

Financial Statements



**Year ended
31 March 2013**

Registered under the Industrial and Provident Societies Act No. 30532 R
Registered with the Welsh Government No. L150

Contents

	Page
Board Members, Executive Officers and Professional Advisors	3
Operating and Financial Review	4-10
Directors' Report	11-13
Independent Auditor's Report to the Members	14-15
Income and Expenditure Account	16
Balance Sheet	17
Statement of Total Recognised Surpluses and Deficits	18
Cash Flow Statement	18
Notes to the Financial Statements	19-37

Board Members, Executive Officers and Professional Advisors

Council Board Members:

Bill Smith
Howard Barrett
Clive Tovey – resigned May 2012
Tom Lewis – appointed May 2012
David Jones – appointed May 2012 – resigned
June 2012
Chris Barry – appointed June 2012

Tenant Board Members:

Avril Richards (Vice Chair) – resigned Sept 2012
Frances Bevan
Gareth Adams – resigned June 2012
Jacqueline Sullivan
Diana Lyons – appointed Sept 2012
Paul Thomas – appointed Sept 2012

Independent Board Members:

David Lewis (Chair)
Martin Jones
Stephanie Howarth
Nicola Evans (Vice Chair) – appointed April 2012

Co-optees:

Stephen Cook – resigned Sept 2012
Tom Lewis – resigned May 2012
John Chown

Executive Officers:

Michael Owen (Chief Executive)
Lorraine Oates (Finance and Resources
Director)
Victoria Slade (Housing Director)
Maria Lewis (Acting Housing Director April –
Dec 2012)
Paul Allen (Asset Management Director)

Registered Office:

Martin Evans House
Block 2 Riverside Court
Avenue de Clichy
Merthyr Tydfil CF47 8LD

Area Office:

Johnny Owen Centre
Forsythia Close
Merthyr Tydfil CF47 9DS

External Auditors:

Mazars LLP
Statutory Auditors
45 Church Street
Birmingham B3 2RT

Internal Auditors:

Barcud Shared Services
Valleys to Coast Ltd
Tremains Business Park
Tremains Road
Bridgend CF31 1TZ

Solicitors:

Trowers and Hamblins LLP
Sceptre Court
40 Tower Hill
London EC3N 4DX

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
7th Floor 135 Bishopsgate
London EC2 3UR

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

Operating and Financial Review

For the Year ended 31st March 2013

The Board of Management is pleased to present its Operating and Financial Review, Board report and the audited Financial Statements for Merthyr Valleys Homes Limited (MVH) for the year ended 31st March 2013.

Legal Status

MVH is established and registered under the Industrial and Provident Societies Act 1965 to 2003 and is a Registered Social Housing Provider, registered with the Welsh Government. MVH has adopted charitable rules. MVH is a not-for-profit organisation administered by a voluntary Board of Management.

Principal activities and objectives

MVH owns, manages and maintains 4,229 rented homes, including 205 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil.

We also own or manage 641 garages and 43 retail units and provide management services to 302 leasehold properties.

During 2012, the Board adopted a new vision for MVH. This new vision identified our priority as being to provide excellent housing and repair services and identified a central role for MVH in regenerating our neighbourhoods.

We want our tenants to “live with us; work with us and improve with us”.

To achieve this, our strategic goals are to:

- Create a housing service that is excellent
- Put tenants at the heart of our organisation
- Create a fairer community
- Have a proud and productive workforce
- Work with social enterprises
- Support local democracy
- Create quality homes
- Improve our neighbourhoods
- Improve economic inequality

To support the strategic goals in our Corporate Strategy, we also need to ensure that we:

- Have the right finances
- Have the right governance structures
- Manage the risks in achieving our vision

Operating Results

The main focus for 2012-13 was to accelerate the delivery of Welsh Housing Quality Standard (WHQS) and the operating results reflect this position:-

- Income and Expenditure Accounts – Turnover exceeded expectations and increased to £14.2m. This was as a result of new tenants paying benchmark rents and a guideline rent increase of 5.1% from 2011/12 to 2012/13. Operating Costs fell in the year to £10.8m, a £1.08m decrease year on year, due to savings achieved in management costs and routine maintenance, offset by additional housing property depreciation costs. The surplus for the year was £2.558m.
- Balance Sheet – Housing Properties Asset costs have increased by £14.81m to £34m as at 31st March 2013, reflecting the delivery of the major improvement programme. Cash balances were used to fund the capital programme. Dowry Gap Funding of £2.9m from the Welsh Government (WG) and other grants of £2.09m were also received.
- Excluding the adjustment for changes in the Pension Liability, net current liabilities are £2.4m. The Pension Fund remains in surplus at £1.809m as at 31st March 2013 which is unusual.
- Loans drawn as at 31st March 2013 were £12.5m, of which, £10m was at fixed interest rates and £2.5m at variable rates. Our net liabilities indicate that a further £2.5m will be drawn down in 2013/14 to satisfy this.

Operating and Financial Review

For the Year ended 31st March 2013 (cont.)

- The overall net assets position at 31 March 2013 is £2.841m. The balance sheet position has been affected this year by an increase in the value of the pension asset and an increase in the value of housing properties held as a result of the major investment programme.
- An independent valuation of the housing stock conducted by Savills based on Existing Use Value shows an increase in value from £39.572m as at 31st March 2012 to £46.49m as at 31st March 2013.
- We introduced the opti-time mobile working system for repair ordering and management. This will benefit tenants by being able to offer more flexible appointments and we will be better able to appoint jobs.
- We consulted extensively with tenants and informed them of the Welfare Benefit Reforms. We have responded to the challenges by reviewing our staffing structure; providing advice surgeries; visiting all tenants who would be affected by the under occupancy charge; taking a new approach to rent collection and arrears recovery and providing training for Board members, staff and tenants. This work is ongoing to try to mitigate the impact of the government's programme on our tenants, communities and organisation.

2012/13 Key Achievements

The list below highlights key achievements for 2012/13:-

Live with us

- We launched a new five year Corporate Strategy that reflects our community's aspirations, our local heritage and our values. We carried out a doorstep survey of over 1,100 tenants and used their views to inform this, so we know our priorities match those in the community.
- We achieved recognition when our work in three areas of involving tenants was commended at the 2012/13 Tenant Participation Advisory Service (TPAS) Cymru awards. Involving tenants means that we can shape and improve our services to meet needs.
- We have developed a Property Services Team (PST) Business Plan which sets out how PST will improve its services and value for money over the next five years.
- We achieved the Centre for Housing Studies (CHS) Accreditation for Sheltered Schemes which allows us to continue receiving funding via the Supporting People initiative. The contribution from tenants was recognised for an award in the 2013/14 TPAS Cymru Awards.
- Paul Thomas (tenant Board member) was commended at the annual Chartered Institute of Housing (CIH) Wales Awards for most inspirational tenant for the work he does with Service Leavers Wales.
- A survey was carried out towards the end of the year to assess tenants' views of the services we provide. This showed an improvement on overall satisfaction. This is being used to target improvements in our services.
- We involved tenants, Board members, unions and staff in the budget setting process for 2013/14 in order to ensure a more inclusive and transparent approach to budget setting, given the pressures on income following the Welfare Benefit Reforms.
- We remodelled our office space to be more customer focussed with self help kiosks, internet access and more interview space. The primary purpose of this was to be able to accommodate increased footfall and provide greater support to tenants as a result of the UK Government's programme of welfare reform.

Operating and Financial Review

For the Year ended 31st March 2013 (cont.)

- We consulted extensively with tenants on the proposed new rent policy from the Welsh Government in order to agree a manageable solution which would smooth the effect of the proposals.
- Following achievement of the Wales Housing Management Standard for Anti Social Behaviour (ASB) in 2011, an independent review was undertaken this year by CIH who concluded that we deal with ASB very well and have adopted a victim centred approach.
- We worked with Merthyr Tydfil County Borough Council (MTCBC) to review the Common Allocations Policy to improve and simplify it.
- We introduced a Shared Accommodation Pilot in partnership with Adref and MTCBC.
- We reduced the number of evictions.
- We developed and introduced Housing Service Standards.
- We developed a Community Cohesion Working Group to raise awareness of MVH's role and improve community links.
- We are one of 6 organisations who made a successful bid for Big Lottery funding. Our project will enable younger tenants to get a better understanding of housing policy and how it influences our communities and neighbourhoods, and encourage them to think about future policy and what it means for them.
- Qualification's (NVQ's), during this financial year we have supported 4 placements. We have also taken on an additional 2 Apprentices within our Property Services Team.
- The Property Services Team delivered a £2.26m capital work programme. This is part of our ongoing commitment to the Property Services Team and has enabled us to work more efficiently and effectively for our tenants.
- We partnered with three other Large Scale Voluntary Transfers (LSVT) to provide our own internal audit services in order to share best practice between the partnering organisations and have a service that is better value for money.
- We carried out a staff survey which showed that 79% of staff would recommend working for MVH to a friend. This compares well with other organisations and is one of the ways we measure our goal of developing a happy and motivated workforce.
- We transferred 98% of our staff onto MVH terms and conditions.
- We adopted the living wage as part of our commitment to being a good employer.
- We brought the cleaning team in-house for both office and void property cleaning. This will save us approximately £10k p.a. and provides us with greater control over the cleanliness of ready to let properties.

Work with us

- We continue to support the local economy by working with a number of social enterprises, with the letting of contracts to the Gellideg Foundation during the year, being cited as best practice by the Welsh Government.
- We have supported Jobs Growth Wales by taking 1 placement. We continue to support the Local College via work experience placements of up to 12 months to allow students to complete National Vocational

Improve with us

- Work to improve the quality of the housing stock continued through the WHQS programme. We have now carried out a significant proportion of the planned work and are on target to achieve WHQS by 2014. The cumulative results are in the table (right):-

Operating and Financial Review

For the Year ended 31st March 2013 (cont.)

Major Works Programme – Completed Work

Component	Promises	Completed Nos	% of WHQS Programme Achieved
Kitchens	2,500	2,064	82.6
Bathrooms	2,000	1,963	98.2
Re-wiring	3,000	2,421	80.7
Windows	1,400	840	60.0
Heating	1,500	1,367	91.1

- We were awarded £2.09m of ARBED (the WG's Strategic Energy Performance Investment Programme) and CESP (Community Energy Saving Programme) funding to carry out External Wall Insulation work at 315 of our properties.
- We enabled 58 owner occupiers to access cheaper energy efficiency measures from our contracts.
- The Grant and Sponsorship Panel awarded £43,239 to local groups. These groups provide important community networks and functions which otherwise may not be funded.
- Set up an Environmental Panel to evaluate bids/projects from community groups and staff. Community generated projects and ideas are assessed by a panel of residents to make sure we are contributing to safer, cleaner and greener neighbourhoods.
- We let a £5m gas servicing and maintenance contract to a local provider. This involved an evaluation panel consisting of officers, Board members and tenants.

Resources and governance

- We revised our 30 year business plan to incorporate the 50% stock condition survey and a reduction in management costs.
- We achieved a 'Pass' on our annual financial viability judgement from the Welsh Government which confirms we have adequate resources to meet current and future business and financial commitments.
- Our Housing Association Regulatory Assessment by the Welsh Government (HARA) result was "medium" and in line with the majority of housing associations in Wales.
- We finalised our data protection policy and framework. We provided basic training to all office based staff and more advanced training to key staff.
- We appointed new external auditors following a competitive tender process.
- We appointed new insurers in March, following an Official Journal of the European Union (OJEU) process, which secured savings of over £100k for 2013/14.
- We revised our Financial Regulations and Contract Standing Orders and developed a range of fraud related policies to strengthen our financial management framework. Training on the revised policies was provided to all staff.

Operating and Financial Review

For the Year ended 31st March 2013 (cont.)

Key Performance Indicators (KPIs)

Merthyr Valleys Homes reported the following performance for 2012-13.

KPI	2012/13 Target	2012/13 Actual
Rent Arrears for 2012/13	2%	3.53%
Empty Home Rent Loss Percentage	2%	2.07%
Average Time Taken to Complete Emergency Repairs	0.28	0.48
Average Time Taken to Complete Urgent Repairs	3	3.26
Average Time Taken to Complete Routine Repairs	14	13.9
Tenant Satisfaction with Repairs Service	97%	91.42%
Percentage of Properties with a Valid Landlord Gas Safety Record	100%	100%

Rent arrears for 2012/13

This year has seen the initial impacts of Welfare Benefit Reforms. The most significant increase in arrears has been on our estates where there is high benefit dependency. Our Income Team has been reorganised and staff numbers increased to target the high level of arrears.

Empty Home Rent Loss Percentage

Whilst we did not meet the target set for the year, our performance has improved since the previous year (2.19%). This is attributable to the targeting of long term void properties and outsourcing void works to external contractors which has improved overall turnaround times.

Average Time Taken to Complete Emergency Repairs

Analysis of performance data shows that PST met the target for 99% of all jobs, however external contractors' performance had a negative impact on the overall performance. We are taking steps to ensure that external contractors improve their response time by tracking their performance.

Average Time Taken to Complete Urgent Repairs

PST met the target for 96% of repairs; the external contractors' performance again reduced this performance indicator.

Average Time Taken to Complete Routine Repairs

The high number of emergency works in the year has made the management of responsive repairs more difficult because it reduces our ability to manage workflows. There was also a backlog in external works jobs. We have employed additional tradesmen to respond to the backlog and have prioritised the work according to the impact it is having on the properties and our tenants and split it into areas with a target date of 31 March 2014 for completion.

Tenant Satisfaction with Repairs Service

The most frequent reason for dissatisfaction is that tenants expect operatives to complete a list of repairs, some of which is not identified at the time the repair request is made. We will be developing our monitoring of satisfaction from 2013/14 to analyse why we are getting negative returns.

Operating and Financial Review

For the Year ended 31st March 2013 (cont.)

Percentage of properties with a valid landlord gas safety record

We have ensured that this high level of performance is maintained through regular reviews of our procedures, moving to an 11 month servicing cycle and working more effectively with Housing Officers.

Risk Management

The management of risk is a Board function, the Audit Committee monitors risk.

MVH faces a wide range of business risks which are identified in a formal document. Some risks cannot be eliminated but are kept under formal review by the Audit Committee which receives an Over-Arching Risk Map and accompanying report at each meeting. The top 5 risks at year end were:-

1. The impact of the changes to the Welfare Benefit system and the detrimental effect on income.
2. An adverse outcome from the postponed WG Rent Review which could increase rents and place tenants in financial difficulty.
3. Non-compliance with Health and Safety regulations which could result in prosecution.
4. Failure to deliver an adequate proportion of work through PST within the Business Plan assumptions.
5. Failure to deliver the capital programme due to overspend on key contracts as a result of poor cost controls

Capital Funding and Treasury Policy

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

- Compliance with statute, regulation & best practice.
- Security of financial assets
- Liquidity – ensuring that resources are adequate to meet obligations.
- Effectiveness & Efficiency in the use of financial resources and achieving value for money.

The Treasury Management Policy and Strategy are reviewed annually and approved by Board. The Board receives half yearly reports on treasury management performance.

Current Liquidity

MVH holds cash, short term investments and has access to loan facilities and grants.

MVH has two sources of Capital Funding, Dowry Gap Funding from the WG and a £40m loan facility with RBS and Principality BS.

- The Dowry Gap Funding of £2.9m is received from the Welsh Government on an annual basis and was guaranteed until April 2013. There is an expectation that it will continue to be received until 2036/37.
- The £40m loan facility comprises £32m from RBS and £8m from Principality BS. Three forward fixed rate agreements were put in place on transfer to hedge against adverse movements in interest rates. Loans drawn as at 31st March 2013 were £12.5m, of which, £10m was at fixed interest rates and £2.5m at variable rates.

Operating and Financial Review

For the Year ended 31st March 2013 (cont.)

- The £40m is divided into two Tranches A and B. Tranche A provides £24m and Tranche B £16m. Tranche A must be fully drawn by 31st March 2015 in order to access Tranche B monies. The 2013/14 Business Plan shows this happening, with predicted drawings of £24.718m at that date. Tranche B is a revolving facility provided solely by RBS meaning that it can be drawn and repaid repeatedly until 30th March 2023. After that date any drawings are converted to 'term' loans.
- The repayment of the loan facility is 30th April 2033.

Spending was slow at the start of 2012/13 and increased slowly as the year progressed. Additional grant income and house sales reduced the need to draw down loan finance during the year. At 31st March 2013 we expected to have loans outstanding of £16m, we will have drawn £15m to cover all 2012/13 commitments. This will be closely monitored to ensure access to Tranche B funds in 2015.

Key Accounting Policies

The key accounting policies are set out in Note 2 of the Financial Statements on pages 19-22. The most critical accounting policies in terms of the impact on the financial statements are the calculation of depreciation on housing properties and the capitalisation of improvements to housing properties.

The accounting policy for the calculation of depreciation on housing properties has been changed in 2012/13. A full year's depreciation has been charged to the Income and Expenditure Account in the year of acquisition and none in the year of disposal, rather than charging depreciation in the month following the acquisition of the asset. This is considered a change in estimation technique only. The effect of this change is that depreciation is £365,000 higher than it would have been under the previous calculation method.

Going Concern

The Board has a reasonable expectation that MVH has adequate resources to continue in operational existence for the foreseeable future. For this reason the going concern basis has been adopted in these financial statements.

Directors' Report

For the Year ended 31st March 2013

The Board of Management is pleased to present its report and audited financial statements for Merthyr Valleys Homes Limited (MVH) for the year ended 31st March 2013.

Principal Activities

MVH is a not-for-profit organisation administered by a voluntary Board of Management. 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 £2.558m. Net Assets at 31st March 2013 were £2.841m. As at 31st March 2013 the designated reserves for the Pension Fund Asset and the Leaseholders Sinking Fund were £1.809m and £0.104m respectively.

During the year MVH spent £21.866m on reactive, void and cyclical repairs and the WHQS improvement programme. This was financed from £14.377m of internal financing i.e. rental income and reserves; loans of £2.5m and Dowry Gap Funding and other grants of £4.99m.

Board Members

Board members are listed on page 3 under Board members, executive officers and professional advisors.

The above Board members have held office during 2012/13 unless otherwise stated. Board membership is voluntary and is made up of members with varied experience to cover a broad knowledge base.

Any tenant or resident of Merthyr can purchase a share for £1 and become a Member of Merthyr Valleys Homes.

The senior executives hold no interest in MVH's shares and have no legal status as directors, although they act as executives within authority delegated by the Board.

MVH has two committees, Audit and Policy. Membership is drawn from the Board.

MVH has insurance policies indemnifying its Board Members and Directors against liability when acting on behalf of the organisation.

Charitable Donations

MVH made £43,239 in charitable donations in the year which were approved by the Grants and Sponsorship Panel. This included the following donations:-

Little Monsters	372
Trefechan Wednesday Group	398
Hoover (Merthyr) Amateur Radio Club	505
Scanty Panties	550
Merthyr & The Valleys Mind	551
Service Leavers Wales	2,614
3Gs Development Trust	770
The Friendly Walkers	800
Troedyrhiw Football	889
3Gs Media & Art	900
Tydfil Autism Support Group	922
Merthyr Eyelights	980
Friends of Taff Bargoed Park	997
Stay Young at Heart	1,000
Gurnos Nursery School	1,000
Aberfan Canoe Club	1,369
Merthyr Tydfil Credit Union	1,764
Trinity Day Care Centre	1,769
Merthyr People First	1,884
Willows Centre	1,890
Gellideg Foundation	2,100
Visually Impaired Merthyr	2,165
Merthyr Mendicants	2,220
Penydre High School	4,750
Friends of Penydre High School	4,836
Cymdeithas Gymraeg Beddllwynog	1,500
Voluntary Action Merthyr	515
Merthyr Tydfil Global Village	2,000
Rock at the Park	324
Merthyr Aloud Community Choir	700
Merthyr Tydfil Association Football League	206

Directors' Report

For the Year ended 31st March 2013 (cont.)

Statement of Internal Control

In accordance with the Welsh Government circular RSL 02/10 "Internal Controls and reporting", the Association's 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 Association'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 Association's ability to achieve its business plan objectives.

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, clearly setting out the system of delegation.
- Clearly defined corporate and divisional management responsibilities and reporting structures.
- An appropriate level of experienced and suitably qualified staff.
- Procedure manuals for staff.
- Comprehensive systems of financial reporting including annual budgets and quarterly management accounts reported to the Board, detailing actual performance against budget.
- Risk management framework, with regular evaluation and management of risks at both departmental and corporate level.

- A range of anti-fraud policies including bribery and money laundering plus an action plan. A Fraud Register is maintained.
- Authorisation from Board for major contracts which could pose a risk to the organisation.
- A robust internal audit service which reports to Audit Committee regularly.
- An annually revised thirty year financial business plan that indicates the financial direction of MVH.

The Board 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 1st April 2013 to date.

Statement of Board of Management responsibilities

The Board of Management is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Industrial and Provident Societies Acts and Registered Social Landlord legislation require the Board of Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of MVH and of the income and expenditure 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 estimates that are reasonable and prudent.

Directors' Report

For the Year ended 31st March 2013 (cont.)

- State whether applicable accounting standards and the Statement of Recommended Practice 'Accounting by Registered Social Housing Providers: Update 2010' have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that MVH will continue in business.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of MVH and enable it to ensure that the financial statements comply with the relevant legislation. The Board is also responsible for maintaining an adequate system of internal control and safeguarding the assets of MVH and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Board are aware:-

- There is no relevant audit information of which the Association's auditors are unaware;
- The Board has taken all steps that ought to have been taken to make itself aware of any relevant audit information and to establish that the auditors are aware of the information.

Annual General Meeting

The Annual General Meeting will be held on the 26th September 2013 at Martin Evans House. At this meeting, MVH's 2012/13 Financial Statements will be presented for adoption.

Auditors

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

By order of the Board of Management

David Lewis - Chair

Date 26th September 2013

Independent Auditor's Report

Year ended 31 March 2013

Independent Auditor's Report to members of Merthyr Valleys Homes Limited

We have audited the financial statements of Merthyr Valleys Homes Limited for the year ended 31 March 2013 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Surpluses and Deficits and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Board and the auditor

As explained more fully in the Statement of Board's Responsibilities set out on pages 12-13, the Board is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the association's members, as a body, in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association's members as a body for our audit work, for this report, or for the opinions we have formed.

We have reviewed the Board's statement on the association's compliance with the Welsh Government circular 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.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2013 and of the association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2003, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination (Wales) 2009.

Opinion on other matters

With respect to the Board's statement on internal control, in our opinion, 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.

Independent Auditor's Report

Year ended 31 March 2013 (cont.)

Matters on which we are required to report by exception

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

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

**Mazars LLP,
Chartered Accountants
and Statutory Auditor**

45 Church Street,
Birmingham,
B3 2RT

Income and Expenditure Account

Year ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Turnover	3	14,193	13,485
Less: Operating costs	3	<u>(10,836)</u>	<u>(11,919)</u>
Operating Surplus	4	3,357	1,566
Surplus on sale of fixed assets	5	249	495
Interest receivable and similar income		25	91
Interest payable and similar charges	6	<u>(1,073)</u>	<u>(1,064)</u>
Surplus on ordinary activities before taxation		2,558	1,088
Taxation	2(l)	-	-
Surplus for the year on ordinary activities after taxation and before transfers to reserves	17	<u><u>2,558</u></u>	<u><u>1,088</u></u>

Continuing Operations

All transactions during the period are derived from continuing activities.

Historical Costs Surplus

MVH has no recognised surpluses and deficits other than the surplus for the year and the surplus for the year has been calculated on the historical cost basis.

Balance Sheet

At 31 March 2013

	Notes	2013 £'000	2012 £'000
Tangible Fixed Assets			
Housing properties	- Cost	9	34,008
	- Dowry Gap Funding and Other Grants	9	(18,847)
	- Depreciation	9	(662)
			<u>14,499</u>
Other fixed assets	11	1,062	<u>1,082</u>
		<u>15,561</u>	<u>6,403</u>
Current Assets			
Debtors	12	2,828	2,182
Stock	13	15	8
Cash at bank and in hand		-	4,126
		<u>2,843</u>	<u>6,316</u>
Creditors: amounts falling due within one year	14	<u>(5,272)</u>	<u>(4,309)</u>
Net current (liabilities) / assets excluding Pension asset		<u>(2,429)</u>	<u>2,007</u>
Pension asset	23	1,809	861
Net current (liabilities) / assets including Pension asset		<u>(620)</u>	<u>2,868</u>
Total Assets less Current Liabilities		14,941	9,271
Creditors: amounts falling due after more than one year	15	(12,100)	(9,566)
Provisions for liabilities and charges	22	-	(266)
Net Assets / (Liabilities)		<u>2,841</u>	<u>(561)</u>
Capital and Reserves			
Share capital	16	-	-
Revenue Reserve	17	928	(1,503)
Designated Reserve - Pension Asset	17	1,809	861
Designated Reserve - Leaseholder Sinking Fund	17	104	81
		<u>2,841</u>	<u>(561)</u>

The Financial Statements on pages 16 to 37 were approved and authorised for issue by the Board of Management on 4th September 2013 and were signed on its behalf by:

Chair of the Board
(David H Lewis)

Vice Chair
(Nicola Evans)

Company Secretary
(Allison Soroko)

Statement of Total Recognised Surpluses and Deficits

Year Ended 31 March 2013

	2013 £'000	2012 £'000
Surplus for the year before transfers to reserves	2,558	1,088
Actuarial gain / (loss) on pension scheme	844	(2,256)
Total recognised surplus / (deficit) for the year	<u>3,402</u>	<u>(1,168)</u>

Cashflow Statement

Year Ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Net cash inflow from operating activities	20	2,905	873
Returns on investments and servicing of finance			
Interest received		25	91
Interest paid		(1,138)	(1,029)
Revenue loan arrangement fees		34	34
Net cash outflow from returns on investments and servicing of finance		<u>(1,079)</u>	<u>(904)</u>
Taxation		-	-
Capital expenditure and financial investment			
Improvement works on housing properties		(13,754)	(10,478)
Gap funding and other grants		4,990	3,473
Loan arrangement fees		-	-
Sales of housing properties		249	495
Purchase of other fixed assets		(164)	(198)
Net cash outflow from capital expenditure		<u>(8,679)</u>	<u>(6,708)</u>
Net cash outflow before financing		<u>(6,853)</u>	<u>(6,739)</u>
Financing			
Housing loans received		2,500	4,000
Net cash inflow from financing		<u>2,500</u>	<u>4,000</u>
Decrease in Cash	20	<u>(4,353)</u>	<u>(2,739)</u>

Notes to the Financial Statements

Year Ended 31 March 2013

1) Legal Status

MVH is established and registered under the Industrial and Provident Societies Act 1965 and is a Registered Social Landlord, registered with the Welsh Government. MVH has adopted charitable rules.

2) Accounting Policies

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

a) Accounting convention

Basis of Accounting

The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP) and comply with the Statement of Recommended Practice (SORP)

“Accounting by Registered Social Housing Provider” update issued in 2010, and the Accounting Requirements for Registered Social Landlords – General Determination (Wales) 2009. The Board is satisfied that the current accounting policies are the most appropriate for MVH.

The financial statements are prepared under the historical cost convention and on a going concern basis.

b) Turnover

Turnover represents rental and other income receivable, income from property sales, and revenue grants receivable. Disposals of fixed assets such as Right to Buy sale income are not included in turnover.

c) Grants and Dowry gap funding

Grant income received is matched with the expenditure to which it relates. Where grant is paid as a contribution towards revenue expenditure, it is included in turnover. Where grant is received from

government and other public bodies as a contribution towards the capital cost of housing schemes, it is deducted from the cost of housing properties on the face of the Balance Sheet. Financial reporting standards require tangible fixed assets to be stated at purchase price, or valuation, less any provision for depreciation or diminution in value. However, this requirement conflicts with the generally accepted accounting principles for RSLs set in the SORP (2010). The purpose of these capital grants is to subsidise the cost of social housing and the income from properties is a function of net costs. Accordingly the Board considers it necessary to adopt the accounting treatment set out in the SORP to show a true and fair view.

Dowry gap funding is received from the Welsh Government. It is not repayable.

d) Bad and Doubtful Debts

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.

e) Supporting People

Supporting People income and expenditure is accounted for on an accruals basis, matching income and expenditure and disclosures are made in accordance with relevant standards and legislation.

f) Fixed Assets

Following the Transfer from the Council on 30th March 2009 the properties were valued at £nil. Works subsequently undertaken are measured at cost which includes only those costs which are directly attributable. Directly attributable costs can include the labour costs of Merthyr Valleys Homes own Property Services Team employees, materials used, overhead costs directly attributable, and interest on loans raised

Notes to the Financial Statements

Year Ended 31 March 2013

to finance work prior to completion. The capitalisation of interest represents either:

- A fair proportion of interest on borrowings of Merthyr Valleys Homes as a whole, in which case the interest capitalised is based on the average cost of borrowing; or
- Interest on borrowings specifically financing the particular work or scheme, in which case the interest on the specific loan is used.

Expenditure relating to planned maintenance or improvement will only be capitalised if it results in an increase to the economic performance of the asset. If the expenditure only maintained the assets performance or arrested its decline in performance, it is not capitalised. To increase an asset's performance, expenditure must result in one or more of the following occurring:

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

g) Depreciation

Freehold land is not depreciated.

Housing properties

In line with the requirements of the SORP, housing properties would be depreciated to write down the net book value to their estimated residual lives on a systematic basis over their estimated useful lives.

- Traditional built properties are depreciated over 100 years
- Non traditional properties are depreciated over 50 years

Depreciation would be charged on a straight line basis.

The depreciable amount is arrived at on the basis of original cost, less the cost of land, less the proportion of Social Housing or other Grants receivable which is attributable to housing properties, less any residual value.

To date, MVH holds one property asset of this class.

Improvements to Housing Properties

Expenditure in respect of refurbishment or the replacement of major components is assessed against the life of the component. Where such refurbishment or replacement is in respect of major components with an estimated useful life in excess of 10 years, then the expenditure is capitalised and depreciated over the useful life of the component as follows:

Housing Property Improvements/WHQS Summary of Components for Fixed Assets

Component	Projected Economic Life (years)
Roofs	50
Windows and Doors	30
Kitchens	15
Bathrooms	25
Central Heating Upgrades	15
Rewires	25
Building structure (Walls, retaining walls, Paths etc)	50
Other	10-15

Timing of depreciation on housing property costs

A full year's depreciation will be charged to the Income and Expenditure Account in respect of an asset in the year of acquisition and none in the year of disposal.

Notes to the Financial Statements

Year Ended 31 March 2013

Other fixed assets

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over their estimated useful lives. The useful lives used for other assets are:

Office Improvements	10 Years
Furniture, Fixtures and Fittings	10 Years
Telephone System	8 Years
Office Equipment	5 Years
Computer Implementation	
Hardware	5 Years
Computer Hardware - Other	3 Years
Computer Software	8 Years
Scheme Equipment and Furniture	10-25 Years

Timing of depreciation on other fixed assets

The commencement of depreciation charged to the Income and Expenditure Account in respect of an asset is in the month following the acquisition of that asset.

h) Impairment

Housing properties that are depreciated over a period in excess of 50 years are subject to an annual impairment review in accordance with FRS 11 and the 2010 SORP. Any impairment in an income generating unit (such as tenanted rented property) is recognised by a charge to the Income and Expenditure Account. Impairment is recognised where the carrying value of an income generating unit exceeds the higher of its net realisable value or its value in use. Merthyr Valleys Homes checks annually for any indication of impairment by reference to:

- Trends in voids rates and letting of housing stock
- Advice from external valuers regarding their expectations of the value of stock.

i) Stocks

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

j) Leases

Rentals paid under operating leases are charged to the Income and Expenditure Account as incurred.

k) Finance Costs

Finance costs include both interest payments and any costs associated with the issue of the loan. For new loans, these costs are allocated to the Income and Expenditure accounts over the term of the loan in line with FRS4. Where loans are redeemed, the full cost of any redemption penalty is recognised in the Income and Expenditure account in the year redemption takes place.

l) 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.

VAT Shelter / Development Agreement

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 to MTCBC. 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 £133,023,642.00; this price reflects the Tenanted Market Value of the stock which is nil and the estimated value of the works of £133,023,642.00.

Notes to the Financial Statements

Year Ended 31 March 2013

- 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 £133,023,642.00 plus VAT of £19,953,546.30.

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.

(b) Corporation Tax

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

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

m) Pension Costs

MVH participates in the Rhondda Cynon Taf (RCT) Local Government Pension Fund. The Fund is administered by Rhondda Cynon Taf County Borough Council. Many of the staff 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 association.

Merthyr Valleys Homes has purchased a Pension Bond from the Royal Bank of

Scotland PLC who has agreed to provide this Bond to Rhondda Cynon Taf (RCT) Local Government Pension Scheme in the sum of £322,300 (the Bond amount).

All existing and new employees have the option of joining the Fund. It is a defined benefit scheme, providing benefits based on final pensionable pay, which is contracted out of the State Second Pension.

MVH accounts for its participation in the Fund in accordance with FRS 17 "Retirement benefits". Fund assets are measured using market values. Fund liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. MVH share of the Fund surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the Fund surplus/deficit is split between operating charges, finance items and in the Statement of Recognised Surpluses and Deficits, actuarial gains and losses.

n) Leaseholder Sinking Fund

Where leaseholders pay in advance for identified future planned or major works, the monies collected will be held by the association in a separate reserve to be matched against future capital expenditure.

Notes to the Financial Statements

Year Ended 31 March 2013

3) Turnover, Operating Costs and Operating Surplus

Note A	2013	2013	2013	2012	2012	2012
	Turnover	Operating Costs	Operating Surplus	Turnover	Operating Costs	Operating Surplus
	£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings (Note B)	13,893	10,788	3,105	13,101	11,919	1,182
<u>Other social housing activities</u>						
Supporting People	41	48	(7)	37	-	37
Other grant income	3	-	3	76	-	76
Other income	256	-	256	271	-	271
Total	14,193	10,836	3,357	13,485	11,919	1,566

Note B

	General Needs	Sheltered Housing	2013 Total	2012 Total
	£'000	£'000	£'000	£'000
Income				
Rents receivable	12,991	646	13,637	12,846
Service charges income	95	161	256	255
Turnover from social housing lettings	13,086	807	13,893	13,101
Cost				
Management costs	2,268	363	2,631	3,347
Tenant support costs	257	-	257	273
Service charge costs	-	82	82	75
Routine maintenance	4,403	-	4,403	5,475
Major repairs expenditure	2,619	-	2,619	2,538
Housing property depreciation	642	-	642	20
Bad debts from rent	149	-	149	96
Bad debts from other income	5	-	5	95
Operational costs on social housing lettings	10,343	445	10,788	11,919
Operating surplus on social housing lettings	2,743	362	3,105	1,182
Rent loss due to voids (memorandum note)	269	25	294	293

Notes to the Financial Statements

Year Ended 31 March 2013

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

	2013	2012
	£'000	£'000
Grants from SPRG	41	37
Other grant income	3	76
Shop rents	66	72
Leaseholders	75	51
Other income	115	148

4) Operating surplus

Operating surplus for the year is after charging:	2013	2012
	£'000	£'000
Depreciation - housing properties	642	20
Depreciation - other fixed Assets	226	202
Auditors remuneration in respect of audit services	18	18
Operating lease rentals (premises)	171	171
Operating lease rentals (other)	194	287
Rent losses from voids	294	293
Bad debt costs	153	96

5) Surplus on Sale of Fixed Assets

	2013	2012
	Total	Total
	£'000	£'000
Sales proceeds	293	513
Less costs	(30)	(18)
Surplus on sale of housing properties	263	495
Loss on the disposal of other fixed assets	(14)	-
Net surplus on sale of fixed assets	249	495

Sales proceeds relates to the sale of 7 Right to Buy properties.

6) Interest Payable and Similar Charges

	2013	2012
	Total	Total
	£'000	£'000
Loan interest and fees	1,073	1,064

Notes to the Financial Statements

Year Ended 31 March 2013

7) Directors' Emoluments

The remuneration paid to the directors who are executive officers was:

	2013 £'000	2012 £'000
Emoluments (including pension contributions and benefits in kind)	463	429
Emoluments (excluding pension contributions) paid to the highest paid senior executive	114	117

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 (2012: £Nil).

8) Staff Costs

	2013 £'000	2012 £'000
Staff costs during the year:		
Wages and salaries	4,202	4,636
Social security costs	501	515
Other pension costs	326	111
Total staff costs	5,029	5,262

The average monthly number of staff - full time equivalent

	2013 No:	2012 No:
This comprises -		
Central Support Services, encompassing:		
Finance, HR, Corporate Services and Administration	30	28
Asset Management	22	20
Property Services Team	88	90
Housing	42	44
Total	182	182
Staff employed at year end - full time equivalent	186	178

Notes to the Financial Statements

Year Ended 31 March 2013

9) Tangible Fixed Assets – Housing and Other Properties

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	2013 Total £'000
Cost			
At beginning of year	19,198	-	19,198
Additions during the year	14,855	-	14,855
Disposals during the year	(45)	-	(45)
At end of year	34,008	-	34,008
Dowry gap funding and other grants			
At beginning of year	(13,857)	-	(13,857)
Additions during the year	(4,990)	-	(4,990)
At end of year	(18,847)	-	(18,847)
Depreciation			
At beginning of year	(20)	-	(20)
Charge for the year	(642)	-	(642)
Disposals during the year	-	-	-
At end of year	(662)	-	(662)
Net Book Value			
At end of year	14,499	-	14,499
At beginning of year	5,321	-	5,321
Housing Properties at cost			
- Freehold land and buildings			34,008
- Short leasehold land and buildings			-
			34,008

Costs capitalised during the year related to components. Cumulative total capital grants received are £18.847m.

Dowry gap funding relates to the Dowry grant received from the Welsh Government. Total expenditure on properties during the year was £22million. Of this £15million was capitalised and £7million was expensed through the income and expenditure account.

Notes to the Financial Statements

Year Ended 31 March 2013

10) Housing Stock

	2013	2012
	No	No
General Needs	4,024	4,033
Sheltered	205	204
Garages	423	423
Retail Premises	34	34
Leasehold Houses	191	193
Leasehold Flats	111	111
Leasehold Garages	218	218
Leasehold Retail Premises	9	8
Total	5,215	5,224

11) Tangible Fixed Assets – Other

	Office Furniture £'000	Office Equipment £'000	Scheme Equipment £'000	2013 Total £'000
Cost				
At beginning of year	342	1,134	81	1,557
Additions during the year	86	92	30	208
Disposals during the year	-	(22)	-	(22)
At end of year	428	1,204	111	1,743
Depreciation				
At beginning of year	79	390	6	475
Charge for the year	35	187	4	226
Disposals during the year	-	(20)	-	(20)
At end of year	114	557	10	681
Net Book Value				
At end of year	314	647	101	1,062
At beginning of year	263	744	75	1,082

Notes to the Financial Statements

Year Ended 31 March 2013

12) Debtors

	2013	2012
	Total	Total
	£'000	£'000
Arrears of Rent & Services Charges	785	632
Less: Provision for bad and doubtful debts	(245)	(214)
	<u>540</u>	<u>418</u>
Sales Debtors	456	171
Less: Provision for bad and doubtful debts	(126)	(133)
	<u>330</u>	<u>38</u>
Recoverable VAT	751	733
Other Debtors and Prepayments	1,207	993
Total	<u>2,828</u>	<u>2,182</u>

13) Stocks

	2013	2012
	Total	Total
	£'000	£'000
Analysis of stock held:		
Stock of Maintenance Consumables	<u>15</u>	<u>8</u>

14) Creditors: amounts falling due within one year

	2013	2012
	Total	Total
	£'000	£'000
Loan Principal and Interest	214	279
Bank Overdraft	227	-
Accruals	1,029	1,425
Deferred Income	31	32
Prepayments of Rents and Service Charges	107	63
Salary and Other Employee Costs	310	265
Taxation and Social Security	173	163
Capital Expenditure on Housing Properties	3,097	2,042
Other Capital Creditors	84	40
Total	<u>5,272</u>	<u>4,309</u>

Notes to the Financial Statements

Year Ended 31 March 2013

15) Creditors: amount falling due after more than one year

	2013	2012
	Total	Total
	£'000	£'000
Loans due after more than one year	12,500	10,000
Issuing Costs	(714)	(748)
	<u>11,786</u>	<u>9,252</u>
Environmental Warranty due to MTCBC	314	314
	<u>12,100</u>	<u>9,566</u>

As part of the Transfer Agreement with MTCBC, MVH is 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 2039. Under the terms of the Transfer, this would be limited to £500,000. This cost was included in full in the set up costs in the 2009 Financial Statements. MTCBC currently has insurance up to 29th March 2019. The balance still owed to MTCBC under this agreement is £313,901.

	2013	2012
	Total	Total
	£'000	£'000
One year or less	-	-
More than one and less than two years	-	-
More than two and less than five years	-	-
In more than five years	12,500	10,000
	<u>12,500</u>	<u>10,000</u>

Housing loans are secured (via Prudential Security Trustee) by a charge on the total property stock owned by MVH. The interest rate is fixed at 6.6% or varies with the market rate. To fund the Welsh Housing Quality Standard 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 2013 MVH had undrawn loan facilities of £27.5 million.

There are two fixed rate SWAPs in place, which are:-

- £10 million 01/04/2015 4.975%
- £10 million 01/04/2020 4.670%

Notes to the Financial Statements

Year Ended 31 March 2013

16) Share capital

Shares at £1 each	2013 Total	2012 Total
Shares at beginning of year	16	14
Issued during the year	21	2
Cancelled during the year	-	-
At the end of the year	37	16

The shares provide members with the right to vote at General Meetings but the shares do not carry the right to dividend payments or distribution on winding up. Shares cancelled or redeemed are written back to reserves.

17) Reserves

	2013 Total £'000	2012 Total £'000
Income and Expenditure Account		
At beginning of year	(1,503)	(2,258)
Surplus for the year before transfers	2,558	1,088
Transfer to pension reserve	(104)	(299)
Transfer to leaseholder sinking fund	(23)	(33)
At the end of the year	928	(1,503)
Pension Reserve	£'000	£'000
At beginning of year	861	2,818
Actuarial movement	844	(2,256)
Transfers	104	299
At the end of the year	1,809	861
Leaseholder sinking Fund	£'000	£'000
At beginning of year	81	48
Transfers	23	33
At the end of the year	104	81

Notes to the Financial Statements

Year Ended 31 March 2013

18) Operating Leases

As at 31 March 2013 annual commitments under non-cancellable operating leases are as follows:

	Land & Buildings		Other	
	2013	2012	2013	2012
	Total	Total	Total	Total
	£'000	£'000	£'000	£'000
Operating leases costs due:				
Within one year	-	-	43	7
Between two and five years	-	-	151	175
In more than five years	171	171	-	-
	171	171	194	182

MVH has 16 operating leases 4 of which expire in less than 1 year, 11 in 2-5 years and 1 in more than five years.

19) Capital Commitments

	2013	2012
	Total	Total
	£'000	£'000
Amount of contracts for capital expenditure, so far not provided for:		
WHQS up to 2014	1,150	2,025
WHQS up to 2018	2,000	-
Amounts of capital expenditure approved by the directors but not contracted for:		
WHQS up to 2013	-	3,616

The Association expects that any expenditure that has been authorised will be fully funded by grants and loan draw downs.

Notes to the Financial Statements

Year Ended 31 March 2013

20) Notes to the Cash Flow Statement

a) Reconciliation of operating surplus to net cash inflow from operating activities

	2013	2012
	£'000	£'000
Operating surplus	3,357	1,566
Depreciation of tangible fixed assets	868	222
	<u>4,225</u>	<u>1,788</u>
Working Capital Movements		
Increase in operating debtors	(646)	(871)
(Decrease) / Increase in operating creditors	(563)	255
Increase in stock	(7)	-
Transfer to Pension Reserve	(104)	(299)
Net cash inflow from operating activities	<u>2,905</u>	<u>873</u>

b) Reconciliation of net cash flow to movement in net debt

	2013	2012
	£'000	£'000
Decrease in cash	(4,353)	(2,739)
Increase in loans	(2,500)	(4,000)
Increase in net debt	<u>(6,853)</u>	<u>(6,739)</u>
Net debt at 31 March 2012	(5,874)	865
Net debt at 31 March 2013	<u>(12,727)</u>	<u>(5,874)</u>

c) Analysis of changes in net debt

	Cash at bank and in hand	Loans due in less than 12 months	Loans due in over 12 months	Changes in net debt
	£'000	£'000	£'000	£'000
At 31 March 2012	4,126	-	(10,000)	(5,874)
Net cash flows	(4,353)	-	(2,500)	(6,853)
At 31 March 2013	<u>(227)</u>	<u>-</u>	<u>(12,500)</u>	<u>(12,727)</u>

Notes to the Financial Statements

Year Ended 31 March 2013

21) Related Parties

MVH is managed by a Board of Management (the Board) of 12 people. Four are tenants, four are Council nominees and four are independent. As at 31 March all Board members were in place. During 2012-2013 two co-optees resigned, one becoming a Council Board member leaving one active co-optee at the end of the year.

Tenancies provided to board members are based on the MVH standard terms and Board members cannot use their position to their advantage.

MTCBC is a party to the Transfer Agreement that established MVH and holds the right to nominate four members to the Board who are Councillors of MTCBC. A total of four Councillors served as board members during the year. Any transactions with the Council are at arm's length, on normal commercial terms and Council Board members cannot use their position to their advantage.

During the year MVH made payments totalling £4.47 million to MTCBC primarily in relation to the payroll and Service Level Agreements and the remainder being in relation to business rates and other costs. Included in debtors is £309,755 due from MTCBC relating to rental and other income. Included in creditors is £464,308 relating to payroll costs and Service Level Agreements and included in creditors > 1 year is £313,901 relating to the environmental warranty; all due to MTCBC.

During the year charitable donations were awarded to organisations that are linked to Board Members. Service Leavers Wales and 3G's were awarded £2,614 & £1,670 respectively. Both grants were awarded by our grants panel. None of the Board Members concerned are members of the grants panel.

22) Provisions for liabilities and charges

	2013	2012
	Total	Total
	£'000	£'000
At beginning of year	266	-
Provided for during the year	-	266
Used during the year	(31)	-
Released during the year	(235)	-
At the end of the year	-	266

During 2011-2012 the Board have agreed an amount of £265,934 was to be provided for settlement fees and legal costs in relation to an on-going legal case. This was based on current legal advice at the time. A successful final judgement in the case was received during 2012-2013.

Notes to the Financial Statements

Year Ended 31 March 2013

23) 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 30th March 2009. This disclosure relates to the period between 1 April 2012 and 31 March 2013.

The LGPS is a funded defined benefit scheme, with assets held in a separate trustee administered fund. Contributions in the year totalled £792,366 of which employers contributions totalled £569,679 and employees totalled £222,687.

In accordance with the requirements of FRS17 the pension fund is valued by a qualified independent actuary in order to ascertain the value of the scheme.

Contributions for the year ended 31st March 2014

Regular employer contributions to the fund for the year ended 31st March 2014 are estimated to be £450,000.

Assumptions

The latest actuarial valuation of the fund liabilities took place as at 31 March 2010. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used were:

Financial assumptions for valuing the funded LGPS Liabilities		
Assumption	31 March 2013 (% p.a.)	31 March 2012 (% p.a.)
Discount rate	4.6%	4.8%
RPI inflation	3.7%	3.6%
CPI inflation	2.8%	2.6%
Increase to pensions in payment*	2.8%	2.6%
Increase to deferred pensions	2.8%	2.6%
General rate of salary increases**	4.7%	5.1%

*In excess of Guaranteed Minimum Pension increases in payment where appropriate.

** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the fund as at 31 March 2010.

Expected return on assets		
Asset class	31 March 2013 (% p.a.)	31 March 2012 (% p.a.)
Equities	7.8%	8.1%
Property	7.3%	7.6%
Government bonds	2.8%	3.1%
Corporate bonds	3.8%	3.7%
Cash	0.9%	1.8%
Other	7.8%	8.1%

Notes to the Financial Statements

Year Ended 31 March 2013

Reconciliation of funded status to Balance Sheet		
	31 March 2013	31 March 2012
	£M's	£M's
Notional value of assets	22.562	19.014
Present value of liabilities	20.753	18.153
Net pension asset	1.809	0.861

Analysis of Income and Expenditure / Profit and Loss charge		
	31 March 2013	31 March 2012
	£M's	£M's
Current service costs	0.716	0.606
Past service costs	0.140	0.000
Interest cost	0.889	0.832
Expected return on assets	(1.279)	(1.327)
Curtailment cost	0.000	0.000
Settlement cost	0.000	0.000
Expense / (income) recognised	0.466	0.111

Changes to present value of liabilities during the accounting period		
	31 March 2013	31 March 2012
	£M's	£M's
Opening present value of liabilities	18.153	14.929
Current service costs	0.716	0.606
Interest cost	0.889	0.832
Contributions by participants	0.223	0.211
Actuarial (gains) / losses on liabilities*	0.961	1.406
Net benefits paid out #	(0.329)	0.169
Past service costs	0.140	0.000
Net increase in liabilities from disposals and acquisitions	0.000	0.000
Curtailments	0.000	0.000
Settlements	0.000	0.000
Closing present value of liabilities	20.753	18.153

* Includes changes to actuarial assumptions.

consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Notes to the Financial Statements

Year Ended 31 March 2013

Changes to fair value of assets during the accounting period		
	31 March 2013	31 March 2012
	£M's	£M's
Opening fair value of assets	19.014	17.747
Expected return on assets	1.279	1.327
Actuarial gains / (losses) on assets	1.805	(0.850)
Contributions by the employer	0.570	0.410
Contribution by participants	0.223	0.211
Net benefits paid out #	(0.329)	0.169
Net increase in assets from disposals and acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing fair value of assets	22.562	19.014

Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Analysis of amount recognised in STRSD*		
	31 March 2013	31 March 2012
	£M's	£M's
Total actuarial gains / (losses)	0.844	(2.256)
Total gain / (loss) in STRSD	0.844	(2.256)

* STRSD (Statement of Total Recognised Surpluses & Deficits)

The cumulative amount taken through the STRSD has been an overall loss of (£1.112m).

During 2009/2010 a designated reserve was set up in relation to the Pension Fund asset.

Notes to the Financial Statements

Year Ended 31 March 2013

Mortality assumption at 31 March 2013 and 31 March 2012

Males	31 March 2013	31 March 2012
Year of Birth base table	Standard SAPS Normal Health All Amounts	Standard SAPS Normal Health All Amounts
Rating to above base table (years)	0	0
Scaling to above base table rates	90%	90%
Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	23.3	23.2
Future lifetime from age 65 (currently aged 45)	25.2	25.1
Females	31 March 2013	31 March 2012
Year of Birth base table	Standard SAPS Normal Health All Amounts	Standard SAPS Normal Health All Amounts
Rating to above base table (years)	0	0
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	24.7	24.5
Future lifetime from age 65 (currently aged 45)	26.6	26.5

History of experience gains and losses

Year Ended	31-Mar-13	31-Mar-12	31-Mar-11	31-Mar-10
Experience gains / (losses) on assets Amount (£M's)	1.809	(0.850)	(1.226)	3.414
Percentage of assets	8.00%	(1.50%)	(6.9%)	20.0%
Experience gains / (losses) on assets Amount (£M's)	0.009	(0.025)	0.153	0.000
Percentage of assets	0.0%	(0.1%)	1.0%	0.0%

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