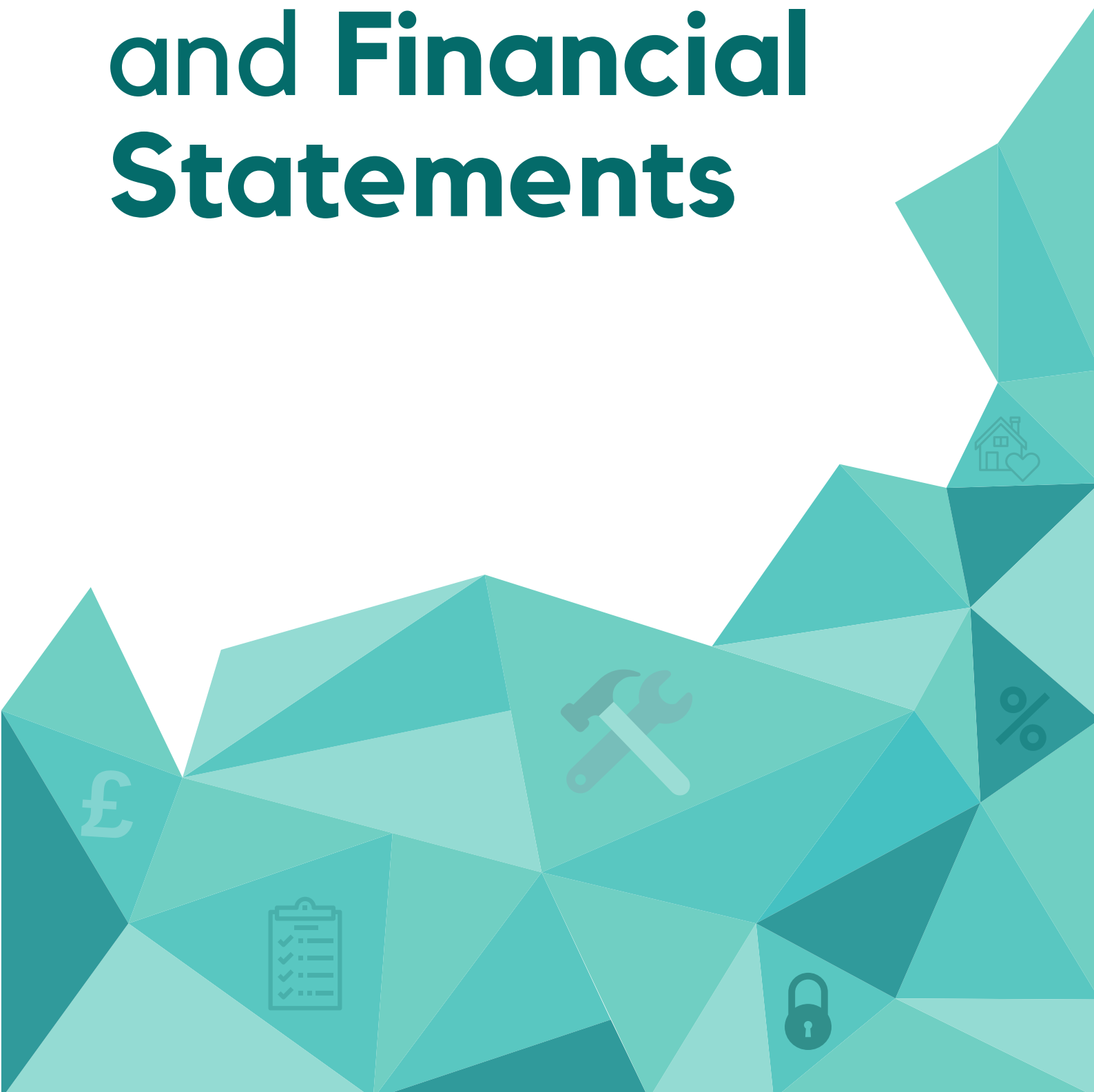


YEAR ENDED 31 MARCH 2020

Annual Report and Financial Statements



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Administrative Details

Board Members

Independent Board Members: Nicola Evans (Chair)
Elizabeth Lendering (Deputy Chair)
Stephanie Howarth
Carol James
Rachel Honey-Jones
Jonathan Tumelty
Chris Bolton
Professor Calvin Jones
Llinos Hallett – Co-optee 1 year
– appointed 12 September 2019

Executive Officers: Michael Owen (Chief Executive) – resigned April 2019
Michelle Reid (Chief Executive) – appointed April 2019
Lorraine Oates (Director of Finance and Resources – until June 2019)(Deputy Chief Executive – from June 2019)
Victoria Slade (Director of Operations) – resigned June 2019
Stacy Thomas (Director of Homes and Places) – appointed July 2019
Maria Lewis (Acting Director of Housing and Communities) – between June and December 2019
Anthony Hearn (Director of Housing and Communities) – appointed January 2020

Democratic Body

Tenant Members: Frances Bevan
Tracey Powell
Marlene Burns
Gaynor Bradley
Joan Marshall – resigned 12 September 2019
Nigel Phillips-Gunter (Deputy Chair)
Vivian Evans
Olga Thomas
Paul Franklin – resigned 15 May 2019
Beryl Evans – appointed 12 September 2019
Mark Williams – appointed 12 September 2019
Carolyn Jones – appointed 12 September 2019
Bernadette Batson – appointed 12 September 2019
Annette Longbottom – resigned 12 September 2019 – co-optee 1 year appointed 12 September 2019

Administrative Details (cont.)

Employee Members:	Natalie Warner (Chair) Ceri Price – resigned 12 September 2019 Stephen Puddy Alex Barlett – resigned 31 May 2019 Mark Davies Julie McCarthy Kris Cole – resigned 29 November 2019 Kirsty Beattie Nicholas Lyons – appointed 12 September 2019 Shaun Chappell – appointed 12 September 2019 Marcus Powell – appointed 12 September 2019
Council Members:	Jeremy Davies Suzanne Lewis-Abbott – appointed 13 June 2019
Registered Office:	Ty Brychan 22 Lansbury Road Gellideg Merthyr Tydfil CF48 1HA
Independent Auditor:	Mazars LLP Chartered Accountants 45 Church Street Birmingham B3 2RT
Internal Auditors:	Barcud Shared Services Ltd 2 Alexandra Gate Ffordd Pengam Cardiff CF24 2SA
Solicitors:	Trowers and Hamlins LLP Sceptre Court 40 Tower Hill London EC3N 4DX

Administrative Details (cont.)

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

Funders: The Royal Bank of Scotland plc
Global Banking and Markets
Housing Finance
9th Floor 250 Bishopsgate
London
EC2M 4AA

Principality Building Society
PO Box 89
Principality Buildings
Queen Street
Cardiff
CF10 1UA

Merthyr Valleys Homes Limited is a registered society under the Co-operative and Community Benefit Societies Act 2014. Registration number 30532 R.
Registered with the Welsh Government as a Registered Social Landlord.
Registration number L150

Strategic Report

Year ended 31 March 2020

The Board present their Strategic Report on the affairs of Merthyr Valleys Homes Limited (MVH), together with the Financial Statements and Auditor's Report, for the year ended 31 March 2020.

Legal Status

MVH is established and registered under the Co-operative and Community Benefit Societies Act 2014 and is a Registered Social Landlord, registered with the Welsh Government. MVH has adopted charitable rules. MVH is a not-for-profit mutual organisation administered by a voluntary Board of Management.

Principal activities and objectives

MVH owns, manages and maintains 4,064 rented homes, including 208 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil. MVH also owns or manages 604 garages, 39 retail units, a block of 12 co-operative housing flats which are leased to Taf Fechan Housing Co-operative Ltd and 278 leasehold properties.

Our new 3 year business plan 'Gyda'n Gilydd' has been developed by and with our members. For us, Gyda'n Gilydd will bring:

- Pride in the resilient communities we live in
- Pride in the organisation that we own and work for
- Greater opportunities for us to deliver homes and services people want and need
- Financial strength to allow us to achieve our shared ambitions

Our key objectives are centred around four key themes:

- Communities – creating places where people can live well, feel safe, respected and valued whatever their circumstances may be.
- Organisation – being proud and passionate about the organisation we own and work for.
- Responsibility – playing our part to deliver homes and services people want and need.
- Financial Strength – achieving our priorities through strong finances.

On 1 April 2020, the Calon Las Youth Service transferred into MVH management.

Financial Performance

The 2019/20 financial statements have been prepared under FRS102, the Financial Reporting Standard applicable in the United Kingdom and Ireland ('FRS102'), the Housing Statement of Recommended Practice – Housing SORP 2018, Statement of Recommended Practice for Registered Social Housing Providers ('SORP 2018') and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

Statement of Comprehensive Income

The 2018 updated Statement of Recommended Practice amended the disclosure of operating surplus to include the surplus on disposal of property, plant and equipment. The financial result for the year ended 31 March 2020 was an operating surplus of £3.200m, a decrease of £1.721m from the prior year. Our operating

Strategic Report

Year ended 31 March 2020

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margin fell from 24% to 16%, with increased turnover of £0.347m to £20.550m (1.7%), a 14% increase in operating expenditure and an increased surplus on disposal of property, plant and equipment of £0.264m (16%).

Rental income is the largest income stream, representing almost 90% of turnover and the increase in rental income reflects the agreed 2.7% guideline rent increase issued by the Welsh Government. Income from the sale of Right to Buy properties increased in the year, with 41 sales in 2019/20 compared to 35 in the previous year.

Bad Debts and Void Loss

Bad debts and void loss as a percentage of gross rent receivable increased to 3% in 2019/20 compared to 1.7% in the previous year. A significant number of tenants have been adversely affected by the Covid19 pandemic through redundancy or furlough in quarter 4. Our bad debt provision has been increased to £480,000 at 31 March 2020 to reflect the potential impact on rent arrears. We have continued to invest in void properties during the year. Void losses in 2019/20 increased by £22,000 compared to 2018/19. The number of void properties at 31 March 2020 was 39.

Rent Arrears

The cumulative rent arrears adjusted for the receipt of Housing Benefit increased by £117,000, from £694,000 at 1st April 2019 to £811,000 at 31 March 2020. Current arrears increased by £196,000, from £456,000 at 1st April 2019 to £652,000 at 31 March 2020. Former tenant arrears fell by £79,000 from £238,000 at 1st April 2019 to £159,000 at 31 March 2020 however the bad debt provision provides for 100% of this debt as soon as it arises.

Fixed Assets

The net book value of our housing stock was £59.660m at 31 March 2020. We invested £5.739m in capital improvements during the year and this was offset by £3.781m of depreciation charges. A combination of internal cash balances and grant income from the Welsh Government has been used to fund the capital programme. An impairment of £0.207m has been made at 31 March 2020 to write down the value of one property where Board made the decision before year end to demolish the property in preparation for a new redevelopment. Total grant income was made up of Dowry Gap Funding of £2.9m.

An independent valuation of the housing stock conducted by Savills based on Existing Use Value including Dowry Gap Funding shows an increase in value to £94.379m as at 31 March 2020. An independent valuation of our investment properties is conducted every three years. The last valuation was conducted by Savills at 31 March 2018. Our investment properties were valued at £0.878m at 31 March 2020. This is a key estimate (see Note 3 to the Financial Statements).

Loans

No new loans were drawn during the year from our lenders (RBS and Principality). Our loan balance at 31 March 2020 was £24m. Of this, £20m was at fixed interest rates and £4m at variable rates. Interest payable on our loans increased by 4.5% to £1.963m.

The balance of our loan provided by Merthyr Tydfil CBC in 2014/15 to fund the renovations of Taf Fechan House and to create a new Housing Co-operative was £0.408m at 31 March 2020.

Strategic Report

Year ended 31 March 2020

Pension Fund Asset

The pension fund asset is based on the Actuary's valuation as at 31 March 2020. The Statement of Financial Position shows a fall in the value of the pension fund asset of £3.891m to £0.728m. This value reflects the results of the 31 March 2019 triennial valuation of the Pension Fund. The fall is mainly due to unfavourable investment returns over the year, particularly during March. 2019/20's employer's pension contribution rate was 10.7% compared to 8.5% in 2018/19, rising to 11% in 2020/21.

Net Assets

The overall net assets position at 31 March 2020 is £20.129m, compared to £21.599m at 31 March 2019. This is due to the increase in the value of housing properties as a result of the investment programme in existing and new homes, an increase in cash balances held at the year end, offset by a fall in the value of the Pension Fund asset.

MVH: Future developments

The Covid19 pandemic has had an unprecedented impact on businesses across the world, with lockdown imposed by the UK Government on 23 March having a major impact on our services, with much of our workforce either working from home or on furlough and the lockdown restricting our services to those deemed essential. A large part of 2020/21 will see us revisiting our operations in line with Government advice in an attempt to return to business as usual. Our budget for 2020/21 has been revised accordingly, with a reduced development programme to reflect the reality of what we can deliver during the year.

Value for Money (VFM) Statement

MVH publishes an annual Value for Money Statement. The Democratic Body lead on delivering our Value for Money Strategy (Yfory Cryf) and agreed our 7 Golden Rules for Value for Money which ensures that we measure our impact on activities they value.

The Democratic Body has approved the 2019/20 VFM Statement on behalf of the Members, concluding that MVH has provided Value for Money during 2019/20.

Strategic Report

Year ended 31 March 2020

Key Performance Indicators (KPIs) 2019/20

Merthyr Valleys Homes reported the following Key Performance Indicators for 2019/20.

KPI	19/20 Target	19/20 Actual	18/19 Actual
Current Tenant Arrears	2.50%	3.35%	2.41%
Empty Home Rent Loss Percentage	1.50%	1.34%	1.07%
Average Time Taken to Complete Emergency Repairs in Working Days	0.5	0.16	0.14
Average Time Taken to Complete Urgent Repairs in Working Days	2.5	1.46	1.79
Average Time Taken to Complete Routine Repairs in Working Days	28	22.47	20.76
Landlord Gas Safety Record Compliance	100%	99.5%	99.98%

Rent arrears for 2019/20

We have seen an increase in rent arrears for 2019/20. We noted an increase in arrears around the Christmas period and worked with our tenants to improve this position. However the unforeseen coronavirus pandemic significantly affected our tenants' ability to pay their rent, with some self-payers being laid off work during the

early stages of the pandemic, resulting in a worsening arrears position at year end. Our strategy has been to focus on supporting tenants with their Universal Benefit claims in order to stabilise family incomes and to reassure tenants that no one would lose their home as a result of this crisis.

Empty Home Rent Loss Percentage

Rent loss from empty properties has increased from 1.07% to 1.34% year on year but was within the target for the year. Year end empty property numbers were just 39, less than 1% of our properties. Average turnaround times have increased year on year from 42.35 days to 49.99 days due to a significant change in our asbestos policy which means that we are unable to work in any empty properties until a full Refurbishment & Demolition survey has been completed. We are exploring ways of reducing this time for 2020/21.

Average Time Taken to Complete Emergency Repairs

We completed 99.05% of all emergency repairs within the target timescale and our average time taken was just 0.16 working days which was within the target set.

Average Time Taken to Complete Urgent Repairs

We achieved 98.55% of jobs carried out within target time at an average of 1.46 working days in 2019/20. The average time taken has improved year on year and is within the target set.

Average Time Taken to Complete Routine Repairs

We completed 84.65% of routine repairs within target time at an average time taken of 22.47 working days. This was well within our target of 28 days.

Strategic Report

Year ended 31 March 2020

Percentage of properties with a valid landlord gas safety record

There were two properties at year end without a valid CP12 certificate where we were unable to gain access. Both properties were Covid19 self-isolating households.

Housing Sector Value for Money Indicators

Ten financial Value for Money indicators have been identified from the Global Accounts which can be viewed at an all Wales level and allows individual organisations to compare themselves to other housing associations. It should be noted that we have 39 fewer units in 2019/20 and that this will have a negative affect on cost per unit measures. Our performance against these indicators are as follows:

VFM indicator	2019/20 Actual	2018/19 Actual	2018/19 Sector Average
Operating costs for lettings per social housing unit	£3,619	£3,186	£3,345
Management costs per social housing unit	£998	£964	£1,284
Reactive repair costs per social housing unit	£1,880	£1,550	£1,144
Major repairs and component costs per social housing unit	£1,413	£1,262	£887
Total rent per social housing unit	£4,943	£4,802	£5,459
Bad debts per social housing unit	£83	£25	£45
Gross Arrears/Social Housing turnover	4.6%	5%	4.7%
Rental void loss per social housing unit	£61	£48	£72
Weighted average cost of capital	8.05%	7.7%	4.5%
Free cash flow (before draw down or repayment of loans) per social housing unit	£206,000	£620,000	£154,000

Strategic Report

Year ended 31 March 2020

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Operating costs for lettings per social housing unit – this shows increased costs compared to the previous year due to the progress made clearing our backlog of repair jobs and the additional provisions made at the year end for some ongoing liabilities, such as the voluntary redundancy scheme.

Management costs per social housing unit – although our costs have increased slightly compared to last year, they are still below the sector average.

Reactive repairs costs per social housing unit – our reactive repair costs have increased and are above the sector average due to the backlog of repairs from prior years as noted above.

Major repairs and component costs per social housing unit – although we are above the sector average, our cost per unit has increased year on year, in line with our investment programme. The age of our stock means that we expect to have a higher than average cost for this measure.

Total rent per social housing unit was £4,943 which was below last year's sector average; this is not surprising because the recommended rent for Merthyr Tydfil is one of the lowest in Wales but it is an improvement compared to the previous year.

Bad debts per social housing unit – our performance has deteriorated compared with the previous year. This is due to the effect of the Covid19 pandemic on our income stream which has resulted in an increased bad debt provision at year end.

Gross arrears as a percentage of turnover – this shows an improvement in performance compared to the previous year. This is due to both a fall in gross arrears and an increase in turnover.

Rental void loss per social housing unit – we have experienced an increase in void loss however our performance is still better than the sector average.

Weighted average cost of capital – our percentage is high compared to the sector average because our current loan agreement was negotiated just after the financial crisis of 2007/08.

Free cash – this identifies whether a business is generating sufficient cash to pay for its day to day management and maintenance expenditure, interest payments and component replacements (such as kitchens and bathrooms). Our free cash is positive because we have not needed to draw any loan finance during the year. The reduction compared to the prior year is due to increased operating costs.

Risk Management

MVH faces a wide range of business risks. We manage and mitigate these risks using our Risk Management Policy and Strategy. The Board has overall responsibility for risk management and receives a bi-annual report on risk. The Board has delegated the task of monitoring risk to the Audit Committee.

The Risk Management Policy and Strategy is the framework for managing strategic risks which could affect the delivery of our Corporate objectives. The Welsh Government's Sector-Wide Risks have been considered and included, where appropriate. Risk is reviewed every quarter by the Strategic Leadership Team. The Audit Committee monitors how well risk is managed at each of their meetings, they also determine the risk appetite for each strategic risk. Where a strategic risk is reviewed and is found not to be within

Strategic Report

Year ended 31 March 2020

our risk appetite, action will be taken to either put further controls and mitigations in place, or to seek further assurance that the identified controls are operating effectively. Our internal auditors perform an annual review of our risk management processes.

Our top 6 risks, which all have the maximum risk score, are:-

1. Welfare Benefit reforms.
2. Potential insurance liability claims.
3. Differential in costs and income.
4. Data Protection.
5. Brexit.
6. Contagious diseases

The coronavirus pandemic has had an unprecedented impact on the sustainability of businesses across the world. MVH has continually monitored the risk in order to protect our staff, our tenants and other stakeholders, whilst also trying to adapt to new ways of working, understand new and distinct challenges and risks and maximise the sustainability of the organisation. More detail is set out in our assessment of going concern on pages 13-14.

The direct impact on our business of Brexit are lower than many other sectors, and for the majority of issues such as direct employment and supply chain risk are manageable. It is however, the wider economic events that will almost certainly impact on our already fragile economy in Merthyr Tydfil. As an organisation that invests and sustains our community it is difficult to accurately predict but any downward movement in the economy; further rounds of austerity and interest inflation will all have significant implications for our community and for Merthyr Valleys Homes.

Treasury Management

MVH operates a Treasury Management Policy which underpins the annual Treasury Management Strategy and is based around four key principles:-

- Compliance with statute, regulation & best practice.
- Security of financial assets.
- Liquidity.
- Effectiveness & Efficiency in the use of financial resources and achieving value for money.

The Treasury Management Strategy is reviewed and updated annually by our external advisors – Link Asset Services. This is approved annually by the Board. The Board receives a bi-annual report on treasury management performance.

Financial risk management

MVH's activities expose it to a number of financial risks i.e. liquidity, cash flow and credit risk:

Liquidity risk

MVH uses a combination of long term and short term debt finance to maintain liquidity, ensuring that sufficient funds are available for ongoing operations and future developments. MVH holds cash, short term investments and has access to grants and a £40m loan facility.

MVH has two main sources of capital funding:-

1. £40m loan facility from the Royal Bank of Scotland (RBS) and Principality Building Society. This comprises £32m from RBS and £8m from Principality BS and is divided into two Tranches, A and B. Tranche A provides £24m and is fully drawn and Tranche B £16m. Tranche B is a revolving facility provided solely by RBS, meaning that it can be drawn and repaid. Tranche B will convert to a "term"

Strategic Report

Year ended 31 March 2020

loan from 31 March 2023. All borrowings to date have been drawn from Tranche A and therefore cannot be repaid until after we have reached peak debt.

At 31 March 2020, our borrowing remained at £24m with no loans drawn down during the year. This was mainly due to additional income received from Right to Buy sales during the year and savings from the Capital programme. The repayment of the loan facility is due by 31 March 2034 however our latest forecast indicates that we will repay by 31 March 2030. Peak debt is expected to occur in 2020/21.

2. £2.9m Dowry Gap Funding from the WG which is received on an annual basis and there is an expectation that it will continue to be received until 2036/37 although this is dependent on our commitment to the decarbonisation agenda.

In 2014 we took out a 25 year loan from Merthyr Tydfil County Borough Council for £510,000 at an all-in interest rate of 2.92%. The outstanding balance on this loan is £408,000 at 31 March 2020. This loan will be repaid via a long term lease agreement with Taf Fechan Housing Co-operative.

Cash flow risk

Three forward fixed rate agreements were put in place on transfer to hedge against adverse movements in interest rates. All three of these agreements have now been executed. The first forward fixed rate agreement ended on 31 March 2020; the two remaining agreements run to 31 March 2025 and 31 March 2030. The loans drawn at 31 March 2020 of £24m consist of £20m at fixed interest rates and £4m at variable rates.

Our Treasury Management Policy and Strategy sets out parameters for the ratio of fixed to variable rate borrowing of between 60-80% at fixed rates to give us certainty over our costs. At 31 March 2020 the ratio of fixed to variable rate borrowing was 84% of total loans outstanding. Board has approved the deviation from policy at the end of March 2020.

Credit risk

MVH's principal financial assets are bank balances and cash, rent arrears and other receivables and investments.

Our credit risk is primarily attributable to rent arrears. The amounts presented in the Statement of Financial Position are net of allowances for bad debts. The credit risk on our investments is limited because the counterparties are banks with credit ratings that fall in line with our Treasury Management Policy.

Key Accounting Policies

The key accounting policies are set out in Note 2 of the Financial Statements on pages 27-34.

Going Concern

Our assessment of going concern has been based on events or conditions that could cast significant doubt on our ability to continue in operational existence.

This year's assessment has considered the impact of the coronavirus pandemic on the organisation. Our tenants are our main customer base. We anticipate an increase in the level of arrears and empty properties as a result of Covid19 and the restrictions put in place by the Welsh Government to reduce the spread of the virus. A significant number of tenants have been affected by either redundancy or have been furloughed in

Strategic Report

Year ended 31 March 2020

quarter 4. Our bad debt provision has been increased to £480,000 at 31 March 2020 to reflect the potential impact on rent arrears and mitigate this risk. We have accessed funding through the Government's Job Retention Scheme in 2020/21 to reclaim some of the wages for those staff, who through no fault of their own, are unable to work because of lockdown restrictions. As we return to full service provision for our tenants using a safety first approach we will withdraw from the scheme gradually. We have re-profiled our 2020/21 budget, scaling back on some of our larger capital projects and included additional spend to allow for catch up of works that could not be completed in 2019/20. We are confident that we will continue to meet our loan covenants in 2020/21.

Our net assets position at 31 March 2020 is strong at £20.129m, with liquidity of £9.289m in cash balances. Our main source of capital funding from our £40m loan facility is secure and we have met our loan covenant conditions. The Existing Use Value of our housing stock which is used to generate cash flows is £94.379m. Based on our assessment, the Board has a reasonable expectation that MVH has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Reserves Strategy

Any cash reserves at year end will be retained and carried forward into the following year. It is not until we reach peak debt that we are able to repay our loans.



Nicola Evans
Chair – Board
Date: 17 September 2020

Board Report

Year ended 31 March 2020

The Board are pleased to present their report and audited financial statements for Merthyr Valleys Homes Limited (MVH) for the year ended 31 March 2020.

Principal Activities

Merthyr Valleys Homes (MVH) is registered under the Co-operative and Community Benefit Societies Act 2014 and is a not-for-profit mutual organisation administered by a voluntary Board. MVH operates in the Merthyr Tydfil County Borough Council local authority area. MVH's principal activities are the management and improvement of social housing.

Performance for the Year

The Board reports a surplus of £1.468m. During the year MVH spent £16.150m on reactive, void and cyclical repairs and the capital programme. This was financed from internal financing i.e. rental income; income from the sale of assets and Dowry Gap Funding.

Net Assets at 31 March 2020 were £20.129m. As at 31 March 2020, the Pension Fund Asset restricted reserve was £0.728m.

Governance

The Board is responsible for managing the affairs of MVH. Board Members and Senior Officers are listed on page 3 under Administrative Details. The Board Members have held office during 2019/20 unless otherwise stated.

On 1 May 2016, our legal structure changed and MVH became Wales' first tenant and employee mutual housing association, allowing tenants and employees to become members. The mutual has two tiers of governance:

- A Democratic Body made up of 21 member representatives:
 - a) Tenant representatives elected by tenant members;
 - b) Employee representatives elected by employee members;
 - c) Representation from Merthyr Tydfil County Borough Council;
 - d) Representation from local community organisations – these would be co-opted positions as and when required;
 - e) The Rules also allow for the Democratic Body to appoint an independent Chair if required.
- A Board of 8 Non Executive Directors with the relevant skills and experience who have been appointed by the Democratic Body to run the mutual on their behalf.

Each of the two parts of the governance structure has key areas of responsibility set out in the Rules and Governance Framework.

The Board has a legal responsibility for the overall control of the affairs of the mutual. The Democratic Body is responsible for representing members and the wider interests of the community through agreeing a strategic framework for the Board to operate within and by holding the Non-Executive Directors to account. MVH also has an Audit Committee, with membership drawn from the Board and Democratic Body.

Board Report

Year ended 31 March 2020

The Executive Leadership Team have no legal status as directors, although they act as executives within the authority delegated by the Board. MVH has insurance policies indemnifying its Board Members and Executive Leadership Team against liability when acting on behalf of the mutual.

Democratic Body

The Democratic Body forms part of MVH's governance structure along with the Board and is the elected body which represents members and the wider community in MVH's decision making process.

The Democratic Body met 6 times during 2019/20 and held 1 joint session with the Board. The Democratic Body's responsibilities include;

- Appointing and removing the Chair of the Board of Directors and other Non-Executive Directors
- To work with and support the Board of Directors and Chief Executive in developing the mutual's Business Plan
- To approve the mutual's corporate plan, policy framework and programme of internal audit
- To monitor the performance of the mutual and the Board of Directors against the corporate strategy

During 2019/20 the Democratic Body:

- Took a key role in the development of the new corporate plan, Gyda'n Gilydd.
- Worked with the Board to appoint the Director of Homes and Places and the Director of Housing and Communities.
- Evaluated rent affordability on behalf of tenants and worked with the Board to agree a new approach to the Living Rent Policy for 2020/21.
- Took part in workshops to develop the Homes and Places Strategy and elected a representative to sit on the Development Group.

- Approved the Internal Audit plan for 2020/21.
- Participated in budget setting for 2020/21.
- Explored Equality & Diversity of membership in line with our Quality in Equality and Diversity accreditation.
- Commissioned the development of Brighter Futures to offer opportunities for tenants in the form of work placements, volunteering, apprenticeships and training.
- Elected representatives to a Working Group to assess project proposals and determine the award of funding for community based projects and initiatives.
- Assisted in developing communications to tenants, including the rent leaflet, STAR survey questions and asbestos information.

A full list of the functions of the Democratic Body are detailed within the MVH rules available at www.mvhomes.org.uk

MVH Membership

Members are separated into two constituencies: tenants and employees. Members have access to information, a voice in the mutual and an opportunity to play a representative role in its governance.

Members	No.	%
Tenants	1167	87%
Employees	174	13%

Employees

The number of employees at 31 March 2020 was 201. The ability to meet our objectives and commitments to tenants in an efficient and effective manner depends on the contribution of all our employees. We recognise and value diversity and we are committed to strengthening community cohesion and to providing equal opportunities in employment by adhering to our Equal Opportunities Policy.

Board Report

Year ended 31 March 2020

Charitable Donations

MVH made £38,997 in charitable donations during the year which were approved by the Grants and Sponsorship Panel. This included £4,787 spent on Summer Holiday hampers for our tenants and the following grants to community groups:-

	£
Merthyr Cynon Foodbank	10,000
Quaker's Yard Community Association	5,000
Cyfarthfa Community Group	4,895
Keep Wales Tidy	2,498
Willows Centre	2,484
Penydarren Boys and Girls Club	2,094
Royal Crescents Allotment	1,650
Pontsticill Community Group	1,600
Merthyr Tydfil Walking Group	1,000
Merthyr Running Club	1,000
Calon Las Cookery	580
Gurnos Football Club	500
Black Lion Football Club	489
Night Shelter	420

MVH made a donation of £10,000 to the Merthyr Valleys Homes People Fund charity, £3,000 to Forsythia Youth Club, £3,000 to Twyn Community Hub and some smaller donations within the community totalling £7,974. We also donated £10,000 for our Member's charity, Merthyr Cancer Aid.

Statement of Internal Control

In accordance with the Welsh Government Circular RSL 02/10 Internal Controls and Reporting, the Board acknowledges its responsibilities for the systems of internal control and reviewing their effectiveness. The Board also acknowledges its responsibility for the wider aspects of

risk. The Audit Committee reviews the effectiveness of MVH's internal controls on an on-going basis and ensures that all necessary actions are taken to remedy any significant failings or weaknesses which may be identified.

The mutual's systems are designed to provide reasonable but not absolute assurance regarding:-

- The safeguarding of assets.
- The maintenance of proper accounting records.
- The reliability of financial information.
- The management of risks which could adversely affect the mutual's ability to achieve its corporate objectives (Gyda'n Gilydd).

The following mechanisms constitute the key elements of the framework designed and implemented by management to provide effective internal control:-

- Standing Orders and Financial Regulations which sets out the Scheme of Delegation.
- Contract Standing Orders setting out the framework for the procurement of goods and services.
- Clearly defined corporate and divisional management responsibilities and reporting structures.
- Suitably experienced and qualified staff members.
- Formal policies and procedures adopted by the Board and Democratic Body and understood by staff.
- Comprehensive systems of financial reporting including annual budgets and quarterly management accounts reported to the Board, detailing actual performance against budget.
- Regular monitoring of loan covenants.
- A Risk Management Framework that is regularly reviewed and evaluated by the Board and Audit Committee.

Board Report

Year ended 31 March 2020

- A range of anti-fraud policies, including anti-bribery and anti money-laundering which are understood by staff. A Fraud Register is maintained and reviewed by the Audit Committee at each meeting.
- Board authorisation of major contracts which could pose a risk to the organisation.
- A robust internal audit service which reports to Audit Committee regularly.
- A thirty year financial business plan that is updated and approved annually and is also used for medium term financial planning.
- A Procurement Strategy setting out how MVH will conduct procurement activities.
- Annual Declarations of Interest returns from all Board members, Democratic Body representatives and staff.
- A Gifts and Hospitality Register which is reviewed by the Audit Committee at each meeting.
- A Schedule 1 Register is maintained and all entries are reported to the Board by the Company Secretary.

The Audit Committee has reviewed the effectiveness of MVH's internal controls during the year. No weaknesses were found that resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the Auditor's Report and the Board are not aware of any such weaknesses from 1 April 2020 to date.

Statement of Board Members' Responsibilities

The Board is responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations. The Co-operative and Community Benefit Societies Act 2014 and Housing Association legislation requires the Board to prepare financial statements for each financial year. Under that legislation the Board have elected to prepare the financial statements in accordance with United

Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) – FRS102, the Financial Reporting Standard applicable in the United Kingdom and Ireland.

Under Housing Association legislation the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of MVH and of the surplus or deficit of MVH for that period. In preparing these financial statements the Board is required to:

- Select suitable accounting policies, and apply them consistently.
- Make judgments and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that MVH will continue in business.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain MVH's transactions and disclose with reasonable accuracy at any time the financial position of MVH and ensure that the financial statements comply with Housing Association legislation. Board Members are also responsible for safeguarding the assets of MVH and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Board Report

Year ended 31 March 2020

Disclosure of information to the Auditor

Each of the Board Members at the date of approval of this report has confirmed that:

- As far as the Board Members are aware, there is no relevant audit information of which the mutual's auditor is unaware.
- The Board Members have taken all the steps that they ought to have taken as Board Members in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Annual Members Meeting

The Annual Members Meeting will be held virtually on 17th September 2020. At this meeting, MVH's 2019/20 Financial Statements will be presented for adoption.

Auditor

A resolution for the reappointment of Mazars LLP will be proposed at the Annual Members Meeting.



By order of the Board
Nicola Evans
Chair – Board
Date: 17 September 2020

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

Year ended 31 March 2020

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Opinion

We have audited the financial statements of Merthyr Valleys Homes Limited (the 'association') for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2020 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our

responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Impact of the outbreak of COVID-19 on the financial statements

In forming our opinion on the company financial statements, which is not modified, we draw your attention to the directors' view on the impact of the COVID-19 as disclosed on page 12, and the consideration in the going concern basis of preparation on pages 13-14.

During the latter part of the financial year, there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK.

The impact of COVID-19 is still evolving and, based on the information available at this point in time, the directors have assessed the impact of COVID-19 on the business and reflected the directors' conclusion that adopting the going concern basis for preparation of the financial statements is appropriate.

Independent auditor's report to the members of Merthyr Valleys Homes Limited Year ended 31 March 2020

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

We have reviewed the Board's statement on the association's compliance with the Welsh Government circular RSL 02/10 'Internal controls and reporting'. We are not required to express an opinion on the effectiveness of the association's system of internal control.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so,

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Welsh Government circular RSL 02/10 'Internal controls and reporting'

In our opinion, based on the work undertaken in the course of the audit with respect to the Board's statement on internal control:

- the Board has provided the disclosures required by the Welsh Government circular RSL 02/10 'Internal controls and reporting'; and
- the statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

Matters on which we are required to report by exception

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

- the association has not kept proper books

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

Year ended 31 March 2020

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

Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on page 18, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect

a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of the audit report

This report is made solely to the association's members as a body in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body for our audit work, for this report, or for the opinions we have formed.



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

Date: 22 September 2020

Statement of Comprehensive Income

Year Ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Turnover	4	20,550	20,203
Operating expenditure	4	(19,308)	(16,976)
Surplus on disposal of property, plant and equipment	5	<u>1,958</u>	<u>1,694</u>
Operating Surplus	6	3,200	4,921
Interest receivable	7	231	135
Interest and financing costs	8	(1,963)	(1,878)
Change in fair value of investment properties	15	<u>-</u>	<u>-</u>
Surplus before tax		1,468	3,178
Taxation	2(n)	-	-
Surplus for the year		<u>1,468</u>	<u>3,178</u>
Other Comprehensive Income			
Actuarial (loss)/gain in respect of pension schemes	31	(2,938)	2,667
Total comprehensive (loss)/ income for the year		<u>(1,470)</u>	<u>5,845</u>

Continuing Operations

All transactions during the period are derived from continuing activities.

Statement of Financial Position

At 31 March 2020

	Notes	2020 £'000	2019 £'000
Fixed Assets			
Intangible assets	11	657	738
Property, Plant and Equipment			
– Housing properties	12	59,660	58,401
– Other property plant and equipment	14	5,107	5,199
Investment properties	15	878	878
		<u>66,302</u>	<u>65,216</u>
Current Assets			
Inventories	16	19	19
Debtors			
– Amounts falling due within one year	17	1,601	1,588
– Amounts falling due after one year	18	50,621	55,616
Cash and cash equivalents	27	9,289	6,168
		<u>61,530</u>	<u>63,391</u>
Creditors: amounts falling due within one year	19	(3,259)	(3,300)
Dowry funding and other government grants: amounts falling due within one year	22	(1,857)	(1,730)
Net current assets excluding pension asset		56,414	58,361
Pension asset	31	728	4,619
Net current assets including pension asset		57,142	62,980
Total assets less current liabilities		123,444	128,196
Creditors: amounts falling due after more than one year	20	(24,412)	(24,477)
Dowry funding and other government grants: amounts falling due after more than one year	22	(27,479)	(26,459)
Provisions for liabilities	29	(51,424)	(55,661)
Net Assets		<u>20,129</u>	<u>21,599</u>
Capital and Reserves			
Share capital	23	-	-
Revenue reserves		19,401	16,980
Restricted reserves	24	728	4,619
		<u>20,129</u>	<u>21,599</u>


The Financial Statements on pages 23 to 57 were approved and authorised for issue by Board of Management on 17 September 2020 and were signed on its behalf by:



(Nicola Evans)
Chair – Board



(Elizabeth Lendering)
Deputy Chair – Board



(Allison Soroko)
Company Secretary

Statement of Changes in Reserves

Year ended 31 March 2020

	Notes	Revenue reserves £'000	Restricted reserves £'000	Total £'000
At 1 April 2018		12,209	3,545	15,754
Surplus for the year		3,178	-	3,178
<u>Other comprehensive income</u>				
Actuarial gain in respect of pension schemes	31	-	2,667	2,667
Total comprehensive income		15,387	6,212	21,599
Transfer between reserves	24	1,593	(1,593)	-
At 31 March 2019		16,980	4,619	21,599

	Notes	Revenue reserves £'000	Restricted reserves £'000	Total £'000
At 1 April 2019		16,980	4,619	21,599
Surplus for the year		1,468	-	1,468
<u>Other comprehensive income</u>				
Actuarial gain in respect of pension schemes	31	-	(2,938)	(2,938)
Total comprehensive income		18,448	1,681	20,129
Transfer between reserves	24	953	(953)	-
At 31 March 2020		19,401	728	20,129

Revenue Reserve

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

Restricted Reserves

The Restricted reserve relates to the Pension Fund Asset.

Statement of Cash Flows

Year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Net cash generated from operating activities	27	5,732	7,059
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,514)	(5,699)
Purchase of other fixed assets		(355)	(338)
Proceeds from sale of property, plant and equipment		2,450	2,139
Grants received		2,900	3,234
Interest received		94	38
Net cash flows from investing activities		(425)	(626)
Cash flows from financing activities			
Interest paid		(2,052)	(1,783)
Interest element of finance lease rental payments		(25)	(37)
Repayment of borrowings		(20)	(20)
Capital element of finance lease rental payments		(123)	(113)
Revenue loan arrangement		34	34
Net cash flows from financing activities		(2,186)	(1,919)
Net increase / (decrease) in cash and cash equivalents		3,121	4,514
Cash and cash equivalents at beginning of year		6,168	1,654
Cash and cash equivalents at end of year		9,289	6,168

Free cash flow for the year end 31 March

	2020 £'000	2019 £'000
Net cash generated from operating activities	5,732	7,059
Interest paid	(2,018)	(1,749)
Interest received	94	38
Adjustments for reinvestment in existing properties:		
Component replacements	(5,514)	(5,699)
Purchase of other replacement fixed assets	(355)	(338)
Component replacement grant received	2,900	3,234
Free cash generated/(consumed) before loan repayments	839	2,545
Loans repaid (excluding revolving credit and overdrafts)	(20)	(20)
Free cash generated/(consumed) after loan repayments	819	2,525

Notes to the Financial Statements

Year ended 31 March 2020

1) a) General information

The financial statements of Merthyr Valleys Homes Limited (MVH) for the year ended 31st March 2020 comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and the related notes. The financial statements are presented in sterling (£).

b) Company information

MVH is registered under the Co-operative and Community Benefit Societies Act 2014 and is a Registered Social Landlord, registered with the Welsh Government. MVH has adopted charitable rules. MVH is incorporated in the United Kingdom. Its registered office is Ty Brychan, 22 Lansbury Road, Gellideg, Merthyr Tydfil, CF48 1HA.

MVH owns, manages and maintains 4,064 rented homes, including 208 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil. MVH also owns or manages 604 garages, 39 retail units, a block of 12 co-operative housing flats which are leased to Taf Fechan Housing Co-operative Ltd and 275 leasehold properties.

2) Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with

Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and comply with the Statement of Recommended Practice for Registered Social Housing Providers 2018 (SORP), the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2015. Merthyr Valleys Homes Limited is a public benefit entity, as defined in FRS 102 and applies the relevant paragraphs prefixed 'PBE' in FRS 102.

b) Intangible assets

Intangible assets are stated at historic cost, less accumulated amortisation. Amortisation is provided on all intangible assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

Component	Projected Economic Life (years)
Computer software	5-8

c) Property, plant and equipment – housing properties

Following the stock transfer on 30 March 2009 the properties were valued at £nil. Housing properties are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings, directly attributable development costs and borrowing costs directly attributable to the construction of new housing properties during the development. Directly attributable costs can include the labour costs of Merthyr

Notes to the Financial Statements

Year ended 31 March 2020

Valleys Homes in-house Homes and Places Teams, materials and overhead costs.

Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives. Freehold land is not depreciated. Properties in the course of construction are not depreciated.

Traditionally built properties are depreciated over 100 years. Non-traditionally built properties are depreciated over 50 years.

Major components

Major components of housing properties, which have significantly different patterns of consumption of economic benefits, are treated as separate assets and depreciated over their expected useful economic lives at the following annual rates:

Component	Projected Economic Life (years)
Roofs	50
Windows and Doors	30
Kitchens	15
Bathrooms	25
Heating Systems	15
Rewires	25
Building Structure (walls, retaining walls, paths etc)	50
Other	10-15

Properties held on long leases are depreciated over their estimated useful economic lives or the duration of the lease, if shorter.

Improvements

Where there are improvements to housing properties that are expected to provide incremental future benefits, these are capitalised and added to the carrying amount of the property. Any works to housing properties which do not replace a component or result in an incremental future benefit are charged as expenditure in surplus or deficit in the Statement of Comprehensive Income. To increase an asset's performance, expenditure must result in one or more of the following:-

- Increased rental income.
- A reduction in future maintenance costs.
- A significant extension to the useful life of the property.

Leaseholders

Where the rights and obligations for improving a housing property reside with the leaseholder or tenant, any works to improve such properties incurred by MVH is recharged to the leaseholder and recognised in surplus or deficit in the Statement of Comprehensive Income along with the corresponding income from the leaseholder or tenant.

Timing of depreciation on housing properties

The commencement of depreciation charged to the Statement of Comprehensive Income in respect of an asset is in the month of recognition of the completed asset.

Notes to the Financial Statements

Year ended 31 March 2020

d) Non-housing property, plant and equipment

Non-housing property, plant and equipment is stated at historic cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all non-housing property, plant and equipment, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Component	Projected Economic Life (years)
Office Premises	100
Office Improvements	10
Furniture, fixtures and fittings	10-15
Telephone System	8
Office Equipment	5-10
Computer Implementation Hardware	5-8
Computer Hardware – Other	3
Scheme Equipment and Furniture	10-25
Motor Vehicles	Lease/5

The re-life of an asset will only occur in exceptional circumstances where the asset's useful economic life is known in advance to be reduced.

Timing of depreciation on non-housing property, plant and equipment

The commencement of depreciation charged to the Statement of Comprehensive Income in respect

of an asset is in the month following the acquisition of that asset.

e) Investment properties

The classification of properties as investment property or property plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation, or both, are classified as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property plant and equipment. Mixed use property is separated between investment property and property, plant and equipment.

Land is accounted for based on its intended use. Where land is acquired speculatively with the intention of generating a capital gain and/or a commercial rental return it is accounted for as investment property. Where land is acquired for use in the provision of social housing or for a social benefit it is accounted for as property, plant and equipment.

Investment properties are measured at fair value annually with any change recognised as a surplus or deficit in the Statement of Comprehensive Income.

f) Impairment of social housing properties

Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential.

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator

Notes to the Financial Statements

Year ended 31 March 2020

exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised as a surplus or deficit in the Statement of Comprehensive Income. The recoverable amount of an asset is the higher of its value in use or fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model.

Merthyr Valleys Homes check annually for any indication of impairment by reference to:-

- A contamination or other similar issue that was not identified as part of the planning of a development which results in a material increase in development costs.
- A change in government policy, regulation or legislation which has a material detrimental impact on the development programme or scheme.
- A change in demand for a property that is considered irreversible.
- A material reduction in the market value of properties in those circumstances where assets are intended or expected to be sold.
- Obsolescence of a property, or part of a property.
- Significant changes with an adverse effect on the social landlord have taken place during the period, or are expected to take place in the near future, in the

extent to which, or manner in which, an asset is used or is expected to be used.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply. This surplus or deficit will be shown in the Statement of Comprehensive Income.

g) Social Housing Grant and other Government grants

Where grants are received from government agencies such as the Welsh Government, local authorities, devolved government agencies, health authorities and the European Commission and meet the definition of government grants, they are recognised when there is reasonable assurance that the conditions attached to them will be complied with and that the grant will be received. Dowry gap funding is received from the Welsh Government and it is not repayable.

Government grants are recognised using the accrual model and are classified either as a grant relating to revenue or a grant relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants relating to assets are recognised in income on a systematic basis over the

Notes to the Financial Statements

Year ended 31 March 2020

expected useful life of the asset. Grants received for housing properties are recognised in income over the expected useful life of the housing property structure. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

Grants received from non-government sources are recognised as revenue using the performance model.

h) Donation or acquisition of land or other asset at below market value

Where a donation of land and/or other assets is received or MVH acquires land and/or other assets at below their market value from a third party that does not meet the definition of a government source; the transaction is recognised as an asset in the Statement of Financial Position at fair value, taking account of any restrictions on the use of the asset. Income equivalent to the difference between any amounts paid or payable for the asset and the fair value of the asset is recognised as a surplus or deficit in the Statement of Comprehensive Income as a donation when future performance-related conditions are met.

i) Agreements to improve existing properties

MVH has a 15 year VAT Shelter in place, approved by HMRC. The VAT Shelter transfers the VAT cost of the works required to meet the Welsh Housing Quality Standard (WHQS) to Merthyr Tydfil County Borough Council. The

transactions are as follows:

- Under the transfer agreement the Council transferred the properties to MVH together with an obligation to undertake the WHQS works at the Council's expense. The price paid for the properties was £133,023,642; this price reflects the Tenanted Market Value of the stock which is nil and the estimated value of the works of £133,023,642.
- The Council discharged its obligation to carry out the works under the Transfer Agreement by entering into a 15 year Development Agreement with Merthyr Valleys Homes. This is a fixed price contract for £133,023,642 plus VAT of £19,953,546.

Over the life of the Development Agreement, MVH is entitled to reclaim VAT on the costs it incurs from third parties for carrying out the WHQS works, as detailed in the Development Agreement.

The commercial effect of these transactions is that MVH has both an asset (the Council's obligation to have the refurbishment work carried out) and a legally binding obligation to a third party (under the Development Agreement) and these assets and liabilities are recognised in the financial statements.

j) Inventories

Inventories are stated at the lower of cost and net realisable value.

k) Restricted reserves

Where reserves are subject to an external restriction they are separately recognised within reserves as a restricted reserve.

Notes to the Financial Statements

Year ended 31 March 2020

Revenue and expenditure is included in surplus or deficit in the Statement of Comprehensive Income and a transfer is made from the general reserve to the restricted reserve. A description of each restricted reserve is included in Note 24.

l) Leased assets

At inception MVH assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Each lease payment is apportioned between the finance charge and the reduction of the outstanding lease liability. The finance charge is recognised on a basis that reflects a constant periodic rate of interest on the finance lease liability.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Payments under operating leases are charged to surplus or deficit in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

m) Interest payable

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. For new loans, these costs are allocated to the Statement of Comprehensive Income over the term of the loan. Where loans are redeemed, the full cost of any redemption penalty is recognised in the Statement of Comprehensive Income in the year redemption takes place.

n) Taxation

(a) VAT

Merthyr Valleys Homes is registered for VAT. The financial statements include VAT to the extent that it is suffered by Merthyr Valleys Homes and not recoverable from HM Revenue and Customs (HMRC). The balance of the VAT payable or recoverable at the year end is included as a current liability or asset.

(b) Corporation Tax

MVH is treated as charitable for taxation purposes. This was confirmed by HM Revenue and Customs (HMRC) on 3 September 2008.

Consequently, the surpluses derived from primary charitable activities are exempt from taxation.

Notes to the Financial Statements

Year ended 31 March 2020

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o) Pensions

Local Government Pension Scheme

MVH participates in the Rhondda Cynon Taf County Borough Council (RCTCBC) Local Government Pension Scheme. The Fund is administered by Rhondda Cynon Taf County Borough Council. Many of the staff who transferred to Merthyr Valleys Homes at the time of transfer were members of the fund and any pension liabilities on transfer were fully funded by the Council, with subsequent costs to be incurred by the mutual. A Pension Bond is in place for the sum of £1,706,000 (the Bond amount).

All existing employees have the option of joining the pension scheme however all new employees are automatically enrolled. It is a defined benefit scheme and since 2014 the scheme provides benefits based on career average pensionable pay.

The Local Government Pension Scheme is a multi-employer scheme where it is possible for individual employers, as admitted bodies, to identify their share of the assets and liabilities of the pension scheme. For this scheme the amounts charged to operating surplus are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to revenue and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net

interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of MVH, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each Statement of Financial Position date.

p) Revenue

Turnover includes rent and service charges receivable (net of rent and service charge losses from voids and the Direct Debit discount) and is recognised from the point when properties become available for letting. Revenue grants from local authorities and the Welsh Government are receivable when the condition for receipt of agreed grant funding have been met. Disposal proceeds of current assets are shown in the Statement of Comprehensive Income under surpluses/(deficits) on disposal of property, plant and equipment. Revenue is recognised on the completion of sales.

q) Leaseholder sinking fund

Where leaseholders pay in advance for identified future planned or major works, any unutilised contributions are recognised as a liability in the Statement of Financial Position.

Notes to the Financial Statements

Year ended 31 March 2020

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r) Financial instruments

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

Financial Assets

Financial assets comprise rent arrears, trade and other receivables and cash and cash equivalents. Financial assets are initially recognised at transaction value plus directly attributable transaction costs.

Provision is made against rent arrears of current and former tenants as well as other debts, to the extent that they are considered potentially irrecoverable.

A financial asset is derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred.

If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial Liabilities

These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Non-current debt instruments which meet the necessary conditions in FRS 102 are initially recognised at transaction value and adjusted for any directly attributable transaction cost, with interest-related charges recognised as an expense in

Financing Costs in the Statement of Comprehensive Income. Where a non-current debt instrument has a non basic element, this is measured at fair value annually, with any change recognised in the Statement of Comprehensive Income.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

t) Going concern

The Board assess the appropriateness of the going concern basis not less than twelve months from the date of approval of the accounts. These accounts have been prepared on the going concern basis.

3. Significant Management Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the

Notes to the Financial Statements

Year ended 31 March 2020

judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant management judgements

The following are management judgements in applying the accounting policies of MVH that have the most significant effect on the amounts recognised in the financial statements.

Impairment of social housing properties

MVH have to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP.

Estimation uncertainty

MVH make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fair value measurement

Management uses valuation techniques to determine the fair value of assets. Details of MVH's financial instruments measured at fair value are set out in note 21. Treasury management specialists are engaged to provide MVH with the valuation. Investment properties are

measured at fair value, using market values prepared by a firm of property valuation experts on a triennial basis. Each year the Board review the market conditions and assess whether the fair value is materially changed.

Provisions

Using information available at the year end date, management estimate the level of provision required to account for potentially uncollectible debts. Provision is also made for office accommodation, restructuring, WHQS works and other liabilities for which there is uncertainty over both the timing and exact quantification of amounts due. These provisions require management's best estimate of the costs that will be incurred based on contractual requirements.

Defined benefit pension scheme

MVH has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate of corporate bonds. Management estimates these factors in determining the net pension asset in the Statement of Financial Position. The assumptions reflect historical experience and current trends. A firm of actuaries are engaged to provide MVH with expert advice about the assumptions to be applied.

Notes to the Financial Statements

Year ended 31 March 2020

4) Turnover, Operating Costs and Operating Surplus

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

Note A

	2020 Turnover £'000	2020 Operating Costs £'000	2020 Operating Surplus £'000	2019 Turnover £'000	2019 Operating Costs £'000	2019 Operating Surplus £'000
Social Housing lettings (Note B)	20,083	19,032	1,051	19,704	16,764	2,940
Other social housing activities						
Supporting People	123	276	(153)	149	212	(63)
Other grant income	1	-	1	7	-	7
Other income	343	-	343	343	-	343
Total	<u>20,550</u>	<u>19,308</u>	<u>1,242</u>	<u>20,203</u>	<u>16,976</u>	<u>3,227</u>

Notes to the Financial Statements

Year ended 31 March 2020

Particulars of income and expenditure from social housing lettings

Note B	General Needs £'000	Sheltered Housing £'000	2020 £'000	2019 £'000
Income				
Rents receivable	17,296	831	18,127	17,858
Service charges income	43	160	203	180
Amortised government grants	1,753	-	1,753	1,666
Turnover from social housing lettings	19,092	991	20,083	19,704
Expenditure				
Service charge costs	1	72	73	73
Management	3,587	467	4,054	3,957
Tenant support	167	-	167	169
Routine maintenance	7,638	-	7,638	6,361
Major repairs expenditure	2,773	-	2,773	2,512
Bad debts from rent	295	-	295	63
Bad debts from other income	43	-	43	39
Depreciation of housing properties	3,989	-	3,989	3,590
Operational costs	18,493	539	19,032	16,764
Operating surplus social housing lettings	599	452	1,051	2,940
Void losses	219	29	248	197

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

	2020 £'000	2019 £'000
Grants from Supporting People Revenue Grant (SPRG)	123	149
Other grant income	1	7
Shop rents	167	187
Leaseholders	68	55
Other income	<u>108</u>	<u>101</u>

Notes to the Financial Statements

Year ended 31 March 2020

5) Surplus on Disposals of Property, Plant and Equipment

	2020 £'000	2019 £'000
Sales proceeds	2,450	2,139
Less costs of sale	(440)	(377)
Surplus on sale of housing properties	2,010	1,762
Loss on the disposal of other fixed assets	(52)	(68)
Surplus on disposal	1,958	1,694

Sales proceeds include the sale of 41 Right to Buy properties (2019: 35 properties).

6) Operating Surplus

Operating surplus for the year is after charging:

	2020 £'000	2019 £'000
Amortisation – intangible assets	147	143
Depreciation – housing properties	3,781	3,590
Impairment – housing properties	207	-
Depreciation – other fixed assets	287	310
Auditor's remuneration in respect of audit services	19	19
Operating lease rentals (other)	10	10
Rent losses from voids	248	197
Bad debt costs	338	102

7) Interest Receivable

	2020 £'000	2019 £'000
Bank interest receivable	71	26
Housing Finance Grant 2 interest receivable	23	12
Pension finance income	137	97
Total	231	135

8) Interest and Financing Costs

	2020 £'000	2019 £'000
Bank loans and overdrafts	1,938	1,841
Finance lease charges	25	37
Total	1,963	1,878

Notes to the Financial Statements

Year ended 31 March 2020

9) Directors' Emoluments

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

	2020 £'000	2019 £'000
Wages and salaries	337	287
Social security costs	43	36
Other pension costs	35	24
Total Staff Costs	415	347
Emoluments of the highest paid Director, excluding pension contributions	124	125

The highest paid Director (Chief Executive) is an ordinary member of the Merthyr Valleys Homes defined benefit pension scheme with no enhanced or special terms applied to their membership. MVH makes no contribution to any individual pension arrangement in respect of the highest paid Director other than LGPS contributions.

No remuneration was paid to the Members of the Board during the year (2019: £Nil).

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

	2020 No.	2019 No.
£1-£70,000	-	-
£70,001 - £80,000	1	-
£80,001 - £90,000	1	-
£90,001- £100,000	-	-
£100,001 - £110,000	-	2
£110,001 - £120,000	1	-
£120,001 - £130,000	-	-
£130,001 - £140,000	1	1

Notes to the Financial Statements

Year ended 31 March 2020

10) Staff Costs

	2020 £'000	2019 £'000
Staff costs during the year:		
Wages and salaries	6,305	5,220
Social security costs	820	678
Other pension costs	1,678	2,126
Total staff costs	8,803	8,024

The average monthly number of staff – full time equivalent

	2020 No:	2019 No:
This comprises:		
Central Support Services, encompassing:		
Finance, HR, Corporate Services and Administration	37	36
Homes and Property Services	103	98
Housing	58	59
Total	198	193

Staff employed at year end – full time equivalent	201	197
The calculations are based on a 37 hour working week		

11) Intangible Assets

Cost	Computer software £'000
At 1 April 2019	1,419
Additions during the year	66
Disposals during the year	-
At 31 March 2020	1,485
Amortisation	
At 1 April 2019	681
Charge for the year	147
Disposals during the year	-
At 31 March 2020	828
Net book value	
At 31 March 2020	657
At 1 April 2019	738

The cost includes £787,218 (2019: £721,904) of externally purchased computer software and £697,218 (2019: £697,218) of computer software developed in-house.

Notes to the Financial Statements

Year ended 31 March 2020

12) Tangible Fixed Assets – Housing and Other Properties

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	2020 Total £'000	2019 Total £'000
Cost				
At 1 April 2019	79,883	33	79,916	75,274
Transferred on completion	-	-	-	-
Additions during the year	4,938	801	5,739	5,176
Disposals during the year	(709)	-	(709)	(534)
At 31 March 2020	84,112	834	84,946	79,916
Depreciation				
At 1 April 2019	21,515	-	21,515	18,055
Charge for the year	3,781	-	3,781	3,590
Disposals during the year	(217)	-	(217)	(130)
Impairments during the year	207	-	207	-
At 31 March 2020	25,286	-	25,286	21,515
Net book value				
At 31 March 2020	58,826	834	59,660	58,401
At 1 April 2019	58,368	33	58,401	57,219

Costs capitalised during the year related to components. Total expenditure on properties during the year was £16.06m. Of this £5.74m was capitalised and £10.32m was expensed through the Statement of Comprehensive Income.

Notes to the Financial Statements

Year ended 31 March 2020

13) Housing Stock

	2019 No	Reclassified No	Additions No	Disposals No	2020 No
General Needs	3,897	(1)	-	(41)	3,855
Sheltered	206	1	1	-	208
Garages	394	-	-	(3)	391
Retail Premises	32	-	-	-	32
Co-operative Housing	12	-	-	-	12
Leasehold Houses	166	-	-	(3)	163
Leasehold Flats	112	-	1	(1)	112
Leasehold Garages	213	-	-	-	213
Leasehold Retail Premises	7	-	-	-	7
Total	5,039	-	2	(48)	4,993

14) Tangible Fixed Assets - Other

	Office Furniture £'000	Office Equipment £'000	Scheme Equipment £'000	Motor vehicles £'000	Office premises £'000	Total £'000
Cost						
At 1 April 2019	255	600	214	544	4,431	6,044
Additions during the year	4	52	43	32	65	196
Disposals during the year	-	(29)	-	-	-	(29)
At 31 March 2020	259	623	257	576	4,496	6,211
Depreciation						
At 1 April 2019	78	384	52	295	36	845
Charge for the year	23	95	15	109	46	288
Disposals during the year	-	(29)	-	-	-	(29)
At 31 March 2020	101	450	67	404	82	1,104
Net Book Value						
At 31 March 2020	158	173	190	172	4,414	5,107
At 1 April 2019	177	216	162	249	4,395	5,199

Office equipment includes finance leases with a cost of £37,000 (2019: £41,000), accumulated depreciation of £24,000 (2019: £16,000) and a net book value of £13,000 (2019: £25,000). Motor vehicles includes finance leases with a cost of £544,000 (2019: £544,000), accumulated depreciation of £404,000 (2019: £295,000) and a net book value of £172,000 (2019: £249,000).

Notes to the Financial Statements

Year ended 31 March 2020

15) Investment Properties

	2020 £'000	2019 £'000
At 1 April	878	878
Changes on revaluation of investment properties	-	-
At 31 March	878	878

Had the investment properties been measured at historical cost, the carrying value would be £Nil (2019: £Nil).

The fair value of the investment properties was undertaken by Savills, a global real estate services provider who specialise in loan valuations for security and accounts for Housing Associations and Local Authorities and hold a professional qualification with the Royal Institute of Chartered Surveyors (RICS). The method of determining fair value was by reference to market value for comparable property. Other factors taken into account include the tenure of the property, tenancy details, the condition of the building, the environmental risks associated with the property and the floor areas of the properties. The valuation is obtained triennially. A valuation of the investment properties was undertaken at 31 March 2018. The Board has reviewed the market conditions and concluded that the value has not materially changed as at 31 March 2020.

16) Inventories

Analysis of stock held:	2020 £'000	2019 £'000
Materials and consumables	19	19

17) Debtors: Amounts Falling Due Within One Year

	2020 £'000	2019 £'000
Rent arrears	918	977
Less: Provision for bad debts	(480)	(312)
	438	665
Sales Debtors	336	429
Less: Provision for bad debts	(249)	(222)
	87	207
VAT	327	142
Other Debtors	749	574
Total	1,601	1,588

Notes to the Financial Statements

Year ended 31 March 2020

18) Debtors: Amounts falling due after one year

	2020	2019
	£'000	£'000
WHQS Works		
At beginning of year	55,222	61,160
Released during the year	(4,974)	(5,938)
At the end of the year	50,248	55,222
Housing Finance Grant 2	£'000	£'000
At beginning of year	253	121
Recognised during the year	-	136
Released during the year	(6)	(4)
At the end of the year	247	253
Environmental Warranty	£'000	£'000
At beginning of year	141	-
Recognised during the year	-	141
Released during the year	(15)	-
At the end of the year	126	141
	50,621	55,616

See Note 29 – Provisions for Liabilities for information on WHQS works.

As part of the Transfer Agreement with MTCBC, MVH was required to pay the Council an amount equivalent to the costs which MTCBC incurs in securing environmental insurance in relation to MVH's properties until 2029. The balance owed to MTCBC for cover to 29 March 2019 under this agreement was £157,133 and has been paid in full (see Note 19). A new Environmental Warranty policy to 29 March 2029 is in place which is being recognised over the life of the policy.

Notes to the Financial Statements

Year ended 31 March 2020

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19) Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Bank loans and overdrafts	389	503
Obligations under finance leases	104	123
Accruals	1,073	1,096
Deferred income	59	118
Rents received in advance	220	184
Salary and other employee costs	558	420
Other taxation and social security	229	204
Capital expenditure on housing properties	600	375
Other capital creditors	27	120
Environmental Warranty due to MTCBC	-	157
Total	3,259	3,300

See Note 20 for details of security provided.

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

	2020	2019
	£'000	£'000
Bank loans	23,524	23,490
Other loans	408	428
Obligations under finance leases	78	182
Taf Fechan sinking fund	24	19
Leaseholder sinking fund	378	358
	24,412	24,477

Notes to the Financial Statements

Year ended 31 March 2020

Borrowings

	2020 £'000	2019 £'000
Bank loans		
On demand or within one year	389	503
between one and two years	-	-
between two and five years	-	-
After five years	24,408	24,428
	24,797	24,931

Housing loans are secured (via Prudential Security Trustee) by a charge on the total property stock owned by MVH. To fund the WHQS works MVH has arranged a loan facility of £40m to be drawn down over several years. The issuing costs relate to the arrangement fee of the loan facility.

At 31 March 2020 MVH had undrawn loan facilities of £16 million.

£20m of our current loans outstanding are on fixed rates (£10m at 7.725%, £8m at 7.42% and £2m at 7.09%). A further fixed rate agreement is in place for £10m from 1 April 2020. £4m of our current loans outstanding are on variable rates.

During 2014/15 MVH received a 25 year loan of £510,000 on a PWLB interest rate of 2.92% from MTCBC to fund the refurbishment of Taf Fechan House as part of MTCBC's Vibrant and Viable Places project.

Finance Leases

	2020 £'000	2019 £'000
Finance Leases		
On demand or within one year	104	123
between one and two years	78	104
between two and five years	-	78
After five years	-	-
	182	305

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

Notes to the Financial Statements

Year ended 31 March 2020

Taf Fechan sinking fund

The members of Taf Fechan Housing Co-operative pay in advance for future planned or major works. Any unutilised contributions are recognised as a liability in the Statement of Financial Position. This liability will reduce in line with completed planned or major works on the property.

Leaseholder sinking fund

Under SORP 2014, where leaseholders pay in advance for identified future planned or major works, any unutilised contributions are recognised as a liability in the Statement of Financial Position. This liability will reduce annually in line with completed planned or major works on leasehold properties.

21) Financial Instruments

	2020 £'000	2019 £'000
Finance assets		
Measured at amortised cost:		
Rent arrears (see note 17)	918	977
Sales debtors (see note 17)	336	429
Environmental Warranty (see note 18)	126	141
	1,380	1,547
Financial liabilities		
Measured at amortised cost:		
Loans payable (see note 20)	24,408	24,428
Bank loans and overdrafts (see note 19)	389	503
Capital creditors (see note 19)	627	495
Leaseholder sinking fund (see note 20)	378	358
Taf Fechan sinking fund (see note 20)	24	19
Environmental Warranty (see note 19)	-	157
	25,826	25,960

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

	2020 £'000	2019 £'000
Interest income and expense		
Total interest income for financial instruments at amortised cost	25	37
Total interest expense for financial instruments at amortised cost	1,938	1,841

Notes to the Financial Statements

Year ended 31 March 2020

22) Dowry funding and other government grants

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	2020 Total £'000	2019 Total £'000
Dowry funding and other grants				
At 1 April 2019	(38,564)	(334)	(38,898)	(35,664)
Transferred on Completion	(74)	74	-	-
Additions during the year	(2,900)	-	(2,900)	(3,234)
Disposals during the year	359	-	359	239
Recycled grant during the year	(359)	-	(359)	(239)
At 31 March 2020	(41,538)	(260)	(41,798)	(38,898)
Amortisation of Grants				
At 1 April 2019	10,709	-	10,709	9,043
Charge for the year	1,857	-	1,857	1,730
Disposals during the year	(104)	-	(104)	(64)
At 31 March 2020	12,462	-	12,462	10,709
Net Book Value				
At 31 March 2020	(29,076)	(260)	(29,336)	(28,189)
At 1 April 2019	(27,855)	(334)	(28,189)	(26,621)
Amounts falling due:				
Within one year or less	1,857	-	1,857	1,730
In more than one year	27,219	260	27,479	26,459
Total grant creditor	29,076	260	29,336	28,189

Cumulative total capital grants received are £41.8m. This relates to £35.5m of dowry funding, £3.8m of energy efficiency grants, £2.2m of social housing grant and £0.257m of HFG2.

Dowry funding relates to the dowry grant received from the Welsh Government. In addition to the £2.9m received, £0.359m relating to the disposal of components was re-used during the year.

Notes to the Financial Statements

Year ended 31 March 2020

23) Share Capital

	2020	2019
	No	No
Shares at beginning of year	1,321	1,172
Issued during the year	112	171
Cancelled during the year	(92)	(22)
At the end of the year	<u>1,341</u>	<u>1,321</u>

Members have the right to vote at Members Meetings but membership does not carry the right to dividend payments or distribution on winding up.

24) Restricted Reserves

	2020	2019
	£'000	£'000
Pension Reserve		
At beginning of year	4,619	3,545
Actuarial movement	(2,938)	2,667
Transfer (to) the Income & Expenditure Account	(953)	(1,593)
At the end of the year	<u>728</u>	<u>4,619</u>

This reserve matches the value of the Pension Fund Asset. It is therefore restricted and not available to be spent for any general purpose of MVH.

Notes to the Financial Statements

Year ended 31 March 2020

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25) Operating Leases

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

	Other	
	2020	2019
	£'000	£'000
Operating Leases costs due:		
Within one year	10	10
Between two and five years	4	23
In more than five years	-	-
	<u>14</u>	<u>33</u>

26) Financial Commitments

Financial commitments are as follows:	2020	2019
	Total	Total
	£'000	£'000
Contracted for but not provided for		
within one year	458	638
between one and five years	800	1,200
after five years	-	-
Approved by the directors but not contracted for	53	-

Notes to the Financial Statements

Year ended 31 March 2020

27) Notes to the Statement of Cash flows

	2020 £'000	2019 £'000
Net cash generated from operating activities		
Operating Surplus for the year	1,468	3,178
Adjustment for non cash items:		
Amortisation of intangible assets	147	143
Depreciation of property, plant and equipment	4,069	3,900
Amortisation of government grants	(1,857)	(1,730)
Working capital movements:		
(Increase) / decrease in inventories	-	(7)
Decrease / (increase) in debtors < 1 year	(13)	(243)
Decrease / (increase) in debtors > 1 year	4,994	5,665
Increase / (decrease) in creditors < 1 year	(41)	112
(Decrease) / increase in creditors > 1 year	25	27
(Decrease) / increase in provisions	(4,237)	(5,788)
Pensions costs less contributions payable	1,090	1,690
Carrying amount of property, plant and equipment disposals	598	508
Impairment loss on property, plant and equipment disposals	207	-
Adjustment for investing and financing items:		
Proceeds from disposal of property, plant and equipment	(2,450)	(2,139)
Interest receivable	(231)	(135)
Interest and financing costs	1,963	1,878
Net cash generated from operating activities	5,732	7,059

	£'000	£'000
Cash and cash equivalents		
Cash at bank and in hand	6,168	6,168
Cash equivalents included in current asset investments	3,121	-
Cash and cash equivalents	9,289	6,168

Analysis of changes in net debt

	Cash at bank and in hand £'000	Loans due in less than 12 months £'000	Loans due in over 12 months £'000	Changes in net debt £'000
At 31 March 2019	6,168	-	(24,428)	(18,260)
Net cash flows	3,121	-	20	3,141
At 31 March 2020	9,289	-	(24,408)	(15,119)

Notes to the Financial Statements

Year ended 31 March 2020

28) Related Parties

As at 31 March 2020 we had 8 independent Board Members and 1 co-optee, none of which are our tenants or related parties.

The Democratic Body includes 11 tenant members and 1 co-optee of which all were in post at the year end. Tenancies provided to Democratic Body members are based on the MVH standard terms and members cannot use their position to their advantage. As at 31 March 2020 there was no cumulative rent arrears for the tenant members (2019: £nil) and cumulative receipts paid during appointment totalled £49,460 (2019: £46,145).

The Democratic Body includes 8 employee members of which all were in post at the year end. As at 31 March 2020 cumulative salary payments for the employee members totalled £308,089 (2019: £247,235).

The Democratic Body includes 2 Council Representatives of which only 1 was in post at the year end. Any transactions with the Council are at arm's length, on normal commercial terms and Council Representatives cannot use their position to their advantage. During the year MVH made payments totalling £4.78m (2019: £4.2m) to MTCBC primarily in relation to the payroll and Service Level Agreements; the remainder being in relation to business rates and other costs. Included in debtors is £212,001 of which £141,419 relates to the environmental warranty, £39,603 for overpaid NNDR costs and £9,479 relating to unreceived Supporting People Grant. Included in creditors is £517,960 relating to payroll costs and Service Level Agreements and £3,996 relating to other costs; all due to MTCBC.

MVH became members of Barcud Shared Services Limited from 1 September 2019 under a Members Agreement in which the members agree to work together to share an internal audit service. During the year, we made payments of £18,115 to Barcud Shared Services Limited for the provision of internal audit services. There was no balance outstanding at 31 March 2020.

Notes to the Financial Statements

Year ended 31 March 2020

29) Provisions for liabilities

	Other	WHQS	2020
	£'000	Works £'000	£'000
At beginning of year	439	55,222	55,661
Provided for during the year	755	-	755
Used during the year	(18)	-	(18)
Released during the year	-	(4,974)	(4,974)
At the end of the year	1,176	50,248	51,424

Provisions includes amounts in respect of office accommodation, restructuring, WHQS works and other liabilities for which there is uncertainty over both the timing and exact quantification of amounts due. Management have made provisions based on their best estimates of the future liability.

In respect of WHQS works, under the transfer agreement the Council transferred the properties to MVH together with an obligation to undertake the WHQS works at the Council's expense. The price paid for the properties was £133,023,642; this price reflects the Tenanted Market Value of the stock which is nil and the estimated value of the works of £133,023,642. At 31 March 2020 £50.248m (2019: £55.222m) is shown in Debtors: amounts falling due after one year and in provisions for liabilities.

30) Events after the Reporting Date

There are no events after the reporting date.

Notes to the Financial Statements

Year ended 31 March 2020

31) Pension Costs

Merthyr Valleys Homes' employees are eligible to join the RCTCBC Pension Fund, which is a local government pension scheme (LGPS). MVH was admitted to the scheme on 30 March 2009. This disclosure relates to the period between 1 April 2019 and 31 March 2020.

The LGPS is a funded defined benefit scheme, with assets held in a separate trustee administered fund. Contributions in the year totalled £939,633 of which employers contributions totalled £582,649 and employees totalled £356,984.

In accordance with the requirements of FRS102 the pension fund is valued by a qualified independent actuary in order to ascertain the value of the scheme and the previous year has been restated accordingly.

Contributions for the year ended 31 March 2021

Regular employer contributions to the fund for the year ended 31 March 2021 are estimated to be £618,000.

Assumptions

The latest actuarial valuation of the fund liabilities took place as at 31 March 2020. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principle assumptions used were:

Financial assumptions for valuing the funded LGPS Liabilities		
Assumption	31 March 2020 (% p.a.)	31 March 2019 (% p.a.)
Discount rate	2.30%	2.50%
CPI inflation	1.90%	2.10%
Increase to pensions in payment	1.90%	2.10%
Pension accounts revaluation rate	1.90%	2.10%
Salary increases	3.15%	3.35%

Notes to the Financial Statements

Year ended 31 March 2020

Mortality assumption at 31 March 2020 and 31 March 2019

Males	31 March 2020	31 March 2019
Member aged 65 at accounting date	21.7	22.2
Member aged 45 at accounting date	22.7	23.9
Females	31 March 2020	31 March 2019
Member aged 65 at accounting date	24.0	24.1
Member aged 45 at accounting date	25.5	25.9

Asset allocation

Asset class	Value at 31 March 2020	Value at 31 March 2019
Equities	68.1%	64.5%
Property	7.5%	6.9%
Government bonds	11.4%	13.5%
Corporate bonds	11.8%	11.6%
Cash	1.2%	3.5%
Other	0.0%	0.0%

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

Active members	70.0%
Deferred pensioners	10.0%
Pensioners	20.0%

Amounts recognised in other comprehensive income

	31 March 2020 £M's	31 March 2019 £M's
Assets gains / (losses) arising during the period	(1.796)	2.832
Liability gains / (losses) arising during the period	(1.142)	(0.165)
Total amount recognised in other comprehensive income	(2.938)	2.667

Notes to the Financial Statements

Year ended 31 March 2020

Reconciliation of funded status to Financial Position

	31 March 2020 £M's	31 March 2019 £M's
Fair value of assets	42.476	42.636
Present value of present defined benefit obligation	41.748	38.017
Net pension asset	0.728	4.619

Changes to fair value of assets

	31 March 2020 £M's	31 March 2019 £M's
Opening fair value of assets	42.636	38.283
Interest income on assets	1.073	1.002
Remeasurement gains / (losses) in assets	(1.796)	2.832
Contributions by the employer	0.583	0.435
Contributions by participants	0.357	0.347
Net benefits paid out	(0.377)	(0.263)
Net increase in assets from disposals / acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing fair value of assets	42.476	42.636

Notes to the Financial Statements

Year ended 31 March 2020

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Changes to present value of the defined benefit obligation

	31 March 2020 £M's	31 March 2019 £M's
Opening present value of liabilities	38.017	34.738
Adjustment for past service cost	(0.582)	0.000
Revised opening present value of liabilities	37.435	34.738
Current service costs	1.922	1.543
Interest expense	0.936	0.905
Contributions by participants	0.357	0.347
Actuarial losses / (gains) on liabilities	1.142	0.165
Net benefits paid out	(0.377)	(0.263)
Past service costs	0.333	0.582
Curtailments	0.000	0.000
Net increase in liabilities from disposals/acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing defined benefit obligation	41.748	38.017

Actual return on assets

	31 March 2020 £M's	31 March 2019 £M's
Interest income on assets	1.073	1.002
Gain / (losses) on assets	(1.796)	2.832
Actual return on assets	(0.723)	3.834

