



# Merthyr Valleys Homes Limited Financial Statements

Year ended 31st March 2014

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# Board Members, Executive Officers and Professional Advisors

## **Council Board Members:**

Bill Smith  
Howard Barrett  
Tom Lewis  
Chris Barry

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## **Tenant Board Members**

Frances Bevan (Vice Chair) – appointed  
September 2013  
Jacqueline Sullivan – resigned July 2013  
Diana Lyons  
Paul Thomas – resigned December 2013  
Kevin Eddy – appointed January 2014  
Tracey Powell – appointed January 2014 –  
resigned January 2014

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## **Independent Board Members**

David Lewis (Chair) - resigned September  
2013  
Martin Jones  
Stephanie Howarth  
Nicola Evans (Chair) – appointed September  
2013

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## **Co-optees**

John Chown

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## **Executive Officers**

Michael Owen (Chief Executive)  
Lorraine Oates (Director of Finance and  
Resources)  
Victoria Slade (Director of Housing)  
Paul Allen (Director of Asset Management)

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## **Registered Office**

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

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## **Area Office**

Johnny Owen Centre  
Forsythia Close  
Merthyr Tydfil  
CF47 9DS

## **External Auditors**

Mazars LLP  
Statutory Auditors  
45 Church Street  
Birmingham  
B3 2RT

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## **Internal Auditors**

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

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## **Solicitors**

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

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## **Bankers**

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

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## **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 2014

**The Board of Management is pleased to present its Operating and Financial Review, Directors' Report and the audited Financial Statements for Merthyr Valleys Homes Limited (MVH) for the year ended 31st March 2014.**

## 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. MVH is a not-for-profit organisation administered by a voluntary Board of Management.

## Principal activities and objectives

MVH owns, manages and maintains 4,219 rented homes, including 206 units of sheltered accommodation, located within the County Borough of Merthyr Tydfil.

We also own or manage 641 garages and 42 retail units and provide management services to 301 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 2013/14 was to complete our WHQS promises and the operating results reflect this position:-

### Income & Expenditure Account

Turnover increased by £0.714m or 5% to £14.907m (2013: £0.708m, 5%). Rental income is the largest income stream, representing 97% of turnover. 2013/14 contained 53 rent weeks (this happens every 4 years) and the final week's income was apportioned between 2013/14 and 2014/15 to spread the income in line with our Business Plan. Additional income from the sale of properties and grant income for works on energy measures and our new development at Marigold Close were also received in the year.

The operating surplus fell by £1.317m to £2.04m, a fall of almost 40%. Operating margins fell from 24% to 14%, mainly due to increased depreciation charges and an increase in routine maintenance and major repairs expenditure.

### Bad Debts

Bad debts and voids as a percentage of gross rent receivable rose by 0.3% in 2014. Whilst the level of bad debts fell during the year, the amount of rent lost due to lettable units of permanent accommodation being empty rose. This is obviously reflected by the amount of empty properties which rose from 71 at 1 April 2013 to 87 at 31 March 2014 and our average void turnaround time (including policy voids) which was 84 days at the end of the year.

# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

## Rent Arrears

The cumulative rent arrears (for current and former tenants) fell during the year, from £0.598m to £0.578m at 31 March 2014. Current tenant arrears fell from £0.512m at 31 March 2013 to £0.438m at 31 March 2014. This is a positive result in a time of uncertainty around Welfare Reform. Former tenant arrears increased from £0.085m at 31 March 2013 to £0.140m at 31 March 2014. We have incurred costs of collection, employing 3.5 additional staff but essentially they have been self-financing. Our mobile rent collector alone collected over £0.1m during the year from those tenants who were already in arrears.

## Fixed Assets

Our commitment to continued improvement of our housing stock resulted in a 32% rise in the gross value of housing properties to £45.121m. A combination of internal cash balances and grant income from the Welsh Government (WG) has been used to fund the capital programme. Total grant income was made up of Dowry Gap Funding of £2.9m, £0.141m Arbed funding for energy efficiency measures and £0.101m funding for the new development at Marigold Close.

An independent valuation of the housing stock conducted by Savills based on Existing Use Value shows an increase in value from £46.490m as at 31st March 2013 to £62.042m as at 31st March 2014.

## Loans

Loans drawn have increased from £12.5m to £17.5m in the year, representing an increase of £5m (2013: £2.5m). Of this, £10m was at fixed interest rates and £7.5m at variable rates. Interest payable rose by 11% (2013: 0.8%).

## Pension Asset

The Pension Fund has undergone its triennial pension valuation as at 31 March 2013, the results of which have been used by the actuary to update the value of our pension asset at the year end. The balance sheet shows an increase in the value of the pension asset by £2.399m to £4.208m. We currently pay an employer's pension contribution rate of 12.5%. The triennial valuation has determined that our contribution rates will fall to 10.5% in 2014/15, 8.4% in 2015/16 and 6.4% in 2016/17. This is an unusual situation to be in compared to most employers who tend to have rising contribution rates to fund a scheme deficit. Changes to the Local Government Pension Scheme (LGPS) have spread the risk between employees and the employer and the fall in contribution rates should reduce the pension asset over the next three years. These rates are extremely low for the LGPS.

## Net Assets

The overall net assets position at 31 March 2014 is £6.379m. 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.

## 2013/14 Key Achievements

This was a very good year for Merthyr Valleys Homes and the achievements set out below link to our three year Corporate Strategy. They have all been significant achievements but this year our biggest achievement was the completion of the transfer agreement promises. In 2009 when Merthyr Tydfil County Borough Council transferred the housing stock they set out over 132 targets in the Transfer Agreement to be achieved within 5 years. These targets were based on promises made to tenants, staff and the community in the run up to the transfer.

# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

In an extensive review by the Board and Resident Participation Forum it was agreed that all the targets that were possible to achieve had been delivered. It was the improvement to homes that drove the decision to transfer and we are pleased to have met this.

The cumulative results are in the table below and although it appears that we have not met our promises on windows and doors, we have done all that were required; we believe that the promises did not take into consideration the programme that the Council had in place prior to transfer:-

<b>Major Works Programme – Completed Work</b>				
Component	Promises	Completed Nos	% of WHQS Programme Achieved	Notes
Kitchen	2,500	2,709	108.4%	
Bathroom	2,000	2,527	126.4%	
Electrics	3,000	3,036	101.2%	
Windows	1,400	1,035	73.9%	The completed numbers were lower than target but every house now has UPVC double glazed windows.
Doors	3,000	2,268	75.6%	The completed numbers were lower than target but every house now has UPVC double glazed doors.
Heating	1,500	1,697	113.1%	
Roofs	700	922	131.7%	Repair or renew the roofs
Smoke detectors	3,000	4,200	140%	
Energy efficiency measures	No target	£10m	-	

In the year, we also achieved the following:-

## Live with us

- Our new Rent Policy for 2014/15 was approved following extensive consultation with tenants and incorporated the Welsh Government's Rent Policy for Wales.
- We involved tenants, Board members, unions and staff in the Star Chamber budget setting process and were shortlisted for the 2013 Welsh Housing Award for Empowering and Involving Communities by CIH Cymru for our work in this area.
- We stopped using the cashing services from Merthyr Tydfil County Borough Council (MTCBC) and we are now using the Co-op Bank and PSC Systems through the Procurement for Housing Framework, achieving efficiency savings over a 3 year period.

# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

- We carried out a number of service reviews including voids, repairs and out of hours services to reduce the costs and improve processes and procedures to reflect the needs of our tenants.
- We agreed a new Rechargeable Repairs Policy to improve recovery of costs caused through wilful damage to properties.
- We joined the CIH's Working Together ASB Project to review our approach to dealing with ASB. Following this review we are moving to a specialist team. We were the only Welsh Landlord to be part of this project.
- We reviewed the caretaking service at Caedraw to ensure that the service was meeting the needs of the tenants and leaseholders on that estate.
- The shared accommodation project was extended and we now have 3 shared accommodation units. This has proved to be a useful new tenancy type.
- The Centre for Housing Studies (CHS) Annual Review of our Sheltered Service provided excellent feedback.
- We further developed the Sheltered Continuous Improvement Group with 2 new tenant members recruited.
- We improved Homelessness Prevention work with ADREF, SP Team, MTCBC Housing Team re: floating support referrals and House share Project.
- We worked with MTCBC and other RSLs to introduce a specific band (the diamond band) for downsizers affected by the under occupation charge.
- We assisted our tenants to claim over £60,000 in a variety of Welfare Benefits.
- We assisted tenants in claiming £235,545 in Housing Benefit savings broken down into; £113,712 in Discretionary Housing Payments; £7,440 in bedroom tax exemptions; £66,825 in backdated Housing Benefit and £47,568 in Housing and Council Tax Benefit in respect of new claims
- We contacted charities and grant panels to assist tenants to buy essential household items and to receive food hampers, baby food and nappies. Tenants have received over £21,000 in food aid. Over £18,000 of utility savings and grants have also been received.
- We financially assessed all prospective new tenants to primarily assess whether they can afford to sustain a tenancy. During these assessments we have also offered budgeting advice; advice on the most competitive fuel tariffs and information on where they can purchase inexpensive white goods. The outcome of these assessments has been positive. Results show that 74% of tenants who have held a tenancy for six months have maintained regular rent payments with 26% accruing arrears.
- We have continued to use Community Housing Cymru to provide our tenants with specialist Debt Advice and the Citizens Advice Bureau (CAB) hold regular surgeries for MVH's tenants.
- We established a dedicated and successful outreach service with the Income Maximisation and Benefit Officers. This service is used to engage with high risk tenants.
- Our tenant profiling data increased from 64.7% to 87.3%.
- We followed up the results of our STAR survey and introduced measures to resolve aspects of our services that tenants were not happy with.
- We changed insurance providers for 2013/14, saving over £100k p.a and as a result of this we committed to set up Cronfa Gymorth David Lewis to help tenants who have been victims of disasters like floods, by providing a few basic items of furniture if they have no contents insurance. We are in the process of registering this fund with the Charity Commission.

# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

## Work with us

- We continue to support the local economy by working with a number of social enterprises, including the Gellideg Foundation and Merthyr Tydfil Institute for the Blind working as part of the supply chain with the kitchen manufacturer resulting in the creation of 2 permanent jobs and kitchens being delivered direct to site.
- 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 restructured our Assets and PST departments in line with the reduction in the capital budget going forward.
- We developed a Partnership Strategy setting out our approach to enable tenants to have more control over the services, investments and decisions that affect their homes and their neighbourhoods.
- We responded to the results of the Staff Survey supporting team leaders more and ensuring more team meetings happened during the year.
- Instead of a corporate staff away day, we split the staff into 3 teams and carried out 4 days of volunteering; cleaning up the riverbank in Bedlinog; refurbishing the communal area in Greenwood Close Sheltered Scheme and renovating the TAG Youth Club in Twynyrodyn with new windows donated by Solar Windows, full decoration inside and outside and new furniture and IT equipment. It was a satisfying week for all involved.
- We reviewed the staffing structure in the Sheltered Service, creating a Senior Scheme Manager Position.
- We altered our flexi-time system to be more family friendly in consultation with staff.

- We introduced a variety of staff benefits e.g. the leased car scheme (Tusker) and the cycle to work scheme.
- We employed 1 graduate through Jobs Growth Wales.
- Seven members of staff received promotions during the year.
- Although our large Property Services Team workforce make up almost half of our total workforce and all are male, the gender balance in our Senior Management Team is 61.5% female to 38.5% male.
- We are in the final stages of taking over the running of Trelewis Community Centre from MTCBC.

## Improve with us

- We attracted £0.141m of funding to continue our External Wall Insulation work.
- The Grant and Sponsorship Panel awarded £40,669 to local groups. These groups provide important community networks and functions which otherwise may not be funded.
- We have embarked on the first phase of our development programme at Marigold Close, 10 two and one bedroomed properties using the Welsh Government's downsizing grant.
- We developed an Asset Management Strategy in relation to the long term management and investment of our stock following the completion of our tenant promises.
- We carried out a comprehensive review of the Estate Management Service involving staff, a board member and a representative from RPF. A detailed action plan has been developed to improve the service.
- We undertook a programme of Estate Walkabouts in line with the results of the STAR Survey.



# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

## Resources and governance

- 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.
- We were successful in our bid for Social Housing Grant for the 2nd phase of the Marigold Close development in 2014/15, 11 two and one bedroomed properties.
- We achieved the Welsh Housing Award 2013 for Delivering Efficiency and Value for Money through Barcud Shared Services along with our consortium partners Valleys to Coast, Bron Afon and NPT Homes, as well as the People's Choice award for that service.
- We developed a Procurement Strategy setting out how MVH will conduct procurement activities and how we will measure the achievement and impact of our procurement.
- We approved a new Risk Management Policy and Strategy.
- We sold 11 houses and flats during the year and used this money to re-invest in our housing stock.

- We agreed a new Procurement Framework for contractors and materials supply, following an Official Journal of the European Union (OJEU) process, which will last for 4 years.
- £110,000 was collected by our Debt Collector during the year.

## Future Developments

We are in the final stages of negotiations around the creation of a new housing co-operative in Gellideg which is part of the successful Vibrant and Viable Places bid by the Council. Our Funders have approved the model which will see the transfer of 12 flats from MVH to a separate entity jointly owned by us and MTCBC, with the possibility of the Council on-lending to fund the renovations needed to bring the properties up to the required standard.

We are also in discussion with MTCBC and private sector partners in relation to a new scheme to deliver affordable homes. This is in conjunction with the Council's Vibrant and Viable Places bid.

## Key Performance Indicators (KPIs)

Merthyr Valleys Homes reported the following performance for 2013-14.

KPI	2013/14 Target	2013/14 Actual
Rent Arrears for 2013/14	3%	2.83%
Empty Home Rent Loss Percentage	2%	2.65%
Average Time Taken to Complete Emergency Repairs in days	0.28	1.17
Average Time Taken to Complete Urgent Repairs in days	4	6.05
Average Time Taken to Complete Routine Repairs in days	13	32.15
Tenant satisfaction with repairs service	95%	89.77%
Percentage of Properties with a Valid Landlord Gas Safety Record	100%	100%

# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

## Rent arrears for 2013/14

The improvement can be attributed to a range of factors including a small increase in bedroom tax collection rates, the rent free weeks and increased Discretionary Housing Payments. Additionally, several methods have been developed to improve collection rates, the Area Housing Officers have received training to enable them to deal with low level arrears, the Income Team and Area Housing Officers targeted the two estates with the highest incidence of arrears on a street by street basis in November, and the Contact Centre operatives have been piloting the interception of repair requests to confront arrears issues before repair requests are completed.

## Empty Home Rent Loss Percentage

Rent loss occurs when properties require repair and/or improvement before they can be relet. Rarely does a property require no work. We did not meet the target set for the year and our performance has declined since the previous year. The amount of rent lost reflects the number of days a property is empty, which for us was an average 84 days (including policy voids) in 2013/14, this has started to improve. During 2013/14, joint work between the Asset and Housing directorates resulted in the new Voids procedure and the PST has been restructured. Both should contribute to increased performance in 2014/15.

## Average Time Taken to Complete Emergency Repairs

For 2013/14, 264 emergency jobs were not completed within the target time. Performance has deteriorated since the previous year because we were not capturing repairs outsourced to contractors. The records in 2013/14 now include all contractors' works accounting for an adverse performance against previous year's data. We have still to ensure that all orders are closed once

work is completed whether done by PST or contractors. This administrative issue needs to be addressed both within PST and with contractors; otherwise performance will always be understated.

## Average Time Taken to Complete Urgent Repairs

74 urgent jobs were not completed on time during 2013/14. The external contractors' performance again reduced this performance indicator.

## Average Time Taken to Complete Routine Repairs

For 2013/14, 1051 routine jobs were not completed on target. The current target of completing jobs within 15 working days is a very stretching target, far shorter than the average for routine repairs in the sector of 24 days. Weather conditions prevented a high percentage of external jobs being completed on target during the year. This issue was identified within the repairs review with recommendations that the target should be increased in line with the sector performance.

## Tenant Satisfaction with Repairs Service

Performance in respect of satisfaction with the repairs service is based on quarterly information and not cumulative information, and has decreased since the last quarter from 93.88% to 89.77%. Of the 343 surveys that were returned, 318 rated the service as being excellent, good or satisfactory.

## Percentage of properties with a valid landlord gas safety record

We have once again achieved a 100% record on this indicator.

# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

## Risk Management

MVH faces a wide range of business risks. Our goal is to manage the risk in delivering our objectives set out in our Corporate Strategy. In order to manage and mitigate these risks, we have a Risk Management Policy and Strategy, which was updated during the year.

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 management to the Audit Committee.

Our risk framework consists of:

- An over-arching Strategic Risk Register
- A series of Operational Risk Registers

The Strategic Risk Register is a standard agenda item for review at each Audit Committee meeting to allow risks to be monitored in a timely fashion. Our risk appetite is agreed for each individual strategic risk by the Audit Committee. Where a strategic risk is reviewed and is found to not be within our risk appetite, as agreed by the Audit Committee, action will be taken to put in place further controls, or to seek further assurance that the identified controls are operating effectively.

The top 5 risks on our Strategic Risk Register at year end were:-

1. The impact of the changes to the Welfare Benefit system and the associated detrimental effect on income and our financial position.
2. The impact of changes to the Welfare Benefit system and the associated detrimental effect on our tenants and communities.
3. Inadequate insurance processes to successfully defend liability claims.
4. Non-compliance with Health and Safety regulations which could result in prosecution.
5. Strategic Partnerships not working well.

The Board has also considered the Welsh Government document setting out the sector wide risks which could cause an association to fail to meet the specified delivery outcomes in relation to governance, finance and landlord services. Whilst a number of these are already managed by MVH at an operational level, some risks have been identified which are not currently included in our risk registers. These risks will be incorporated into our risk management framework in 2014/15.

## 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 – 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 by Sector and the Strategy is approved annually by Board. The Board receives a bi-annual report on treasury management performance.

## Balance Sheet Debt and 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 Royal Bank of Scotland (RBS) and Principality Building Society.

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.

# Operating and Financial Review

For the Year ended 31st March 2014 (cont.)

The £40m loan facility comprises £32m from RBS and £8m from Principality BS. The £40m is divided into two Tranches A and B. Tranche A provides £24m and Tranche B £16m. Tranche B is a revolving facility provided solely by RBS meaning that it can be drawn and repaid repeatedly until 31st March 2023. After that date any drawings are converted to 'term' loans. All borrowings to date have been drawn from Tranche A and therefore cannot be repaid until after we have reached peak debt in 2017/18. Our borrowings must exceed £24m by 31 March 2015 in order to access Tranche B monies. The 2014/15 Business Plan shows this happening, with predicted drawings of £24.427m at that date. The repayment of the loan facility is forecast to be April 2031.

Loans drawn as at 31st March 2014 were £17.5m, of which, £10m was at fixed interest rates and £7.5m 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 in order to give us certainty over our costs. At 31 March 2014 the ratio of fixed to variable rate borrowing was 57% of total loans outstanding. Although marginally below 60%, we benefited from low variable rates of interest, therefore this position is advantageous.

Three forward fixed rate agreements were put in place on transfer to hedge against adverse movements in interest rates. When the second forward rate agreement occurs on 1st April 2015 it will increase the ratio of fixed to variable, providing certainty over costs just as interest rates are predicted to increase.

Spending was slow at the start of 2013/14 and increased slowly as the year progressed. Additional grant income, good performance on debt recovery and house sales reduced the need to draw down loan finance during the year. At 31 March 2014 we expected to have loans outstanding of £21.5m, we will have drawn £20.4m to cover all 2013/14 commitments.

Peak debt of £26.958m is expected to occur in 2017/18 (in our 2014/15 business plan) which means that we have spare capacity of £13m on our loan facility. This will be a useful way to fund our future new build plans, with Funders' approval.

## Key Accounting Policies

The key accounting policies are set out in Note 2 of the Financial Statements on pages 21-24. 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. These two accounting policies remained unchanged from the previous year.

## 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.

## Reserves Strategy

MVH has a Use of Capital Receipts Policy which sets out how and when capital receipts can be used. The priority for the use of capital receipts is to:

- Manage cashflow
- Increase capital spending on stock reinvestment
- Repurchase properties through a targeted buy back scheme
- Use for new build/development schemes, with Funders approval.

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.

# Directors' Report

For the Year ended 31st March 2014

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 2014.

## 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 £1.214m. During the year MVH spent £19.479m on reactive, void and cyclical repairs and the capital programme. This was financed from £11.337m of internal financing i.e. rental income and reserves; loans of £5m and Dowry Gap Funding and other grants of £3.142m.

Net Assets at 31st March 2014 were £6.379m. As at 31st March 2014 the designated reserves for the Pension Fund Asset and the Leaseholders Sinking Fund were £4.208m and £0.094m respectively. The Board has established one new restricted reserve in the year for the Big Lottery Fund. The Big Lottery Fund reserve will be used to fund the Perthyn Youth Project Worker inter-generational project between younger and older people living in social housing.

This will look at how residents have been and will be able to get involved in past, present and future housing policies and will cover the Gurnos, Caedraw and Trelewis areas. As at 31 March 2014, the restricted reserve for the Big Lottery Fund was £5,000.

## Post Balance Sheet Events

During 2013-2014 the Board have agreed an amount of £10,000 was to be provided for the Cronfa Gymorth David Lewis Charitable Fund. The Charitable fund was not set up as

a charitable organisation or registered with the Charity Commission at the balance sheet date. We expect this to occur during 2014-2015 and the amount provided will be transferred to the fund at this time. This fund was established to assist MVH's tenants who find themselves in need because they have lost a significant amount of household items as a result of a major incident or disaster for which either did not carry insurance, had insufficient insurance or were not covered by insurance. MVH will administer the Charitable Fund.

## Board Members and Senior Officers

Board Members and senior officers are listed on page 2 under board members, executive officers and professional advisors.

The above Board Members have held office during 2013/14 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 insurance policies indemnifying its Board Members and Directors against liability when acting on behalf of the organisation.

## Corporate Governance

The Board comprises 12 members, 4 of which are tenant board members, 4 independent members and 4 councillors. There is also 1 co-opted member. The Board is responsible for managing the affairs of MVH.

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

# Directors' Report

For the Year ended 31st March 2014 (cont.)

## Employees

The number of employees at 31 March 2014 was 184. MVH's ability to meet its objectives and commitments to tenants in an efficient and effective manner depends on the contribution of employees throughout the Company.

MVH recognises and values diversity and is committed to strengthening community cohesion. MVH seeks to provide equal opportunities in employment and our Equal Opportunities Policy is intended to assist the organisation to put this into practice.

## Charitable Donations

MVH made £40,669 in charitable donations in the year which were approved by the Grants and Sponsorship Panel. This included the following donations:-

M.T.C.B.C. Information Shop	750
Aberfan Canoe Club	1,000
Kinetics Dance	1,000
Merthyr Global Village	1,000
Ar Agor Photographic Club	2,790
VAMT Sponsorship	720
Twyn Action Group Grant	2,437
Stephens & George Charitable Trust	550
Cefn Coed Dance and Leisure	1,000
Dowlais Primary School PTA	5,000
Merthyr Aloud Year 2	700
Merthyr Youth	4,922
Friends of St Marys School	250
Y Bont Grant	4,773
Dowlais Walking Group	560
Merthyr Association Football League	275
Cyfarthfa Castle Bowls Club	544
Merthyr Mendicants	1,477
Jerusalem Church	704
Stephens & George Charitable Trust	4,237
Troedyrhiw Youth Forum	936
Polish Community of the Valleys Association	1,407

Wasps After School Club	300
Llamau Ltd	982
Crossroads Care Cwm Taf	750
Galon Uchaf and Penydarren Community Association	336
Trinity Child and Family	469
Forsythia Youth	800

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

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:-

- Contract Standing Orders setting out the framework for the procurement of goods and services.
- Clearly defined corporate and divisional management responsibilities and reporting structures.
- An appropriate level of experienced and suitably qualified staff.

# Directors' Report

For the Year ended 31st March 2014 (cont.)

- The presence of formal policies and procedures.
- 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.
- Risk management framework, with management of risks at both departmental and corporate level and regular evaluation by Board and Audit Committee.
- 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.
- A Procurement Strategy setting out how MVH will conduct procurement activities.
- Annual Declarations of Interest returns from all Board Members and staff.

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 1st April 2014 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 judgements and estimates that are reasonable and prudent.
- 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.

# Directors' Report

For the Year ended 31st March 2014 (cont.)

In so far as the Board are aware:-

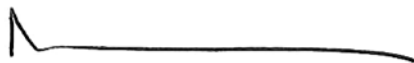
- There is no relevant audit information of which the Association's auditors are unaware;
- The Board has taken all steps that ought to have been taken to make itself aware of any relevant audit information and to establish that the auditors are aware of the information

## Annual General Meeting

The Annual General Meeting will be held on the 18th September 2014 at Martin Evans House. At this meeting, MVH's 2013/14 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  
Nicola Evans - Chair  
Date 31 July 2014



# Independent Auditor's Report to Members of Merthyr Valleys Homes Limited

Year ended 31 March 2014

We have audited the financial statements of Merthyr Valleys Homes Limited for the year ended 31 March 2014 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 14-15, 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 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.

## 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](http://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 2014 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 to Members of Merthyr Valleys Homes Limited

Year ended 31 March 2014 (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

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

31 July 2014

# Income and Expenditure Account

Year Ended 31 March 2014

	Notes	2014 £'000	2013 £'000
<b>Turnover</b>	3	14,907	14,193
Less: Operating costs	3	<u>(12,867)</u>	<u>(10,836)</u>
<b>Operating Surplus</b>	4	2,040	3,357
Surplus on sale of fixed assets	5	362	249
Interest receivable and similar income		6	25
Interest payable and similar charges	6	<u>(1,194)</u>	<u>(1,073)</u>
<b>Surplus on ordinary activities before taxation</b>		1,214	2,558
Taxation	2(l)	<u>-</u>	<u>-</u>
<b>Surplus for the year on ordinary activities after taxation and before transfers to reserves</b>	17	<b><u>1,214</u></b>	<b><u>2,558</u></b>

## Continuing Operations

All transactions during the period are derived from continuing activities.

## Historical Costs Surplus

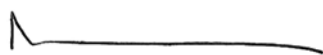
MVH has no recognised surpluses and deficits other than the surplus for the year and those recognised in the statement of total recognised surpluses and deficits. The surplus for the year has been calculated on the historical cost basis.

# Balance Sheet

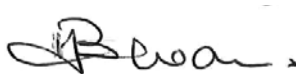
At 31 March 2014

	Notes	2014 £'000	2013 £'000
<b>Tangible Fixed Assets</b>			
Housing properties - Cost	9	45,121	34,008
- Dowry Gap Funding and Other Grants	9	(21,989)	(18,847)
- Depreciation	9	(1,920)	(662)
		<u>21,212</u>	<u>14,499</u>
Other fixed assets	11	<u>1,000</u>	<u>1,062</u>
		22,212	15,561
<b>Current Assets</b>			
Debtors	12	1,408	2,828
Stock	13	9	15
Cash at bank and in hand		<u>866</u>	<u>-</u>
		2,283	2,843
<b>Creditors: amounts falling due within one year</b>	14	<u>(5,180)</u>	<u>(5,272)</u>
<b>Net current (liabilities) excluding Pension asset</b>		(2,897)	(2,429)
Pension asset	23	<u>4,208</u>	<u>1,809</u>
<b>Net current assets / (liabilities) including Pension asset</b>		1,311	(620)
<b>Total Assets less Current Liabilities</b>		23,523	14,941
<b>Creditors: amounts falling due after more than one year</b>	15	(17,134)	(12,100)
Provisions for liabilities and charges	22	<u>(10)</u>	<u>-</u>
<b>Net Assets</b>		<u><b>6,379</b></u>	<u><b>2,841</b></u>
<b>Capital and Reserves</b>			
Share capital	16	-	-
Revenue Reserve	17	2,072	928
Designated Reserve - Pension Asset	17	4,208	1,809
Restricted Reserves - Big Lottery	17	5	-
Designated Reserve - Leaseholder Sinking Fund	17	<u>94</u>	<u>104</u>
		<u><b>6,379</b></u>	<u><b>2,841</b></u>

The Financial Statements on pages 18 to 39 were approved and authorised for issue by the Board of Management on 31 July 2014 and were signed on its behalf by:



Chair of the Board  
(Nicola Evans)



Vice Chair  
(Frances Bevan)



Company Secretary  
(Allison Soroko)

## Statement of Total Recognised Surpluses and Deficits

Year Ended 31 March 2014

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Surplus for the year before transfers to reserves	1,214	2,558
Actuarial gain on pension scheme	2,324	844
<b>Total recognised surplus for the year</b>	<b><u>3,538</u></b>	<b><u>3,402</u></b>

## Cashflow Statement

Year Ended 31 March 2014

	<b>Notes</b>	<b>2014</b>	<b>2013</b>
		<b>£'000</b>	<b>£'000</b>
<b>Net cash inflow from operating activities</b>	20	5,549	2,905
<b>Returns on investments and servicing of finance</b>			
Interest received		6	25
Interest paid		(1,269)	(1,138)
Revenue loan arrangement fees		34	34
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(1,229)</b>	<b>(1,079)</b>
<b>Capital expenditure and financial investment</b>			
Improvement works on housing properties		(11,473)	(13,754)
Gap funding and other grants		3,142	4,990
Sales of housing properties		362	249
Purchase of other fixed assets		(258)	(164)
<b>Net cash outflow from capital expenditure</b>		<b>(8,227)</b>	<b>(8,679)</b>
<b>Net cash outflow before financing</b>		<b>(3,907)</b>	<b>(6,853)</b>
<b>Financing</b>			
Housing loans received		5,000	2,500
<b>Net cash inflow from financing</b>		<b><u>5,000</u></b>	<b><u>2,500</u></b>
<b>Increase / (Decrease) in Cash</b>	20	<b><u><u>1,093</u></u></b>	<b><u><u>(4,353)</u></u></b>

# Notes to the Financial Statements

Year Ended 31 March 2014

## 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 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 landlords 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 to finance work prior to completion.

# Notes to the Financial Statements

Year Ended 31 March 2014

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
- As 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.

Properties in the course of construction are not depreciated.

### 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 Components

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 2014

## 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 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;



# Notes to the Financial Statements

Year Ended 31 March 2014

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.

## **(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's 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 2014

## 3) Turnover, Operating Costs and Operating Surplus

<b>Note A</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
	<b>Turnover</b>	<b>Operating Costs</b>	<b>Operating Surplus</b>	<b>Turnover</b>	<b>Operating Costs</b>	<b>Operating Surplus</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Social housing lettings (Note B)	14,512	12,800	1,712	13,893	10,788	3,105
<u>Other social housing activities</u>						
Supporting People	90	67	23	41	48	(7)
Other grant income	13	-	13	3	-	3
Other income	292	-	292	256	-	256
<b>Total</b>	<b>14,907</b>	<b>12,867</b>	<b>2,040</b>	<b>14,193</b>	<b>10,836</b>	<b>3,357</b>

### Note B

	<b>General Needs</b>	<b>Sheltered Housing</b>	<b>2014 Total</b>	<b>2013 Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>				
Rents receivable	13,559	695	14,254	13,637
Service charges income	96	162	258	256
Turnover from social housing lettings	13,655	857	14,512	13,893
<b>Cost</b>				
Management costs	2,353	420	2,773	2,631
Tenant support costs	278	-	278	257
Service charge costs	7	71	78	82
Routine maintenance	5,236	-	5,236	4,403
Major repairs expenditure	3,044	-	3,044	2,619
Housing property depreciation	1,260	-	1,260	642
Bad debts from rent	114	-	114	149
Bad debts from other income	17	-	17	5
<b>Operational costs on social housing lettings</b>	<b>12,309</b>	<b>491</b>	<b>12,800</b>	<b>10,788</b>
<b>Operating surplus on social housing lettings</b>	<b>1,346</b>	<b>366</b>	<b>1,712</b>	<b>3,105</b>
Rent loss due to voids (memorandum note)	373	23	396	294

# Notes to the Financial Statements

Year Ended 31 March 2014

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Grants from SPRG	90	41
Other grant income	13	3
Shop rents	93	66
Leaseholders	67	75
Other income	<u>132</u>	<u>115</u>

## 4) Operating surplus

<b>Operating surplus for the year is after charging:</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation - housing properties	1,260	642
Depreciation - other fixed assets	244	226
Auditors remuneration in respect of audit services	19	18
Operating lease rentals (premises)	171	171
Operating lease rentals (other)	164	194
Rent losses from voids	396	294
Bad debt costs	<u>131</u>	<u>153</u>

## 5) Surplus on Sale of Fixed Assets

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Sales Proceeds	456	293
Less costs	<u>(77)</u>	<u>(30)</u>
Surplus on sale of housing properties	379	263
Loss on the disposal of other fixed assets	<u>(16)</u>	<u>(14)</u>
Net surplus on sale of fixed assets	<u>362</u>	<u>249</u>

Sales proceeds relates to the sale of 11 Right to Buy properties.

## 6) Interest Payable and Similar Charges

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Loan interest and fees	<u>1,194</u>	<u>1,073</u>

# Notes to the Financial Statements

Year Ended 31 March 2014

## 7) Directors' Emoluments

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments (including pension contributions and benefits in kind)	413	463
Emoluments (excluding pension contributions) paid to the highest paid senior executive	115	114

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 (2013: £Nil).

## 8) Staff Costs

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs during the year:		
Wages and salaries	4,707	4,202
Social security costs	555	501
Other pension costs	391	326
<b>Total staff costs</b>	<b>5,653</b>	<b>5,029</b>

### The average monthly number of staff - full time equivalent

	<b>2014</b>	<b>2013</b>
	<b>No:</b>	<b>No:</b>
This comprises -		
Central Support Services, encompassing:		
Finance, HR, Corporate Services and Administration	30	30
Asset Management	20	22
Property Services Team	90	88
Housing	46	42
<b>Total</b>	<b>186</b>	<b>182</b>
Staff employed at year end - full time equivalent	184	186

# Notes to the Financial Statements

Year Ended 31 March 2014

## 9) Tangible Fixed Assets – Housing and Other Properties

<b>Cost</b>	<b>Housing properties held for letting £'000</b>	<b>Housing properties in the course of construction £'000</b>	<b>2014 Total £'000</b>
At beginning of year	34,008	-	34,008
Additions during the year	11,025	174	11,199
Disposals during the year	(86)	-	(86)
At end of year	<u>44,947</u>	<u>174</u>	<u>45,121</u>
<b>Dowry, SHG and other grants</b>			
At beginning of year	(18,847)	-	(18,847)
Additions during the year	(3,041)	(101)	(3,142)
At end of year	<u>(21,888)</u>	<u>(101)</u>	<u>(21,989)</u>
<b>Depreciation</b>			
At beginning of year	(662)	-	(662)
Charge for the year	(1,260)	-	(1,260)
Disposals during the year	2	-	2
At end of year	<u>(1,920)</u>	<u>-</u>	<u>(1,920)</u>
<b>Net Book Value</b>			
<b>At end of year</b>	<u><b>21,139</b></u>	<u><b>73</b></u>	<u><b>21,212</b></u>
At beginning of year	<u>14,499</u>	<u>-</u>	<u>14,499</u>
Housing Properties at cost comprise:			
- Freehold land and buildings			<u>45,121</u>
			<u>45,121</u>

Costs capitalised during the year related to components. Cumulative total capital grants received are £21.989m.

Dowry gap funding relates to the Dowry grant received from the Welsh Government. In addition to the £2.9m received, £13k relating to the disposal of components was re-used during the year.

Total expenditure on properties during the year was £19.5m. Of this £11.2m was capitalised and £8.3m was expensed through the income and expenditure account.

# Notes to the Financial Statements

Year Ended 31 March 2014

## 10) Housing Stock

	<b>2014</b>	<b>2013</b>
	<b>No</b>	<b>No</b>
General Needs	4,013	4,024
Sheltered	206	205
Garages	423	423
Retail Premises	33	34
Leasehold Houses	189	191
Leasehold Flats	112	111
Leasehold Garages	218	218
Leasehold Retail Premises	9	9
<b>Total</b>	<b><u>5,203</u></b>	<b><u>5,215</u></b>

## 11) Tangible Fixed Assets – Other

	<b>Office</b>	<b>Office</b>	<b>Scheme</b>	<b>2014</b>
	<b>Furniture</b>	<b>Equipment</b>	<b>Equipment</b>	<b>Total</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	428	1,204	111	1,743
Reclassification during the year	(25)	25	-	-
Additions during the year	81	103	8	192
Disposals during the year	-	(17)	-	(17)
At end of year	<u>484</u>	<u>1,315</u>	<u>119</u>	<u>1,918</u>
Depreciation				
At beginning of year	114	557	10	681
Charge for the year	46	192	6	244
Disposals during the year	-	(7)	-	(7)
At end of year	<u>160</u>	<u>742</u>	<u>16</u>	<u>918</u>
<b>Net Book Value</b>				
<b>At end of year</b>	<b><u>324</u></b>	<b><u>573</u></b>	<b><u>103</u></b>	<b><u>1,000</u></b>
At beginning of year	<u>314</u>	<u>647</u>	<u>101</u>	<u>1,062</u>

# Notes to the Financial Statements

Year Ended 31 March 2014

## 12) Debtors

	2014	2013
	£'000	£'000
Arrears of Rent & Services Charges	692	785
Less: Provision for bad and doubtful debts	(273)	(245)
	<u>419</u>	<u>540</u>
Sales Debtors	167	456
Less: Provision for bad and doubtful debts	(114)	(126)
	<u>53</u>	<u>330</u>
Recoverable VAT	396	751
Other Debtors and Prepayments	540	1,207
<b>Total</b>	<b><u>1,408</u></b>	<b><u>2,828</u></b>

## 13) Stocks

Analysis of stock held	2014	2013
	£'000	£'000
Stock of Maintenance Consumables	<u>9</u>	<u>15</u>

## 14) Creditors: amounts falling due within one year

	2014	2013
	£'000	£'000
Loan Principal and Interest	139	214
Bank Overdraft	-	227
Accruals	1,569	1,029
Deferred Income	18	31
Prepayments of Rents and Service Charges	107	107
Salary and Other Employee Costs	420	310
Taxation and Social Security	172	173
Capital Expenditure on Housing Properties	2,253	3,097
SHG received in advance	484	-
Other Capital Creditors	18	84
<b>Total</b>	<b><u>5,180</u></b>	<b><u>5,272</u></b>

# Notes to the Financial Statements

Year Ended 31 March 2014

## 15) Creditors: amounts falling due after more than one year

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Loans due after more than one year	17,500	12,500
Issuing Costs	(680)	(714)
	<u>16,820</u>	<u>11,786</u>
Environmental Warranty due to MTCBC	314	314
	<u><b>17,134</b></u>	<u><b>12,100</b></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.

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
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	17,500	12,500
	<u><b>17,500</b></u>	<u><b>12,500</b></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 2014 MVH had undrawn loan facilities of £22.5 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 2014

## 16) Share capital

Shares at £1 each	<b>2014</b>	<b>2013</b>
Shares at beginning of year	37	16
Issued during the year	1	21
Cancelled during the year	(1)	-
At the end of the year	<u><b>37</b></u>	<u><b>37</b></u>

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income and Expenditure Account</b>		
At beginning of year	928	(1,503)
Surplus for the year before transfers	1,214	2,558
Transfer to pension reserve	(75)	(104)
Transfer to Big Lottery Fund	(5)	-
Transfer to / (from) leaseholder sinking fund	10	(23)
<b>At the end of the year</b>	<u><b>2,072</b></u>	<u><b>928</b></u>
<b>Pension Reserve</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	1,809	861
Actuarial movement	2,324	844
Transfer from the Income & Expenditure Account	75	104
<b>At the end of the year</b>	<u><b>4,208</b></u>	<u><b>1,809</b></u>
<b>Big Lottery Fund</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	-	-
Transfer from the Income & Expenditure Account	5	-
<b>At the end of the year</b>	<u><b>5</b></u>	<u><b>-</b></u>

During the year £15,192 was received from the Big Lottery Fund for the Belonging: Perthyn project.

<b>Leaseholder sinking Fund</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	104	81
Transfer to / from the Income & Expenditure Account	(10)	23
<b>At the end of the year</b>	<u><b>94</b></u>	<u><b>104</b></u>

# Notes to the Financial Statements

Year Ended 31 March 2014

## 18) Operating Leases

As at 31 March 2014 annual commitments under non-cancellable operating leases are as follows:

	Land & Buildings		Other	
	2014	2013	2014	2013
Operating Leases costs due:	£'000	£'000	£'000	£'000
Within one year	-	-	6	43
Between two and five	-	-	158	151
In more than five years	171	171	-	-
	<u>171</u>	<u>171</u>	<u>164</u>	<u>194</u>

MVH has 16 operating leases 2 of which expire in less than 1 year, 13 in 2-5 years and 1 in more than five years.

## 19) Capital Commitments

	2014	2013
	£'000	£'000
Amount of contracts for capital expenditure, so far not provided for:		
WHQS up to 2015	2,870	1,150
WHQS up to 2019	<u>1,500</u>	<u>2,000</u>
Amounts of capital expenditure approved by the directors but not contracted for:		
WHQS up to 2014	<u>619</u>	<u>-</u>

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 2014

## 20) Notes to the Cash Flow Statement

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Operating surplus	2,040	3,357
Depreciation of tangible fixed assets	1,504	868
	<u>3,544</u>	<u>4,225</u>
<b>Working Capital Movements</b>		
Decrease / (Increase) in operating debtors	1,420	(646)
Increase / (Decrease) in operating creditors	649	(563)
Decrease / (Increase) in stock	6	(7)
Increase in provisions	10	-
Transfer to Belonging Reserve	(5)	-
Transfer to Pension Reserve	(75)	(104)
Net cash inflow from operating activities	<u><u>5,549</u></u>	<u><u>2,905</u></u>

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Increase / (Decrease) in cash	1,093	(4,353)
Increase in loans	(5,000)	(2,500)
Increase in net debt	<u>(3,907)</u>	<u>(6,853)</u>
Net debt at 31 March 2013	(12,727)	(5,874)
<b>Net debt at 31 March 2014</b>	<u><u>(16,634)</u></u>	<u><u>(12,727)</u></u>

### c) Analysis of changes in net debt

	<b>Cash at</b>	<b>Loans due</b>	<b>Loans due</b>	<b>Changes</b>
	<b>bank and in</b>	<b>in less than</b>	<b>in over 12</b>	<b>in net debt</b>
	<b>hand</b>	<b>12 months</b>	<b>months</b>	<b>in net debt</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 31 March 2013	(227)	-	(12,500)	(12,727)
Net cash flows	1,093	-	(5,000)	(3,907)
<b>At 31 March 2014</b>	<u><u>866</u></u>	<u><u>-</u></u>	<u><u>(17,500)</u></u>	<u><u>(16,634)</u></u>

# Notes to the Financial Statements

Year Ended 31 March 2014

## 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 11 Board members were in place and 1 tenant Board member vacancy plus one co-optee.

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 £4.26m 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 £76,104 due from MTCBC relating to rental and other income. Included in creditors is £701,696 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.

## 22) Provisions for liabilities and charges

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
At beginning of year	-	266
Provided for during the year	10	-
Used during the year	-	(31)
Released during the year	-	(235)
<b>At the end of the year</b>	<b>10</b>	<b>-</b>

During 2013-2014 the Board have agreed an amount of £10,000 was to be provided for the Cronfa Gymorth David Lewis Charitable Fund. The charitable fund was not set up as a charitable organisation or registered with the Charity Commission at the balance sheet date. We expect this to occur during 2014-2015 and the amount provided will be transferred to the fund at this time. This fund was established to assist MVH's tenants who find themselves in need because they have lost a significant amount of household items as a result of a major incident or disaster for which either did not carry insurance, had insufficient insurance or were not covered by insurance.

# Notes to the Financial Statements

Year Ended 31 March 2014

## 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 2013 and 31 March 2014.

The LGPS is a funded defined benefit scheme, with assets held in a separate trustee administered fund. Contributions in the year totalled £707,109 of which employers contributions totalled £465,198 and employees totalled £241,911.

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 2015

Regular employer contributions to the fund for the year ended 31st March 2015 are estimated to be £406,000.

### Assumptions

The latest actuarial valuation of the fund liabilities took place as at 31 March 2013. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principle assumptions used were:

<b>Financial assumptions for valuing the funded LGPS Liabilities</b>		
<b>Assumption</b>	<b>31 March 2014 (% p.a.)</b>	<b>31 March 2013 (% p.a.)</b>
Discount rate	4.4%	4.6%
RPI inflation	3.4%	3.7%
CPI inflation	2.4%	2.8%
Increase to pensions in payment*	2.4%	2.8%
Increase to deferred pensions	2.4%	2.8%
General rate of salary increases**	3.9%	4.7%

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

\*\* In addition, allowance has been made for the same age related promotional salary scales as used at the actuarial valuation of the fund as at 31 March 2013.

# Notes to the Financial Statements

Year Ended 31 March 2014

<b>Expected return on assets</b>		
<b>Asset Class</b>	<b>31 March 2014 (% p.a.)</b>	<b>31 March 2013 (% p.a.)</b>
Equities	7.6%	7.8%
Property	6.9%	7.3%
Government bonds	3.4%	2.8%
Corporate bonds	4.0%	3.8%
Cash	0.9%	0.9%
Other	7.6%	7.8%

<b>Analysis of Income and Expenditure / Profit and Loss Charge</b>		
	<b>31 March 2014 £M's</b>	<b>31 March 2013 £M's</b>
Current service costs	0.893	0.716
Past service costs	0.000	0.140
Interest cost	0.983	0.889
Expected return on assets	(1.486)	(1.279)
Curtailment cost	0.000	0.000
Settlement cost	0.000	0.000
Expense / (income) recognised	0.390	0.466

<b>Changes to present value of liabilities during the accounting period</b>		
	<b>31 March 2014 £M's</b>	<b>31 March 2013 £M's</b>
Opening present value of liabilities	20.753	18.153
Current service costs	0.893	0.716
Interest cost	0.983	0.889
Contributions by participants	0.242	0.223
Actuarial (gains) / losses on liabilities*	(2.576)	0.961
Net benefits paid out#	0.124	(0.329)
Past service costs	0.000	0.140
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	20.419	20.753

\* 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 2014

<b>Changes to fair value of assets during the accounting period</b>		
	<b>31 March 2014 £M's</b>	<b>31 March 2013 £M's</b>
Opening fair value of assets	22.562	19.014
Expected return on assets	1.486	1.279
Actuarial (losses) / gains on assets	(0.252)	1.805
Contributions by the employer	0.465	0.570
Contribution by participants	0.242	0.223
Net benefits paid out#	0.124	(0.329)
Net increase in assets from disposals and acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing fair value of assets	24.627	22.562

# Consists of net benefits cash-flow out of the Fund in respect of the employer, including an approximate allowance for the expected cost of death in service lump sums.

<b>Reconciliation of funded status to Balance Sheet</b>		
	<b>31 March 2014 £M's</b>	<b>31 March 2013 £M's</b>
Fair value of assets	24.627	22.562
Present value of funded liabilities	20.419	20.753
Pension asset	4.208	1.809

<b>Analysis of amount recognised in STRGL*</b>		
	<b>31 March 2014 £M's</b>	<b>31 March 2013 £M's</b>
Total actuarial gains / (losses)	2.324	0.844
Total gain / (loss) in STRGL	2.324	0.844

\*STRGL (Statement of Total Recognised Gains & Losses)

The cumulative amount taken through the STRGL has been an overall gain of £1.212m.

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 2014

<b>History of experience gains and losses</b>					
<b>Year Ended</b>	<b>31-Mar-14</b>	<b>31-Mar-13</b>	<b>31-Mar-12</b>	<b>31-Mar-11</b>	<b>31-Mar-10</b>
Experience gains / (losses) on assets Amount (£M's)	(0.252)	1.809	(0.850)	(1.226)	3.414
Percentage of assets	(1.0%)	8.0%	(1.5%)	(6.9%)	20.0%
Experience gains / (losses) on assets Amount (£M's)	(0.398)	0.009	(0.025)	0.153	0.000
Percentage of assets	(1.9%)	0.0%	(0.1%)	1.0%	0.0%

## **Mortality assumption at 31 March 2014 and 31 March 2013**

<b>Males</b>	<b>31 March 2014</b>	<b>31 March 2013</b>
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%	90%
Improvements to base table rates	CMI_2012 with long term rate of improvement 1.5% p.a.	CMI_2009 with long term rate of improvement 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	22.9	23.3
Future lifetime from age 65 (currently aged 45)	25.1	25.2

<b>Females</b>	<b>31 March 2014</b>	<b>31 March 2013</b>
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	95%	100%
Improvements to base table rates	CMI_2012 with long term rate of improvement 1.5% p.a.	CMI_2009 with long term rate of improvement 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	25.8	24.7
Future lifetime from age 65 (currently aged 45)	28.2	26.6



# Notes to the Financial Statements

Year Ended 31 March 2014

