**		593	
Interest received	**2**		-	
Net cashflow from investing activities		**(31,118)**		(29,476)
Cashflow from financing activities				
Interest paid	**(10,453)**		(9,148)	
New secured loans	**-**		53,000	
Repayment of borrowings	**-**		(11,000)	
Gift Aid	**52**		94	
Net cashflow from financing activities		**(10,401)**		32,946
Net change in cash and cash equivalents		**14,663**		34,503
Cash and cash equivalents at the beginning of the year		**48,634**		14,131
Cash and cash equivalents at the end of the year		**63,297**		48,634

The notes on pages 26 to 58 form an integral part of these financial statements

Notes to the Financial Statements
For the year ended 31 March 2021

Legal status
Merlin Housing Society Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing (RSH) as a Private Registered Provider of Social Housing.

1. Principal accounting policies

The accounting policies across Bromford Group have been aligned for financial reporting and any reference to the Group also apply to Merlin. The Group have been prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2018.

Merlin previously held Investment properties at cost as they were deemed not material enough to require a valuation. They have now been valued as investment properties in line with Group policies, as shown in note 13.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

The accounts are prepared on the historical cost basis of accounting as modified by the revaluation of investment properties and are presented in sterling £.

The Association's financial statements have been prepared in compliance with FRS102. The Association meets the definition of a public benefit entity (PBE).

Going concern
The board, after reviewing the company budgets for 2021/22 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. The Board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

- **Development expenditure -** The Group capitalises development expenditure in accordance with the accounting policy described on page 30. Initial capitalisation of costs is based on management's judgement that the development scheme is likely to proceed. Costs capitalised in this way are regularly reviewed and any costs identified as abortive are charged in the Statement of Comprehensive Income.

- **Categorisation of housing properties -** The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented properties and commercial properties are investment properties.

- **Impairment -** The Group has identified a cash generating unit for impairment assessment purposes during development and construction at a programme level, with subsequent impairment assessment once in management at a property scheme level.

Other key sources of estimation and assumptions:

- **Tangible fixed assets -** Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- **Revaluation of investment properties** - The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine the fair value at the reporting date. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long-term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 13.

- **Categorisation of debt –** Merlin's loans have been treated as 'basic' in accordance with paragraphs 11.8 and 11.9 of FRS 102.

- **Pension and other post-employment benefits -** The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the actuary considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 34.

- **Impairment of non-financial assets -** Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income.

  Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

  Following a trigger for impairment, the Group perform impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model.

  The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Group as the existing property. The cash flows are derived from the business plan for the next 30 years and do not include any restructuring activities that the Group is not yet committed to nor any significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Following the assessment of the indicators of impairment, no adjustment to carrying values was considered necessary.

- **Leases -** A review of all leases has been carried out to classify leases as either operating or finance. These decisions depend upon an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- **Rent arrears and bad debt provisions** - The amount of arrears that will not be collected is estimated on experience of collection of different types of debt. The impact of changes in welfare reform including universal credit and benefit caps have been estimated based on data provided from pilot studies and the Group's experience based on a small population.

Turnover and revenue recognition
Turnover is measured at the fair value of the consideration received or receivable and excludes VAT (where applicable). Bromford Housing Group generates the following material income streams:

Rental income receivable
Rental income is shown net of void losses. Rental income is recognised from the point when properties under development reach practical completion and are formally let. For schemes managed by agents, income is shown as rent receivable and management fees payable to agents are included in operating costs.

Shared ownership first tranche sales
Income from first tranche sales is recognised at the point of legal completion of the sale. The surplus or deficit arising on a first tranche sale is shown after deducting the cost of the properties and related sale expenses.

Service charge income

Service charge income and costs are recognised on an accrual basis. The Group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge.

Until these are returned or recovered, they are held as creditors or debtors in the Statement of Financial Position. Where periodic expenditure is required, a provision may be built up over the years, in consultation with the residents; until these costs are incurred this liability is held in the Statement of Financial Position within long term creditors.

Supporting people
Supporting People contract income received from Administering Authorities is accounted for as income in Turnover as per note two. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings note three and matched against the relevant costs.

Properties developed for outright sales
Sales of properties developed for outright sale are included in Turnover and Cost of Sales on legal completion. The surplus or deficit arising on an outright sale is shown after deducting the cost of the properties and related sale expenses.

Grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. If there are specific performance requirements, the grant is recognised in Turnover when the performance requirements are met.
Where developments have been financed wholly or partly by social housing grant (SHG) and other grants, the income is recognised in Turnover (using the accruals model) over the estimated useful life of the assets excluding land) which it funds.

Other Income

Other income is included at the invoiced value of goods and services provided.

Loan interest costs

Loan interest costs are calculated using the effective interest rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument and is determined based on the carrying amount of the financial liability at initial recognition.

Loan finance issuance costs

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

Taxation

The Association is registered as a charity with HM Revenue & Customs. By virtue of S.478 Corporation Tax Act 2010, the association is exempt from corporation tax. The Association pays corporation tax at the rate applicable on any surplus it generates from non-charitable activities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that where a tax change arises as a result of an item recognised as other comprehensive income or recognised directly in equity, that tax charge is also recognised in other comprehensive income or directly in equity as appropriate.

Both the current and deferred income tax charge is calculated based on tax rates and laws that have been enacted or substantively enacted by the reporting date where the Group and its subsidiaries operate and generate taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Value Added Tax

The Group charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. All amounts disclosed in the accounts are inclusive of VAT to the extent that it is suffered by the Group/ Association and is not recoverable. The balance receivable or payable at the year-end is within the Current Assets or Current Liabilities.

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion.

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

	Years
• Boilers • Heating systems	15 30
• Kitchens	20
• Bathrooms	30
• Roofs	50 to 65
• Windows and doors	25 to 30
• Structure – houses • Structure – flats • Structure – rooms and bedsits	100 to 130 75 to 100 40

The Group depreciates housing properties held on long leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected economic useful lives which are as follows:

	Years
• Motor vehicles	3
• Fixtures, fittings, plant and equipment	5
• Computer hardware • Office buildings	3 50

Works to Existing Properties

Works to existing properties has been capitalised when:

A component which has been treated separately for depreciation purposes and depreciated over its useful economic life is replaced or restored; or

Subsequent expenditure provides an enhancement of economic benefits in excess of the previously assessed standard of performance. Such enhancement can occur if the improvements result in an increase in rental income, a reduction in future maintenance costs or a significant extension of the life of the property.

Works to existing properties which do not meet the above criteria have been charged to the statement of comprehensive income as incurred.

Non-component Works to Existing Properties

Expenditure incurred which relates to an improvement, which is defined as an increase in the net rental stream or the life of a property, has been capitalised. Expenditure incurred on other major repairs, cyclical and day-to-day repairs to housing properties is charged to the statement of comprehensive income in the period in which it is incurred.

Low cost home ownership properties

The costs of low-cost home ownership properties are split between current and fixed assets based on the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales treated as sales of fixed assets.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the period ending 31 March 2021, interest has been capitalised at an average rate of 3.93% (2020: 3.96%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

Intangible fixed assets

Intangible assets are stated at cost, less accumulated amortisation. Amortisation is charged on a straight-line basis over the expected economic useful life of the asset as follows:

	Years
• Architect fees	3
• Computer software • Business Transformation costs (ProgrammeOne)	3-7 7

Property managed by agents

Where the Group carries the majority of the financial risk on property managed by agents, the total income and costs arising from the property are included in the Statement of Comprehensive Income.

Where the agency carries the majority of the financial risk, only the income and costs solely attributable to the Group are included in the Statement of Comprehensive Income.

In both cases, the assets and associated liabilities are included in the Group's Statement of Financial Position.

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit and loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to Statement of Comprehensive Income over the term of the lease.

Investment property

Investment property includes commercial and other properties held by the Group for reasons other than social benefit or for use in the business. Investment property is measured at cost on initial recognition, which includes purchase cost and any directly attributable expenditure, and subsequently at fair value at the reporting date. Fair value is determined annually by external valuers and is derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

Valuation of investments

Investments in subsidiaries are measured at cost less any accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 30 days which cannot be accessed within 24 hours. They are recognised initially at cost and subsequently at fair value at the reporting date. Any change in valuation between reporting dates is recognised in the Statement of Comprehensive Income.

Stock and properties held for sale

Stocks of materials are stated at the lower of cost and net realisable value. Work in progress and finished goods include labour and attributable overheads. Cost of materials is based on the cost of purchase on an average costing basis. Net realisable value is the estimated selling price less costs to complete and sell.

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Society's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income statement in other operating expenses.

Social Housing and other Government grants

Where developments have been financed wholly or partly by social housing grant (SHG) and other grants, the amount of the grant received has been included in the Statement of Financial Position as deferred income. This income is recognised in Turnover (using the accruals model) over the estimated useful life of the assets excluding land) which it funds. SHG received for items of cost written off in the Statement of Comprehensive Income is included as part of Turnover.

When SHG in respect of housing properties in the course of construction exceeds the total cost incurred to date in respect of those properties, the excess is shown as a current liability.

SHG must be recycled by the Group if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes England. However, SHG may have to be repaid if certain conditions are not met. In that event, the amount repayable is shown in the Statement of Financial Position as a subordinated unsecured repayable debt.

Recycling of Capital Grant

Social Housing Grant which has been recycled is transferred to the Recycled Grant Fund and appears as a creditor until it is either used to fund the acquisition of new properties or is repaid.

Holiday pay accrual

Unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods is recognised as a liability in the Statement of Financial Position. This is measured at the undiscounted salary cost of the accrued future holiday entitlement.

Defined Contribution Pensions

The Association provides a defined contribution stakeholder pension scheme for employees not included in the defined benefit scheme. The employer contribution to the scheme is charged to the Statement of Comprehensive Income as it becomes payable. The assets of the scheme are kept separately from those of the Association.

Defined Benefit Pensions

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services.

The disclosures in the accounts follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest.

MHS participates in the defined benefit Avon Pension Fund scheme which is closed to new employees. The amounts charged to operating surplus are the costs arising from the employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to surplus for the year and included within finance costs. Remeasurement of the net assets/defined liability are recognised in other comprehensive income. Defined benefit schemes are funded in separate trustee administered funds.

A SHPS pension scheme liability as at 2 January 2020 was transferred from Severn Vale Housing Society to Merlin Housing Society Limited as part of the acquisition of Severn Vale, see note 37. The movements represent those since acquisition and have been estimated from the full year's movements provided by the actuaries for the SHPS scheme. The scheme was closed to future accrual from January 2020 and members transferred to a defined contribution scheme.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained triennially and are updated at each reporting date.

Financial instruments

Financial assets and financial liabilities are initially measured at the transaction price adjusted, where the financial asset or liability is not required to be held at fair value, for any directly attributable costs of acquisition.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

Debt instruments that meet the conditions in paragraph 11.8(b) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.

Commitments to receive or make a loan to another entity which meet the conditions in para 11.8(c) of FRS 102 are measured at cost less impairment.

Financial instruments held by the Group are classified as follows:

- Cash is held at cost;
- Financial assets such as current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method;
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method;
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method;
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment;
- An investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares are held at fair value;
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

Financial assets and financial liabilities at fair value are classified using the following fair value hierarchy:

a) The best evidence of fair value is a quoted price in an active market;

b) When quoted prices are unavailable, the price of a recent transaction for an identical asset, adjusted to reflect any circumstances specific to the sale, such as a distress sale, if appropriate;

c) Where there is no active market or recent transactions then a valuation technique is used to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

The following financial instruments are assessed individually for impairment:

a) All equity instruments regardless of significance; and

b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

An impairment loss is measured as follows on instruments measured at cost or amortised cost:

a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate;

b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in Statement of Comprehensive Income immediately.

Carrying Amounts

The carrying amounts of the Society's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU").
An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

		2021					
2. Turnover and operating surplus	**Note**	**Turnover**	**Cost of sales**	**Operating costs**	**Gain on revaluation of investments**	**Surplus on disposal**	**Operating surplus**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000
Social housing lettings							
Housing accommodation	3	51,905	-	(29,943)	-	-	21,962
Supported housing accommodation	3	10,822	-	(5,894)	-	-	4,928
Shared ownership accommodation	3	1,430	-	(494)	-	-	936
		64,157	-	(36,331)	-	-	27,826
Other social housing activities							
First tranche shared ownership sales		6,093	(4,021)	-	-	-	2,072
Supported people contract income		649	-	(856)	-	-	(207)
Agency services		172	-	(84)	-	-	88
Sales and development		8	(2)	(1,073)	-	-	(1,067)
Other		130	27	(335)	-	-	(178)
Gain on revaluation of investments		-	-	-	529	-	529
Gain on disposal of property, plant and equipment		-	-	-	-	1,857	1,857
Non-social housing activities							-
Market rents		499	-	(211)	-	-	288
Sewerage services		-	-	(114)	-	-	(114)
Commercial rents		1,144	-	(795)	-	-	349
Properties developed for outright sale		-	-	-	-	-	-
		72,852	(3,996)	(39,799)	529	1,857	31,443

				2020			
2. Turnover and operating surplus (continued)	Note	Turnover	Cost of sales	Operating costs	Gain on revaluation of investments	Surplus on disposal	Operating surplus
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000
Social housing lettings							
Housing accommodation	3	49,140	-	(33,127)	-	-	16,013
Supported housing accommodation	3	10,637	-	(6,537)	-	-	4,100
Shared ownership accommodation	3	1,486	-	(535)	-	-	951
		61,263	-	(40,199)	-	-	21,064
Other social housing activities							
First tranche shared ownership sales		10,166	(6,507)	-	-	-	3,659
Supported people contract income		598	-	(1,178)	-	-	(580)
Agency		1	-	-	-	-	1
Sales and development		15	-	(1,127)	-	-	(1,112)
Other		284	(82)	(505)	-	-	(303)
Gain on revaluation of investment properties		-	-	-	713		713
Gain on disposal of property, plant and equipment		-	-	-	-	4,588	4,588
Non-social housing activities		-	-	-	-		
Market rents		597	-	(71)	-	-	526
Sewerage services		11	-	(143)	-	-	(132)
Commercial rents		1,184	-	(386)	-	-	798
		74,119	**(6,589)**	**(43,609)**	**713**	**4,588**	**29,222**

	2021				2020
3. Income and expenditure from social housing lettings	**Housing accommodation**	**Supported housing for older people and My Place**	**Shared Ownership**	**Total**	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000
Income					
Rent receivable net of identifiable service charge	**49,848**	**7,948**	**1,277**	**59,073**	56,393
Service charge income	**1,727**	**2,753**	**140**	**4,620**	4,480
Charges for support services	**37**	**73**	**6**	**116**	224
Amortised government grants	**288**	**48**	**7**	**343**	124
Other grants	**5**	**-**	**-**	**5**	42
Turnover from social housing lettings	**51,905**	**10,822**	**1,430**	**64,157**	61,263
Expenditure					
Management	**5,878**	**1,519**	**259**	**7,656**	7,599
Service charge costs	**3,618**	**1,432**	**(16)**	**5,034**	5,258
Care and support costs	**-**	**-**	**-**	**-**	-
Routine maintenance	**8,947**	**1,281**	**21**	**10,249**	10,178
Planned maintenance	**2,640**	**188**	**9**	**2,837**	6,646
Major repairs expenditure	**1,083**	**(13)**	**11**	**1,081**	1,876
Bad debts	**47**	**10**	**23**	**80**	217
Depreciation of housing properties	**7,730**	**1,477**	**187**	**9,394**	8,425
Operating expenditure on social housing lettings	**29,943**	**5,894**	**494**	**36,331**	40,199
Operating surplus on social housing lettings	**21,962**	**4,928**	**936**	**27,826**	21,064
Voids	**(551)**	**(253)**	**2**	**(802)**	(936)

4. Accommodation - owned, managed and in development	2021	2020
	Number	Number
Under management at the end of the year		
General needs housing - social rent	9,587	9,495
General needs housing - affordable rent	530	496
Supported housing	1,801	1,849
Low-cost home ownership	451	408
Leasehold	706	658
Units to be remodelled	54	19
	13,129	12,925
Under development at the end of the year		
General needs housing - social rent	-	153
General needs housing - affordable rent	24	46
Supported housing	**-**	-
Low-cost home ownership	2	52
Total social housing units	**13,155**	13,176
Non-social housing		
Staff accommodation	2	10
Market rent	86	86
Commercial	57	79
Office and resource	6	-
Retained freehold	94	6
Total non-social housing units	**245**	181
Total units	**13,400**	13,357
Owned and managed	**13,118**	12,867
Owned and managed by others	**16**	15
Managed for others	**186**	205
Under development	**26**	251
Units to be remodelled	**54**	19
Total Units	**13,400**	13,357
Garages/parking spaces	**2,604**	2,602
Garages not lettable	**98**	98
Total garages	**2,702**	2,700

5. Surplus on ordinary activities

The surplus on ordinary activities is stated after charging	2021	2020
	£'000	£'000
Operating lease rentals		
- office land and buildings	30	27
- vehicles	120	496
Previous auditor's remuneration		
- Audit of financial statements	-	45
Current auditor's remuneration		
- Audit of financial statements	30	-

6. Interest receivable and income from investments	2021	2020
	£'000	£'000
Interest receivable from cash, deposits and intragroup loans	24	40

7. Interest payable and similar charges	2021	2020
	£'000	£'000
Interest on loans, overdrafts and other financing		
Repayable wholly within five years	874	1,438
Repayable wholly or partly in more than five years	4,619	4,819
	5,493	6,257
On loans from Bromford Housing Group Limited	4,392	3,474
Other finance charges	335	263
Amortised net finance costs	238	119
	10,458	10,113
Interest payable capitalised on housing properties under construction 3.93% (2020: 3.4%)	(756)	(1,139)
	9,702	8,974
Interest on pension scheme liabilities	1,331	637
Expected return on employer assets	(1,046)	(266)
	9,987	9,345

8. Colleague costs	**2021**	**2020**
	£'000	£'000
Wages and salaries	**9,103**	13,083
Social security costs	**811**	1,173
Other pension costs	**1,324**	1,840
	11,238	16,096

The average number of full-time equivalent employees (including Executive Directors) employed during the year

	2021	2020
	No.	No.
Asset management	**197**	231
Central services	**-**	70
Development, construction and sales	**21**	19
Housing management and support	**173**	189
	391	509

A full-time equivalent employee is classed as working a 37.5 hour week.

The details above relate to colleagues directly attributable to Merlin Housing Society. During the year all central service FTEs have been reported in the Bromford Housing Group Association figures. Colleagues in the Group are employed on a joint and several basis by Bromford Housing Group Limited and its members. Details of the number of FTE's whose total remuneration exceeds £60k are disclosed in the Group Accounts.

9. Directors' emoluments

Emoluments of directors are paid through Bromford Housing Group Limited and are disclosed in the BHG Annual Report and Accounts. directors’ emoluments are part of the overheads recharged to the Association, however they cannot be separately identified.

10. Taxation on surplus on ordinary activities	2021	2020
	£'000	£'000
Current tax		
UK corporation tax credit on ordinary activities	**-**	-
Over provision in previous years	**(1)**	-
Total current tax	**(1)**	-
Deferred tax		
Origination and reversal of timing differences	**-**	-
Tax on surplus on ordinary activities	**(1)**	-
Total tax reconciliation		
Surplus on ordinary activities	**21,532**	20,011
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**4,091**	3,802
Surplus relating to charitable period	**(4,091)**	(3,802)
Adjustment in respect of prior years	**(1)**	-
	(1)	-

11. Tangible fixed assets - housing properties	Housing properties held for letting	Housing properties under construction	Completed shared ownership housing properties	Shared ownership properties under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 April 2020	441,374	24,603	24,406	3,602	493,985
Additions	-	12,717	-	2,890	15,607
Replacement of components	11,191	-	4	-	11,195
Transferred on completion	30,438	(30,438)	4,338	(4,338)	-
Disposals	(3,744)	-	(445)	-	(4,189)
Components disposed	(1,359)	-	(1)	-	(1,360)
Other recategorisation	4,712	-	(4,712)	-	-
As at 31 March 2021	**482,612**	**6,882**	**23,590**	**2,154**	**515,238**
Depreciation					
As at 1 April 2020	44,984	-	220	-	45,204
Charge for the year	9,207	-	187	-	9,394
Disposals	(3,851)	-	(86)	-	(3,937)
As at 31 March 2021	**50,340**	**-**	**321**	**-**	**50,661**
Net book value					
As at 31 March 2021	432,272	6,882	23,269	2,154	464,577
As at 31 March 2020	396,390	24,603	24,186	3,602	448,781

	2021	2020
	£'000	£'000
Housing property net book value in respect of long leaseholds	**4,362**	-
Housing property net book value in respect of freeholds	**460,215**	448,781
	464,577	448,781
Component depreciation within the depreciation charge	**5,899**	6,332
Development administration costs capitalised during the year	**13**	1,145
Aggregate amount of interest and finance cost included within the cost of housing properties	**4,353**	3,597

Properties held for security

Bromford Housing Association - Registered Social Housing Provider - has property pledged as security value (EUV - SH and MV - STT) of £679m (2020: £617m). The number of units on which security was pledged amounted to 9,064 (2020: 10,166).

12. Expenditure on work to existing properties	2021	2020
	£'000	£'000
Replacement of components	11,195	11,112
Amounts charged to income and expenditure account	1,081	1,876
	12,276	12,988

13. Investment properties held for letting	2021	2020
	£'000	£'000
As at 1 April	14,057	13,339
Additions	-	5
Gain from adjustment in value		
Commercial investment properties	195	78
Market rent investment properties	334	635
As at 31 March	14,586	14,057

Investment properties (commercial and market rent) were valued at 31 March 2021 by professional qualified external valuers.

The valuation of investment properties was undertaken by Jones Lang Lasalle Limited, in accordance with the Royal Institute of Chartered Surveyors Valuation Standards. In valuing the properties, the following significant assumptions were applied

Discount rate	6.5%-9%
Annual inflation rate	1%
Level of long term rent increase	1%

14. Tangible fixed assets - other	Freehold offices	Fixtures, fittings & Equipment	Computer equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 April 2020	6,592	1,084	2,098	811	10,585
Additions	1,535	27	82	-	1,644
Disposals	-	(6)	-	(5)	(11)
As at 31 March 2021	8,127	1,105	2,180	806	12,218
Depreciation and impairment					
As at 1 April 2020	2,518	938	1,970	389	5,815
Charge for the year	74	60	139	196	469
Released on disposal	-	(3)	-	(5)	(8)
As at 31 March 2021	2,592	995	2,109	580	6,276
Net book value					
As at 31 March 2021	5,535	110	71	226	5,942
As at 31 March 2020	4,074	146	128	422	4,770

15. Intangible fixed assets	Software	Total
	£'000	£'000
Cost		
As at 1 April 2020	1,820	1,820
Additions	4	4
Transfer to group company	-	-
Disposals	-	-
As at 31 March 2021	**1,824**	**1,824**
Depreciation		
As at 1 April 2020	1,744	1,744
Charge for the year	38	38
Disposals	-	-
As at 31 March 2021	**1,782**	**1,782**
Net book value		
As at 31 March 2021	**42**	**42**
As at 31 March 2020	76	76

16. Stocks and work in progress	2021	2020
	£'000	£'000
Consumable stock	**272**	292
Cost of first tranche element of shared ownership properties	**576**	3,261
	848	3,553
Shared ownership properties		
Completed	**-**	1,914
Under construction	**576**	1,347
	576	3,261

17. Trade and other debtors	2021	2020
	£'000	£'000
Amounts falling due within one year		
Rent arrears	1,867	3,395
Less: provision for bad debts	(1,172)	(1,036)
	695	2,359
Trade debtors	-	9
Amounts due from group companies	3,952	9,945
Government grant debtor	-	52
Other debtors	3,421	769
Prepayments and accrued income	401	683
	8,469	13,817
Amounts falling due after more than one year		
Government grant debtor	-	96

18. Current asset investments	2021	2020
	£'000	£'000
Opening fair value at 1 April	1,181	9,723
Additions to investments	1,292	339
Withdrawals from investments	-	(905)
Disposals	-	(8,000)
Interest	22	24
Fair value at 31 March	2,495	1,181

Current asset investments include monies held by lenders in support of bond finance. These monies are placed in accounts charged by the lenders.

19. Cash and cash equivalents	2021	2020
	£'000	£'000
Cash at bank	63,297	48,209
Cash equivalents	-	425
	63,297	48,634

Included in the above are balances totalling £304k (2020: £228k) which are held in trust for shared ownership leaseholders.

20. Creditors: amounts falling due within one year	2021	2020
	£'000	£'000
Prepaid rental income	2,682	2,113
Local Authority RTB share of proceeds	1,817	1,310
Trade creditors	861	3,151
Amounts due to group companies	8,653	3,174
Social security and other taxes	180	250
Funds held on trust	1	-
Deferred capital grant	119	126
Recycled capital grant fund	122	97
Disposal proceeds fund	-	445
Other creditors	1,396	1,380
Vat shelter liability	84	382
Accruals and deferred income	5,942	6,666
	21,857	19,094

21. Creditors: amounts falling due after more than one year	2021	2020
	£'000	£'000
Loans	162,979	163,232
Loans due to group companies	143,000	143,000
Leaseholder sinking funds	936	849
Deferred capital grant	11,411	11,176
Recycled capital grant fund	134	152
	318,460	318,409
Loan repayment profile		
Repayable within one year	-	-
Repayable between one and two	-	-
Repayable between two and five years	-	-
Repayable after five years	163,117	163,607
Less: Loan finance costs	(138)	(375)
	162,979	163,232

The interest risk profile of loan liabilities are as follows	2021	2020
	£'000	£'000
Floating rate	-	-
Fixed rate - average 3.40% (2020: 3.40%)	163,117	163,607
	163,117	163,607

21. Creditors: amounts falling due after more than one year (continued)

Undrawn committed borrowing facilities (all secured) at 31 March were	2021	2020
	£'000	£'000
Expiring within one year	-	-
Expiring between one and two	-	-
Expiring between two and five years	190,000	290,000
Expiring after five years	-	-
	190,000	290,000

22. Deferred capital grant	2021	2020
	£'000	£'000
At 1 April	11,302	10,889
Grants received in year	128	593
Transferred to third party	(276)	-
Recycled to RCGF	(7)	(54)
DPF Utilised	445	-
Amortised in year	(62)	(126)
Amortised grant on disposal	-	-
As at 31 March	11,530	11,302
Amount due to be released within one year	119	126
Amount due to be released in more than one year	11,411	11,176
	11,530	11,302

23. Other capital grant funds	Disposal proceeds fund	Recycled capital grant fund	2021	2020
	£'000	£'000	£'000	£'000
At 1 April	445	249	694	639
Inputs to reserve				
Acquired from Severn Vale	-	-	-	-
Grants recycled	-	7	7	54
Interest accrued	-	-	-	1
Utilised				
New build	(445)	-	(445)	-
	-	256	256	694
Amounts due within one year	-	122	122	542
Amounts due after more than one year	-	134	134	152
	-	256	256	694
Amount three years or older where repayment may be required	-	97*	97*	97*

*Consent has been given by Homes England for use in 2021/22

24. Provision for liabilities and charges	£'000
As at 1 April	528
Additions in year	579
Utilised in year	(204)
As at 31 March	**903**

25. Share Capital	2021	2020
	£	£
Issued and fully paid (nominal value £1 each)		
As at 1 April	**30**	34
Issued during the year	**2**	-
Cancelled during the year	**(4)**	(4)
As at 31 March	**28**	30

The share capital of the association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. The shares are non-withdrawable and non-transferable. When a shareholder ceases to be a shareholder, the share is cancelled and the amount paid up becomes the property of the association.

26. Reserves

Income and expenditure reserve - represents the net surplus which is not restricted.

Restricted reserve - under the terms of an agreement with South Gloucestershire Council, a proportion of the proceeds from disposal of vacant dwellings is to be held in a reserve. The reserve is used, inter alia, for the provision of affordable housing within the council area. This arrangement commenced in 2016 to 2017.

27. Analysis of changes in net debt	As at 1 April 2020	Cashflows	Amortisation of premium / loan costs	As at 31 March 2021
	£'000	£'000	£'000	£'000
Cash at bank and cash equivalents	48,634	14,663	-	**63,297**
Short term investments	1,181	1,314	-	**2,495**
	49,815	15,977	-	**65,792**
Other loans				
Housing loans due within one year	-	-	-	**-**
Housing loans due after more than one year	(163,232)	-	253	**(162,979)**
Change in debt resulting from cashflows	**(113,417)**	**15,977**	**253**	**(97,187)**

28. Cash flow from operating activities	2021	2020
	£'000	£'000
Surplus for the year	21,533	20,011
Adjustments for non-cash items		
Depreciation of tangible fixed assets	9,863	8,705
Amortisation of intangible assets	38	34
Amortisation of government grant	(62)	(126)
Decrease in stock	2,705	2,002
Decrease/(increase) in trade and other debtors	(549)	14,804
Decrease in current asset investments	-	542
(Increase)/decrease in trade and other creditors	(474)	30
Increase/(decrease) in intergroup balances	11,472	(6,192)
Increase/(decrease) in provisions	375	(15,323)
Pension costs less contributions payable	285	533
Carrying amount of tangible fixed assets disposals	1,615	1,140
Carrying amount of intangible fixed asset disposals	-	347
Profit on disposal of investments	-	(3,997)
Adjustments for investing or financing activities		
Movement in value of investment property	(529)	(713)
Interest payable	9,987	9,345
Interest receivable	(24)	(15)
Gift Aid	(52)	(94)
Taxation	(1)	-
Net cash generated from operating activities	56,182	31,033

29. Capital commitments

	2021	2020
	£'000	£'000
Capital expenditure contracted for but not provided for in the financial statements	7,148	15,523
Capital expenditure authorised by not yet contracted for	541	-

These commitments are to be financed by the receipt of social housing grant and a mixture of loan finance, reserves and proceeds from the sales of housing properties as follows

	2021	2020
Social housing grant	610	440
Proceeds from the sale of properties	789	2,554
Loans and reserves	6,290	12,529
	7,689	15,523

30. Other financial commitments

The minimum lease payments due under operating leases are as follows

	Land and buildings		Vehicles and office equipment		Total leases	
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Operating leases which expire						
Within one year	-	30	-	365	-	395
Within two to five years	-	-	-	69	-	69
After more than five years	-	-	-	-	-	-
	-	30	-	434	-	464

31. Grant and financial assistance

The total accumulated government grant and financial assistance received or receivable at 31 March was as follows

	2021	2020
	£'000	£'000
Held as deferred capital grant	11,530	11,302
Recognised as income in Statement of Comprehensive Income	16,094	15,968
	27,624	27,270

32. Sale of properties not developed for outright sale and other fixed assets

	Proceeds of sales	Cost of sales	Surplus	Capital grant recycled
	£'000	£'000	£'000	£'000
Further tranches of shared ownership	815	(598)	217	-
Right to buy	2,062	(2,014)	48	-
Right to acquire	640	(52)	588	-
Other property disposals	1,067	(64)	1,003	-
Other fixed asset disposals	2	(1)	1	-
Total 2021	**4,143**	**(2,736)**	**1,857**	**-**
Total 2020	14,923	(10,335)	4,588	-

33. Related party transactions

There were gift aid receipts in the year as follows

	2021	2020
	£'000	£'000
Oakbrook Limited	**52**	94

Merlin Housing Society had the following transactions with Oakbrook Limited, a non-regulated member of the group

	2021	2020
	£'000	£'000
Administrative recharges	**55**	98
Property purchase	**792**	2,654
	847	2,752

Merlin Housing Society has the following balances with Oakbrook Limited, a non-regulated member of the group, this balance is unsecured.

	2021	2020
	£'000	£'000
Included within creditors due within one year	**251**	603

Bromford Housing Group Limited and its subsidiaries has indemnified its Board Members, Executive Team, directors and employees for insurance cover no longer provided within its current directors' and officers' liability insurance for the year ending 31 March 2022 which was previously included in its previous policy. The maximum exposure across the group for this indemnity is £10million and expires on 31 March 2022. This is described in more detail in note 35.

34. Pension obligations

During the year the Association participated in one defined benefit scheme, the Avon pension fund (LGPS), which is a multi-employer defined benefit scheme.

The Association also participates in the Royal London Defined Contribution scheme to meet its obligations for auto-enrolment which applied from October 2013.

Further details of pension obligations are given under each scheme below.

Summary of Pension Schemes balances (Group)

	At 31 March 2021	**At 31 March 2020**
	£'000	**£'000**
Creditors due less than one year		
Royal London DC scheme	(33)	(45)
	(33)	**(45)**
Provisions for Pensions		
Avon pension fund (LGPS)	(11,287)	(12,260)
	(11,287)	**(12,260)**

Avon Pension Fund

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 latest triennial actuarial valuation was carried out at 31st March 2019 and this has been updated to 31 March 2021 by a qualified independent actuary.

Contributions for year ended 31 March 2021:

	£'000
Employee	200
Employer	818
Total	**1,018**
Agreed contribution rates for future years:	
Employee (average)	6.7%
Employer	21% – 32.8%

Principal actuarial assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2019 updated to 31 March 2021 by a qualified independent actuary:

	At 31 March 2021	At 31 March 2020
Rate of inflation - CPI	2.95%	2.10%
Rate of increase for pensions in payment	2.95%	2.20%
Rate of increase in salaries	2.95%	3.60%
Discount rate for scheme liabilities	2.20%	2.40%

The post retirement mortality assumptions used to value the benefit obligation for the four years are based on the S2PA CMI 2015 cohort series. The assumed life expectations on retirement at age 65 are:

Males	**At 31 March 2021**	At 31 March 2020
Current pensioners (years)	21.9	23.2
Future pensioners retiring in 20 years (years)	23.2	24.7
Females		
Current pensioners (years)	23.8	25.3
Future pensioners retiring in 20 years (years)	25.4	27.3

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

	At 31 March 2021 **£'000**	At 31 March 2020 £'000
Fair Value of fund assets	51,805	43,458
Present value of defined benefits obligations	(63,092)	(55,718)
Pension surplus / (deficit)	**(11,287)**	**(12,260)**

The fair value of the assets:

	31 March 2021 **£'000**	31 March 2020 £'000
Equities	12,278	11,995
Government Bonds	4,611	1,521
Other Bonds	21,810	2,477
Property	2,383	2,738
Cash	984	608
Other	9,739	24,119
Total fair value of assets	**51,805**	**43,458**

Reconciliation of Assets and Liabilities

Reconciliation of assets at 31 March 2021:

	£'000
Assets at start of period	43,458
Interest on plan assets	1,046
Re-measurements	7,033
Administration expenses	(18)
Employer contributions paid	818
Employee contributions	200
Benefits paid	(732)
Assets at end of period	**51,805**
Total return on plan assets 1 April 2020 to 31 March 2021	15.6%

Reconciliation of liabilities at 31 March 2021:

	£'000
Liabilities at start of period	55,718
Service Cost	985
Interest Cost	1,331
Employee contributions	199
Re-measurements	5,491
Curtailments	100
Benefits Paid	(732)
Liabilities at end of period	**63,092**

Analysis of the amount charged to operating costs in the Statement of Comprehensive Income at 31 March 2021:

	£'000
Employer service cost (net of employee contributions)	985
Expenses (including interest cost and curtailments)	118
Total operating charge	**1,103**
Analysis of pension finance income/(costs)	
Expected return on pension scheme assets	1,046
Interest on pension liabilities	(1,331)
Amounts (charged) / credited to financing costs	**(285)**

Analysis of gains and losses recognised in the Statement of Comprehensive Income at 31 March 2021:

	£'000
Actuarial gains on pension scheme assets	7,033
Actuarial losses on pension scheme liabilities	(5,491)
Actuarial gains recognised	**1,542**

Movement in deficit during the year:

	£'000
Deficit in scheme at 1 April 2020	(12,260)

Employer service cost (net of employee contributions)	(984)
Employer contributions paid	818
Pension administration expenses	(18)
Curtailments	(100)
Net interest/return on assets	(285)
Re-measurements	1,542
Deficit in scheme at 31 March 2021	**(11,287)**

The notes below are taken from a report prepared by Mercer Limited, the actuaries for the Avon LGPS fund.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, until the 26 October 2018 Lloyds Bank court judgement provided further clarity in this area. For the public service pension schemes, HM Treasury had already launched a consultation on the issues surrounding GMP equality and increases on GMPs, and HM Treasury has stated since the judgement that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why there is no change to the existing method as a result of this judgment".

The clear implication is that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so unless instructed otherwise, thus no allowance was made specifically for GMP equalisation in the accounting liabilities. This is consistent with previous accounting disclosures (and the most recent valuation, which holds no explicit reserve for GMP equalisation).

There is a possibility that all public sector schemes will be required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021. Government policy in this area is still to be determined, thus it was concluded that the most consistent/safest approach is to include the additional indexation liabilities in the accounting figures, therefore the figures above include the increase in past service liabilities as a “past service cost” (the schedule of figures will separately identify the element of the past service cost which relates to the GMP increases).

35. Contingent liability

For the financial year 31 March 2021, Bromford Housing Group Limited and its subsidiaries purchased directors' and officers' liability insurance for the Board Members, the Executive team and its employees through the National Housing Federation. Similar insurance provision with relevant cover was not available for the financial year 31 March 2022 with the insurance policies obtained containing exclusions previously covered in the previous financial year. Therefore, a deed has been entered into by the Board Members of Bromford Housing Group Limited to indemnify its Board Members, Executive Team, directors and employees across Bromford Housing Group Limited and its subsidiaries against the exclusions previously covered in the previous insurance provision. Any claim made would be against the relevant entity with ultimate responsibility for reimbursement being through Bromford Housing Group Limited where required. The maximum exposure across the group for this indemnity is £10million and expires on 31 March 2022.

36. Bromford Housing Group Limited

The company's ultimate parent organisation is Bromford Housing Group Limited registered in England and wales under the Co-operative & Community Benefit Societies Act 2014 (Registered Society Number 29996R).

The results of Merlin Housing Society Limited are included in the results of Bromford Housing Group Limited.

Copies of the Group financial statements for Bromford Housing Group Limited are available from 1 Exchange Court, Brabourne Avenue, Wolverhampton Business Park, Wolverhampton, WV10 6AU.