

**Heart**  
Of Medway

**Heart of Medway  
Housing Association**

**Annual Report  
Year ended 31 March  
2023**

Registered Community Benefit Society

Registration Number 31076R

# Heart of Medway Housing Association

## Report and Financial Statements for the year ended 31 March 2023

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# Heart of Medway Housing Association

Report of the Board of Management for the year ended 31 March 2023

Executives and advisors for the year ended 31 March 2023

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## Board of management

	<b>Position</b>
Lord Roy Kennedy	Chair
Mark Miles Lea	Trustee
Elizabeth Barton	Trustee
Sally Ironmonger	Trustee
Vivienne Astall	Trustee
Philip Huxham	Trustee
Peter Brown	Trustee

## Registered Office

Heart of Medway Housing Association Limited  
Broadside  
Leviathan Way  
Chatham  
Kent  
ME4 4LL

## Auditors – External

BDO LLP  
2 City Place  
Beehive Ring Road  
Gatwick  
West Sussex  
RH6 0PA

## Bankers

National Westminster Bank Plc

## Legal Status

Registered Society no 31076R  
Registered with the Regulator of Social Housing

## Ultimate Parent Undertaking

The Association is a subsidiary undertaking of **mhs homes limited**, a private company limited by guarantee and a charity registered in England and Wales from 16 March 2018. The accounts are available from the Association's registered office at Broadside, Leviathan Way, Chatham, Kent ME4 4LL.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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### Principal activities and review of the business

**Heart of Medway Limited ("Heart of Medway")** is registered as a community benefit society under the Co-operative and Community Benefit Societies Act 2014 and with the Regulator of Social Housing. It was incorporated in October 2010 to enable **mhs homes group ("The Group")** to continue to access Social Housing Grant and therefore assist **the Group** in its objective to provide new social housing. It has charitable status for corporation tax purposes.

### Objectives

The objectives of **Heart of Medway** are to provide social housing, other housing, accommodation, and assistance to help house people, along with any other charitable activities not prohibited for a community benefit society registered with the regulator as a non-profit registered provider.

### Overview

During the year another 55 new homes were let, a development programme greater than most organisations of its size. Another 126 are forecast to complete over the next 3 years, at which point Heart of Medway will exceed 1,000 homes.

The quality of our homes is of prime importance. The programme of checking and remedying fire safety issues in our properties is well advanced, with all remaining work programmed and we anticipate that by March 2024 this programme will be complete with the exception of one block, where work is starting in 23/24. Whilst it is uncertain who will incur the final costs on this block all potential expenditure is included in our financial forecasts.

Property quality includes energy efficiency, and we are proud that currently 95% of our stock is EPC "C" rating or above, an increase of 4% from March 2022. The remaining properties are a "D" rating and therefore we are confident of having all properties at "C" or above well before the 2030 target. All new homes will have a rating of "B" or above.

Our properties have 100% compliance with decent homes standard, as was the case last year.

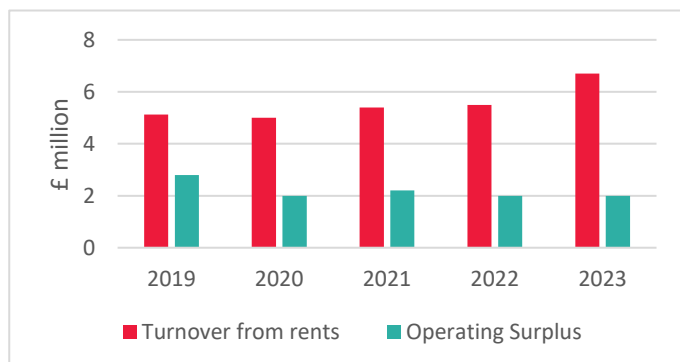
Disappointingly customer satisfaction with the overall service fell 10% to 70% during the year, and we attribute this to repairs taking, on average, 23 days to take place along with the time taken to answer calls from customers being too long. Improving these areas is a key target, with customers seeing a marked step up in performance in call answering over the year. Changes have been made to the repairs scheduling system to speed up the repair time and extra resources have been allocated to clearing the backlog. We are therefore confident that customer satisfaction will recover in 23/24.

Before becoming a charity **mhs homes Limited ("mhs homes")** made gift aid donations over a number of years totalling £60 million to **Heart of Medway**. This significant subsidy means that its level of borrowing is comparatively small for the number of units owned, leading to levels of interest cover higher than most in the sector. Other benefits of being in the group include **mhs homes** ensuring liquidity is always in place through the interest free intercompany loan and **Heart of Medway** being able to take advantage of the Group's economies of scale in managing the stock.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

### Turnover and operating surplus



The turnover from rental properties has increased as new units have come into management.

The operating surplus stays broadly the same despite turnover increasing as more was invested in building safety, along with a decrease in staircasing.

### Comparison of operating surplus with last year

When results are compared with last year there has been a reduction in the operating surplus which reflects the additional works taken place on building safety.

	<b>£'000</b>
Increased income from social housing	1,061
Increase in major repairs	(597)
Increases in depreciation & impairment	(96)
Increase in other costs	(247)
<b>Increased surplus from social housing lettings</b>	<b>121</b>
Decrease in surplus from sale of other fixed assets	(150)
Increase in surplus from non-social housing activities	12
<b>Decrease in operating surplus</b>	<b>(17)</b>

### Treasury and interest Costs

During the year a £10m private placement was received that was used to fund development activity and repay the intercompany debt. This, along with a fall in capitalised interest reflecting the reduction in development activity, has led to an increase in interest and financing costs.

The treasury management for the Group is governed by a Treasury Policy and Strategy regularly reviewed and approved by the Board. The Group Treasury Committee monitors treasury activities and makes recommendations to the Boards of **Heart of Medway** and **mhs homes**. **Heart of Medway** operates a prudent approach to Treasury with:

- 100% of all debt on fixed interest rates.
- A revolving interest free credit facility with mhs homes of £45 million.
- At 31 March 2023 the intercompany debt stood at £0.1 million (2022: £4.5 million).
- £30 million of external debt as at March 2023 repayable.
  - £10 million in 2038
  - £20 million in 2055

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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### Foyers

Foyers provide a safe place for young people between the ages of 16-25 to live, learn and make the transition to independent adulthood. They offer personal development and other services to help young people reconnect with learning, increase their employability, improve their health and wellbeing and develop their leadership potential. **Heart of Medway** manages two foyers, with 36 spaces in total, with the properties leased from **mhs homes**.

### Market Rented Properties

**Heart of Medway** owns 17 market rented properties in Maidstone as investments. During the year we have our properties revalued and this led to a small increase in market value. These properties are held as a long term investment, with the value of the asset now being 5% greater than the cost.

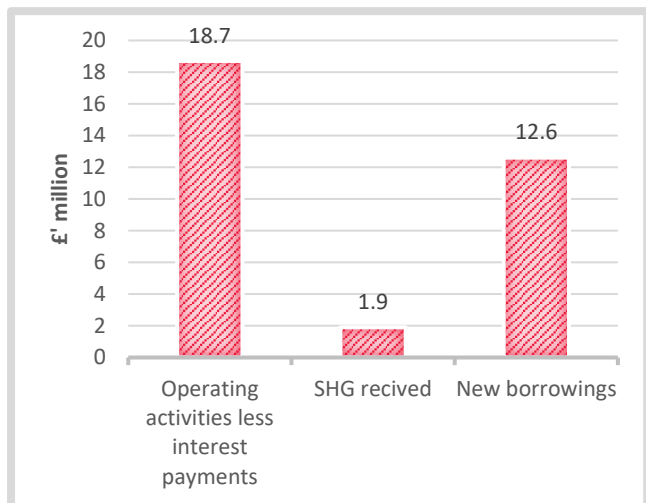
### Sales of Properties

Sale of fixed assets represented staircasing on existing shared ownership properties. There were no new shared ownership properties sold, as was expected, due to **Heart of Medway** moving away from shared ownership to developing grant funded rented properties. This is consistent with the Group development strategy as new shared ownership properties are developed in mhs homes.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

### Forward plans

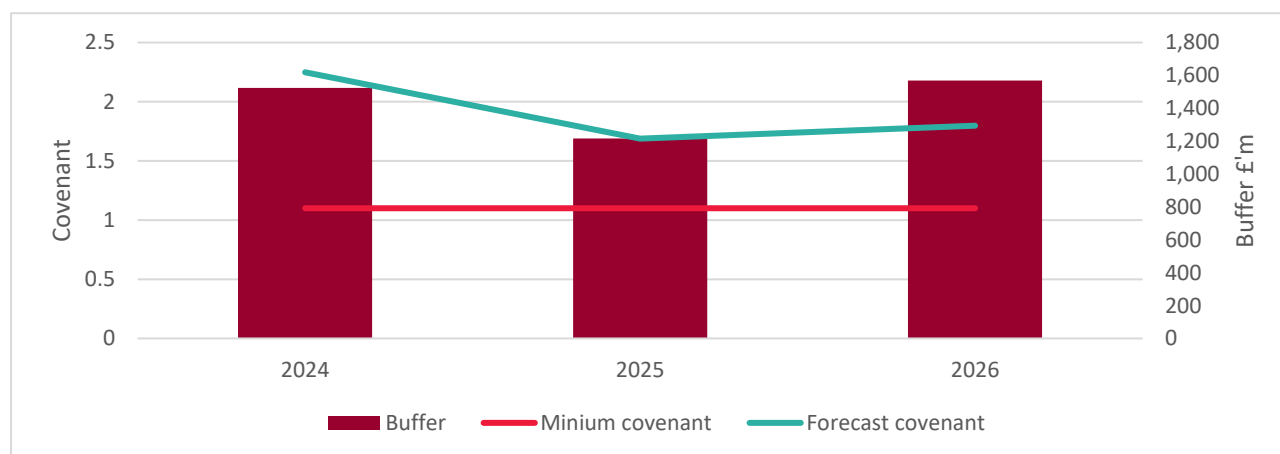


The long term financial plan approved in February 2023 includes £33 million spend on new properties over the next 5 years, with over half the funding coming from surpluses. Whilst it is planned to borrow outside of the group, though mhs homes has sufficient loan facilities in place to provide the liquidity if required.

This will provide 150 new social housing properties, all for rent, meaning that that by March 2026 the association will have over 1,000 social housing properties.

In common with many social landlords we are continuing to work on our properties to ensure that they are safe places to live. We have included £2.6 million in our long term financial plans for the remaining work to ensure all our buildings meet regulations. This work has been costed against specific properties and we anticipate this work being completed by March 2026.

Due to the work on building safety the surpluses will fall over the next two years, though always substantially above the surpluses required to meet our loan covenants. However, once this work is complete our results will recover quickly. We stress test the financial implication of our development aspirations, at all times ensuring that our business plan meets minimum targets on interest cover. These are shown below along with the buffer in case of unexpected financial shocks.



As part of the **mhs homes group** the full details of resident involvement, treasury, internal controls, impact on the environment and major risks can be found in the **mhs homes** accounts, along with the full group overview of the year.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

### Value for Money Statement

#### How we ensure value for money

There are established policies and arrangements at **mhs homes group** ensuring that value for money is being obtained. These include:

- The Strategic Plan sets challenging targets on both cost reduction and operating margins. The **Heart of Medway** Board has a keen interest in seeing Value for Money delivered and reviews an annual report.
- The Board agree and monitor our annual budget, with detailed work taking place in the Group Finance Risk and Audit Committee.
- There is an annual programme of investment in the housing stock which is based on a 30 year stock investment plan for replacing building components such as windows, roofs, kitchens, bathrooms which maintains our stock at 100% Decent Homes Standard.
- Intrinsically linked to the Asset Management Strategy is our approach to active asset management in which every property has been reviewed for maintenance costs (both past and future), income, ease of re-let and management considerations.
- There is a comprehensive and regularly reviewed Procurement Strategy that sets out the rules on quotes, tenders and approval of new contracts. Where possible supply chains are consolidated to provide greater scope for efficiency and reducing costs.
- The customer scrutiny panel have commission service reviews and based on these reports' recommendations are made to the Board.

**mhs homes** is one of the most financially efficient organisations in the sector as can be demonstrated when compared with other organisations through the sector scorecard, and **Heart of Medway** benefits from this as can be seen in the table below. Many indicators are top quartile when compared with organisations in the Southeast in the 2022 value for Money Metrics published by the regulators.

Metric	Budget		Actual	
	2024	2023	2022	Median <sup>1</sup>
Investment in - new and existing properties	10%	4%	15%	6%
New supply delivered – social housing	2%	6%	9%	2%
New supply delivered – non-social housing	0%	0%	0%	0%
Gearing	25%	17%	19%	53%
EBITDA: interest rate cover	217%	371%	603%	154%
Social housing cost per unit £	3,750	3,698	2,820	4,215
Operating margin – (social housing only)	23%	28%	29%	29%
Operating margin (overall)	19%	26%	29%	27%
Return on capital employed	1.1%	1.5%	1.6%	3.4%

<sup>1</sup> Sourced from 2022 for associations in the southeast

**Scores at or above median are shown in green**



# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

Investment in properties fell during the year as a number of schemes were delayed into the new year, hence this will rise substantially in 23/24. Unit costs remain top quartile despite a considerable increase in major repair expenditure. The lower figure for return on capital compared to the sector reflects that the stock is relatively new.

### Performance against our own targets

During the budget and business planning process the value for money metrics are calculated so we can address areas of under performance during the year which are noted below.

Metric	Actual 2023	Budget 2023	Actual 2022
Investment in properties - new and existing	4%	14%	15%
New supply delivered – Social Housing	6%	2%	9%
New supply delivered – Non Social Housing	0%	0%	0%
Gearing	17%	29%	19%
EBITDA interest rate cover	371%	419%	603%
Operating margin (overall)	26%	39%	29%
Return on capital employed	1.5%	1.9%	1.6%

Additional spending on building safety resulted in a lower than budgeted margin and interest cover. Schemes budgeted to complete in 2022/23 were delayed to 2023/4.

Other key indicators through the year	Target	As at 31 March 2023	As at March 2022
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**Green denotes achieving target Red denotes not achieving target**

<u>Customer satisfaction</u>	85%	70%	80%
Issues around answering calls accounted for much of this fall. This area has seen a marked increase in performance since year end, so we expect this indicator to improve.			
<u>13 week average of gross rent arrears</u>	4.5%	4.93%	5.21%

In difficult circumstances rent arrears have improved year on year though we are slightly higher than the ambitious target set.

<u>Average turnaround time for voids</u>	20	31	23
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This performance improved significantly in the last quarter of the year, as additional resources were allocated in this area.

<u>Repairs completed right first time</u>	90%	87%	85%
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A year on year improvement, though slightly less than an ambitious target.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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### Compliance with Governance and Financial Viability Standard

**Heart of Medway** undertakes an annual review of compliance against this standard, which is certified by the Board. This confirms compliance against the standard for the year and to the date of signing of the accounts. **Heart of Medway** is the registered subsidiary of an unregistered parent, **mhs homes limited (mhs homes)**, which is fully committed to ensuring that **Heart of Medway** complies with the RSH Governance and Financial Viability Standard. **mhs homes** has formalised the management arrangements in place through an Intra Group Agreement that acknowledges and supports the Registered Provider status of **Heart of Medway**.

### Corporate Governance

**Heart of Medway** has adopted the National Housing Federation's Excellence in Governance Code of Governance (2020) and complies with all principles and provisions. An intra group agreement (IGA) manages the relationship between **Heart of Medway** and **mhs homes**. Both parties record their intentions to be treated as a group and each covenant to carry on its business in accordance with the Group objectives. This agreement was last reviewed and agreed by the Board in 2023. It states that **Heart of Medway** will appoint the Group Chief Executive as its Chief Executive and the group Company Secretary as its Company Secretary. The Group Chief Executive is appointed by and accountable to the Parent board and also owes a duty of care to all group board members. Housing management is delegated to the Parent, **mhs homes**, through a Management Agreement.

Two members of the Board are also members of the **mhs homes** Board and receive a salary in respect of their role at mhs homes. The Board has devised its own procedure with respect to conduct and probity. There is a system of open declaration recorded in the minutes of Board meetings and for other matters occurring outside the Boardroom there is a Declarations Register. This is accessible to all members of the Board and is systematically scrutinised by the Group Finance, Risk and Audit Committee.

### Role of the Board

The Board Comprises of between five and twelve Directors. During the year there are at least 5 meetings, one of which is the Annual General Meeting. The role of the Board is to govern **Heart of Medway**; to fulfil its regulatory duty, to provide accountability, to resolve tensions between stakeholders, to give advice to management, to provide strategic direction and to be collectively responsible for the proper stewardship of the organisation. Moreover, the Board strives for high standards of governance.

As a means of renewal and self-evaluation the Board holds Away Days to challenge its own performance and keep updated. The agenda covers strategy, board development, teambuilding, financial matters, and vision and business proposals. The Board, as part of the **mhs homes group**, is part of a structure that includes a Customer Scrutiny panel, Group Finance, Risk and Audit Committee, Health and Safety Committee, Treasury Committee and Remuneration Committee. Full details are included in the **mhs homes** accounts

### Composition of the Board

Details of membership during the course of the year are shown on page 1. During the year the Board held 8 meetings (2022: 9) at which the average attendance rate was 94% (2022: 98%).

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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### **Assessment of the effectiveness of internal control**

The Board acknowledges that it has ultimate responsibility for ensuring a system of controls appropriate to the various business environments in which it operates is in place. These controls exist to maintain the financial integrity and sustainability of the Group, giving reasonable assurance to stakeholders that there are robust systems of management and review processes in place across all operational and administrative areas. Full details are included in the **mhs homes** accounts.

### **Board member's responsibilities**

The board members are responsible for preparing the report of the board of management and the financial statements in accordance with applicable law and regulations. Co-operative and Community Benefit Society law and social housing legislation require the board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these financial statements, the board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2018 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022. They are also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The board is responsible for ensuring that the report of the board of management is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2018.

Financial statements are published on the association's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

The maintenance and integrity of the association's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### **Going Concern**

After reviewing the budget and long-term financial plans of **Heart of Medway** for 2024/25 based on normal business planning and control procedures, the Directors have a reasonable expectation that **Heart of Medway** has adequate resources to continue in operational existence for the foreseeable future. Future plans and development aspirations will be comfortably funded by an inter-company facility of £45 million, of which £0.1 million is drawn at the year end.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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### Qualifying third part indemnity provisions

The directors have the benefit of an indemnity which is a qualifying third party indemnity provision. The indemnity was in force throughout the last financial year and is currently in force. The group also purchased and maintained directors' and officers' liability insurance in respect of itself and its directors throughout the financial year.

### Auditor

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the association's auditor for the purpose of their audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware. BDO LLP has expressed their willingness to continue. A resolution for the re- appointment of BDO LLP as auditors of the Association is to be proposed at the forthcoming Annual General Meeting.

### Statement of Internal Control

The Group Board has overall responsibility for establishing and maintaining the whole system of internal control for the organisation and for reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate all risk of failure to achieve business objectives. The system of internal control is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Groups assets and interest.

Heart of Medway Housing Association is registered with the Regulator of Social Housing (RSH).

In accordance with the RSH regulatory framework, **mhs homes** must support and assist **Heart of Medway** to comply with the regulatory requirements. The focus on financial controls extends to the commitment of resources for monitoring operations, compliance testing, reputational risk evaluation and a wide range of risk management activities. This has included stress testing of different scenarios and the creation of an Assets & Liabilities Register. Self-assessments against the Governance and Viability Standard have found that the **Heart of Medway** is compliant. In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which is embedded within the normal management and governance processes. This approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed.

**Heart of Medway** has adopted the National Housing Federations Code of Governance 2020. We are compliant to the Code. The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some key elements of the controls framework, includes the items listed below:

### Monitoring and corrective action

A process of control, self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those that may have a material impact on the financial statements and delivery of our services.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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### **Creditor Payment Policy**

It is the policy to agree terms of payment with suppliers at the time of negotiating the transaction and abide by those arrangements conditional on being satisfied that the goods or services are in accordance with the agreed specification.

### **Identification and evaluation of key risks**

Management responsibility has been clearly defined for identification, evaluation and control of significant risks through the Risk Management Strategy. This puts in place a formal and on-going process of management review for all areas of **Heart of Medway's** activities. The Leadership Team regularly reviews and receives reports on significant risks facing the organisation, and the Chief Executive is responsible for reporting to the Group Finance, Risk and Audit Committee and the **Heart of Medway** Board any significant changes affecting key risks. The key risks for the association are: -

- 1) Failure to ensure tenants are safe at home and colleagues are safe at work.
- 2) Failure to invest sufficiently in current properties to ensure our homes are high quality, safe and energy efficient.
- 3) Failure of data security.
- 4) Failure to maintain long-term financial viability and failure to meet existing covenants.

These, and other risks, are described in detail in the **mhs homes** Group statutory accounts.

### **Control environment and control procedures**

The Board retains responsibility for a defined range of matters covering strategic, operational, and financial and compliance issues, including treasury strategy and large new investment projects. The Group Board has adopted and disseminated to all employees a code of conduct for employees who provide services to **Heart of Medway**. This sets out the Group's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection, and fraud prevention and detection.

### **Information and financial reporting systems**

The Board approves a strategic plan in each financial year, which includes longer-term financial plans and limits on investment in its various activities. Financial reporting procedures include detailed budgets for the year ahead, management accounts produced monthly and forecasts for the remainder of the financial year. These are reviewed in various levels of detail by appropriate staff and in summary on a quarterly basis by the Board. The Board also regularly reviews progress towards the achievement of key business objectives, targets and outcomes.

### **Fraud**

The Board has a policy on fraud covering prevention, detection and reporting of fraud and the recovery of assets. A register is maintained of any frauds or potential frauds. The Finance, Risk and Audit Committee reviews the fraud register at each meeting and has taken the results of these reviews into account in its report to the Board.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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### **Anti-bribery policy statement**

We seek to maintain the highest standards of ethics and integrity in the way we conduct our business. We recognise that bribery and corruption, in all its forms, is illegal and unacceptable. Our bribery policy statement has been integrated into our code of conduct and our gifts and hospitality policy, adopted by the Group Board for the whole organisation, and made available on our intranet.

### **Audit assurance**

A summary of all internal reports and the resultant actions are reported to the Group Finance, Risk and Audit Committee during the year. The Business Assurance Manager, who is a Chartered Auditor, has direct access to the Group Finance, Risk and Audit Committee and presents the Audit Reports. An audit plan was agreed by the Committee for 2022/23. The internal audit service is co-sourced with the audit contractor, RSM-UK. The Committee met 6 times during the financial year and considered internal control and risk at each of its meetings. A report of each Group Finance, Risk and Audit Committee is presented to the Board and the Business Assurance Manager reports directly to the Board every six months.

BDO LLP are our external auditor. The Board receives a report from the external auditors identifying any financial internal control weaknesses that may have come to their attention in the course of their duties. This letter is considered by the Group Finance, Risk and Audit Committee and the Board. The Committee met with the internal and external auditors during the year without the presence of paid staff or executive directors.

The Committee conducts an annual review of the effectiveness of the system of internal control and takes account of any changes that may be needed to maintain the effectiveness of the risk management and control process. The Committee makes an annual report to the Board, which the Board has received.

### **Financial Controls**

On behalf of the Board, the Group Finance Risk and Audit Committee have reviewed the effectiveness of the system of internal control, which operates across the Group for the year ended 31 March 2023. Recognising the importance of this Committee, the membership includes two independent committee members. The Chair is also a non-executive director on the Group board. The system of internal financial control includes:

- The operation of formal policies and procedures, including the documentation of key systems and processes recorded in Financial Regulations, Standing Orders and Delegated Arrangements which enables the monitoring of controls and restricts the unauthorised use of assets. Regular reviews take place to ensure that procurement takes place in a manner that complies with Financial Regulations and Delegated Arrangements.
- A proactive approach to fraud based on prevention and detection rather than being reactive to frauds that have taken place. An Anti-Fraud and Corruption Policy is in place, which is reviewed and approved by the Group Board. A fraud risk register is incorporated within the Risk Management Framework and controls are monitored regularly. The organisation has a whistleblowing policy encouraging staff to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The Group Finance Risk and Audit Committee also receive reports if issues are raised.

# Heart of Medway Housing Association

## Report of the Board of Management for the year ended 31 March 2023 (Continued)

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- Suitably qualified and experienced staff take responsibility for important business functions. Budgets and forecasts are prepared and reviewed on a systematic basis, which enables the Board and management to monitor the key business risks, financial performance and track progress against targets. All major new initiatives, commitments and investment projects are subject to formal authorisation procedures, through relevant committees comprising Board members and other suitably experienced and qualified executives

### **Performance Indicators**

Reports are presented to the Board covering key performance indicators across its activities. These are subject to a continuous review to reflect current targets and business priorities. Reports cover progress against the annual business plan, budget performance information, treasury management, equal opportunities, employee sickness and absence, staff turnover, housing statistics, health and safety and customer complaints.

### **Other External Sources of Advice and Evaluation**

The Board has at its disposal a wide range of independent external sources of advice to validate control mechanisms, verify performance and report on findings. Quality assurance is assessed through the regular renewal of ISO and Customer Service Excellence standards. The Group's commitment to drive improvement by listening to customers is supported by the use of various methods to measure customer insight. Ad-hoc advice on legal issues is provided by Trowers & Hamblins, who are leading lawyers in the sector. Other expert professionals are engaged from time to time; for example, JLL advises on matters of stock valuation and Trowers & Hamblins on new loan facilities

**The Heart of Medway Board confirms there were no material failures in its control environment, and an effective control framework has been in place for the 2022/23 year and up until the adoption of these accounts.**

### **Approval**

This report was approved by the Board on 13 July 2023



Lord Roy Kennedy  
13 July 2023

# Heart of Medway Housing Association

## Independent Auditor's Report to the members of Heart of Medway Housing Association

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### Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's as at 31 March 2023 and of the Association's surplus 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 Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022.

We have audited the financial statements of Heart of Medway Housing Association ("the Association") for the year ended 31 March 2023, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remain independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

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

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



# Heart of Medway Housing Association

## Independent Auditor's Report to the members of Heart of Medway Housing Association

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### Other information

The board are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information including the Report of the Board of Management and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required by the Co-operative and Community Benefit Societies Act 2014 to report to you if, in our opinion:

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

### Responsibilities of the Board

As explained more fully in the board members' responsibilities statement, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

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

# Heart of Medway Housing Association

## Independent Auditor's Report to the members of Heart of Medway Housing Association

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### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Association and the industry in which it operates, we identified that the principal laws and regulations that directly affect the financial statements to be the Accounting Direction from the Regulator of Social Housing for registered providers, the Co-operative and Community Benefit Societies Act 2014 and relevant tax Legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

In addition, the Association is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: The Regulatory Framework of the Regulator for Social Housing, Data Protection and Health and Safety Legislation.

Audit procedures capable of detecting irregularities including fraud performed by the engagement team included:

- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and relevant regulators to identify any actual or potential frauds or any potential weaknesses in internal control which could result in fraud susceptibility;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Reviewing items included in the fraud register;
- Challenging assumptions made by management in their significant accounting estimates, in particular in relation to the recoverable amount of assets and the assumptions used in determining the defined benefit obligation; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments.

# Heart of Medway Housing Association

## Independent Auditor's Report to the members of Heart of Medway Housing Association

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Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

### Use of our report

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

DocuSigned by:

*Paula Willock*

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Paula Willock (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
Gatwick

Date: 31 July 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Heart of Medway Housing Association

## Statement of comprehensive income for the year ended 31 March 2023

	Note	Total 2023 £'000	Total 2022 £'000
Turnover	4	<b>6,653</b>	5,529
Operating costs	4	<b>(4,922)</b>	(3,931)
Surplus on disposal of fixed assets	8	<b>251</b>	401
<b>Operating surplus</b>		<b>1,982</b>	1,999
Other interest receivable and similar income	9	<b>6</b>	6
Interest and financing costs	10	<b>(585)</b>	(157)
Movement in fair value of investment properties	12	<b>190</b>	196
<b>Surplus and total comprehensive income for the financial year</b>		<b>1,593</b>	2,044

All income and expenditure is derived from continuing operations.  
The notes on pages 21 to 36 form part of these financial statements

# Heart of Medway Housing Association

## Statement of Financial Position as at 31 March 2023

	Note	2023 £'000	2022 £'000
<b>Fixed assets</b>			
Tangible fixed assets – housing properties	11	<b>123,324</b>	119,786
Investment properties	12	<b>3,655</b>	3,465
Other investments	13	<b>185</b>	185
		<b>127,164</b>	123,436
<b>Current assets</b>			
Debtors – receivable within one year	14	<b>231</b>	911
Short term deposits		<b>413</b>	344
Cash and cash equivalents		<b>6,816</b>	20
		<b>7,460</b>	1,275
<b>Creditors: amounts falling due within one year</b>	15	<b>(1,695)</b>	(1,636)
<b>Net current assets \ (liabilities)</b>		<b>5,765</b>	(361)
<b>Total assets less current liabilities</b>		<b>132,929</b>	123,075
Creditors: amounts falling due after more than one year	16	<b>(48,201)</b>	(40,468)
Provision for liabilities and charges	20	<b>(528)</b>	-
<b>Net assets</b>		<b>84,200</b>	82,607
<b>Capital and reserves</b>			
Non–Equity Share Capital	21	-	-
Income and expenditure reserve		<b>84,200</b>	82,607
		<b>84,200</b>	82,607

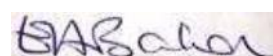
These financial statements were approved and authorised for issue by the Board on 13 July 2023 and were signed on its behalf by:



R Kennedy  
Chair



L Humphrey  
Company Secretary



E Barton  
Board Member

The notes on pages 21 to 36 form part of these financial statements.

# Heart of Medway Housing Association

## Statement of changes in reserves for the year ended 31 March 2023

	<b>Income and Expenditure reserve £'000</b>
<b>Balance at April 2022</b>	82,607
Total comprehensive income for the year	1,593
<b>Balance at 31 March 2023</b>	<b>84,200</b>

	<b>Income and Expenditure reserve £'000</b>
<b>Balance at April 2021</b>	80,563
Total comprehensive income for the year	2,044
<b>Balance at 31 March 2022</b>	<b>82,607</b>

The notes on pages 21 to 36 form part of these financial statements.

# Heart of Medway Housing Association

## Notes forming part of the financial statements for the year ended 31 March 2023

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### 1 Legal status

The association is registered with the Co-operative and Community Benefits Societies Act 2014 in the United Kingdom and is registered with the Regulator of Social Housing as a social housing provider.

### 2 Accounting policies

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Heart of Medway includes the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, Financial Reporting Standard 102 – The Financial standard applicable in the United Kingdom and Republic of Ireland (FRS102). The Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018 and the Accounting Direction for Private Registered Providers of Social Housing 2022.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The following principal accounting policies have been applied:

#### ***Going concern***

On the basis of their assessment of the association's financial position and resources, the Board believe that the association is well placed to manage its business risks. Therefore, the Board have a reasonable expectation that the association has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements. After reviewing the budget of **Heart of Medway** for 2024/25, based on normal business planning and control procedures, the Directors have a reasonable expectation that **Heart of Medway** has adequate resources to continue in operational existence for the foreseeable future. Future plans and development aspirations will be comfortably funded by the inter-company facility of £45 million, which as at the year end only £0.1 million had been drawn.

#### ***Cash flow statement***

Under FRS 102 the association is exempt from the requirement to prepare a cash flow statement on the grounds that its parent undertaking includes the association in its own published consolidated accounts.

#### ***Income***

Income is measured at the fair value of the consideration received or receivable. The association generates the following material income streams:

- Rental income receivable (after deducting lost rent from void properties);
- Service charges receivable;
- Social Housing grants; and
- Proceeds from the sale of land and property.

Rental income is recognised from the point when properties under development reach practical and are formally let, income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale, all other income is recognised on a receivable basis.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

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## 2 Accounting policies (continued)

### **Supported housing schemes**

The association receives Supporting People grants from Medway Council. The grants receivable in the period as well as costs incurred in the provision of support services have been included in the Statement of Comprehensive Income.

### **Service charges**

The association operates both the variable and fixed method for calculating and charging service charges to its tenants and leaseholders. Where variable service charges are used expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

### **Value Added Tax**

The association charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the association and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

### **Finance costs**

FRS 102 requires that financial instruments are measured at amortised cost using the effective interest method with finance costs that are charged to profit or loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. The difference between this and transaction price is not material, so financial instruments have been measured at transaction price. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

### **Tangible fixed assets**

#### **Social Housing Properties**

Social Housing properties constructed or acquired (including land) on the open market are stated at cost less depreciation and impairment (where applicable).

The cost of social housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development. Directly attributable costs of acquisition include capitalised interest calculated on a proportional basis. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Social Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in properties under construction and held at cost less any impairment, and are transferred to completed properties when ready for letting.



# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

## 2 Accounting policies (continued)

### **Depreciation of social housing property**

Social Housing land and property is split between land, structure and other major components that are expected to require replacement over time. Land is not depreciated on account of its indefinite useful economic life. The structure and other major components are depreciated over the determined average useful economic life as follows:

<b>Description</b>	<b>Economic useful life (years)</b>
Structure – Houses	100
Structure – Flats	65
Kitchen	20
Bathroom and new central heating	30
Roofs	50
Boiler	15
Electrics	30
External windows & cold water mains	30
Fire Door External	30
Adaptions	20
Shared Ownership – Flats	65
Shared Ownership - Houses	100

The costs of replacement or restoration of these components are capitalised and depreciated over the same average useful economic life. Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

### **Shared ownership properties and staircasing**

Under Shared Ownership arrangements, the association disposes of a long lease to the occupier; the lease premium paid is for between 25% and 75% of the value. The occupier has the right to purchase further proportions up to 100% based on the market valuation of the property at the time each purchase transaction is completed. A shared ownership property comprises two assets: that to be disposed of in the first tranche sale, which is recorded as a current asset and stated at the lower of cost and net realisable value; and that retained by the association, which is recorded as a fixed asset in the same manner as for general needs housing properties. Proceeds of sale for first tranches are accounted for as turnover in the income and expenditure account, with the apportioned cost being shown as cost of sales within operating results. Subsequent tranches sold (“staircasing”) are reflected in the statement of comprehensive income as a surplus or deficit on sale of housing properties.

### **Allocation of costs for mixed tenure and shared ownership developments**

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

### **Financial assets**

Financial assets are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

## 2 Accounting policies (continued)

### **Recycled Capital Grant Fund**

On the occurrence of certain relevant events, primarily the sale of dwellings, Homes England can direct Heart of Medway to recycle capital grants or to make repayments of the recoverable amount. The association adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to Homes England with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under "creditors due after more than one year". The remainder is disclosed under "creditors due within one year".

### **Social Housing Grant**

Where developments have been financed wholly or partly by social housing grant the amount of grant received has been included as deferred income and recognised in turnover over the estimated useful life of the associated asset structure.

Where social housing grant funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until reinvested in a replacement property. If there is no requirement to repay or recycle the grant on disposal of the asset any unamortised grant remaining within the creditors is released and recognised as income with the comprehensive statement of income.

### **Stock and Work in Progress**

Stock represents work in progress and completed properties, including housing properties developed for transfer to other registered providers and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche. Stock is held at the lower of cost and net realisable value.

### **Financial instruments**

Financial assets and liabilities are recognised when the association becomes party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all its liabilities.

### **Debtors and creditors**

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

### **Recoverable amount of rental and other trade receivables**

The association estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt, historic collection rates and the class of debt.

### **Cash and cash equivalents**

Cash and cash equivalents in the association's balance sheet consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

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## 2 Accounting policies (continued)

### ***Leasehold Sinking Funds***

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included in creditors.

### ***Investment properties***

Investment properties consist of market rented properties and other properties not held for social benefit. They were valued in March 2023. The change in fair value is recognised in the statement of comprehensive income. No depreciation is provided.

### ***Provisions***

Provisions are recognised for liabilities of uncertain timing or amounts. Provision is made for specific and quantifiable liabilities, measured at the best estimate of expenditure required to settle a legal or constructive obligation at the balance sheet date.

## 3 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key judgements have been made in respect of the following:

- Whether there are indicators of impairment of the association's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The Board have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost.
- The categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset.
- What constitutes a cash generating unit when indicators of impairment require there to be an impairment review.

### **Other key sources of estimation uncertainty**

Tangible fixed assets (see note 11) are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. These consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Housing property assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

Rental and other trade receivables (debtors) (see note 14) are estimates for receivables relating to the recoverability of the balances outstanding at year end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

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

	Turnover	Operating costs	Sale of fixed assets	Operating surplus
	2023	2023	2023	2023
	£'000	£'000	£'000	£'000
<b>Social housing lettings (Note 5)</b>	<b>6,277</b>	<b>(4,530)</b>	-	<b>1,747</b>
<b>Other Social Housing Activities:</b>				
Supporting People	192	(277)	-	(85)
<b>Activities Other than Social Housing:</b>				
Sale of fixed assets	-	-	251	251
Other income	-	-	-	-
Market rented properties	184	(115)	-	69
	<b>6,653</b>	<b>(4,922)</b>	<b>251</b>	<b>1,982</b>

	Turnover	Operating costs	Sale of fixed assets	Operating surplus
	2022	2022	2022	2022
	£'000	£'000	£'000	£'000
<b>Social housing lettings (Note 5)</b>	<b>5,208</b>	<b>(3,557)</b>	-	<b>1,651</b>
<b>Other Social Housing Activities:</b>				
Supporting People	200	(310)	-	(110)
<b>Activities Other than Social Housing:</b>				
Sale of fixed assets	-	-	401	401
Other income	1	-	-	1
Market rented properties	120	(64)	-	56
	<b>5,529</b>	<b>(3,931)</b>	<b>401</b>	<b>1,999</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

## 5 Income and expenditure from social housing lettings

	General needs £'000	Affordable Rents £'000	Sheltered Housing £'000	Foyers £'000	Shared Ownership £'000	Total 2023 £'000	Total 2022 £'000
<b>Income</b>							
Rents net of identifiable service charges	1,037	2,989	362	88	907	5,383	4,487
Service Charge income	70	203	48	191	168	680	506
Other income	-	-	1	-	15	16	37
Amortised government grants	64	89	24	-	21	198	178
<b>Turnover from social housing lettings</b>	<b>1,171</b>	<b>3,281</b>	<b>435</b>	<b>279</b>	<b>1,111</b>	<b>6,277</b>	<b>5,208</b>
<b>Expenditure</b>							
Management	109	313	38	-	55	515	426
Service charge costs	34	153	47	191	163	588	507
Routine maintenance	60	183	2	61	2	308	231
Planned maintenance	39	113	28	14	20	214	186
Major repairs	154	445	38	75	689	1,401	804
Bad debts	5	33	1	9	-	48	43
Depreciation of housing properties:							
- Annual charge	298	834	147	-	152	1,431	1,337
- Accelerated on disposal of components	-	25	-	-	-	25	23
<b>Operating expenditure on social housing lettings</b>	<b>699</b>	<b>2,099</b>	<b>301</b>	<b>350</b>	<b>1,081</b>	<b>4,530</b>	<b>3,557</b>
<b>Operating surplus on social housing lettings</b>	<b>472</b>	<b>1,182</b>	<b>134</b>	<b>(71)</b>	<b>30</b>	<b>1,747</b>	<b>1,651</b>
<b>Void losses</b>	<b>(8)</b>	<b>(18)</b>	<b>(0)</b>	<b>(22)</b>	<b>-</b>	<b>(48)</b>	<b>(54)</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

## 6 Units of housing stock

	Total 2022	New builds	Disposals	Transfers	Total 2023
<b>Social Housing:</b>					
General Needs housing	543	55	-	-	598
Sheltered schemes	54	-	-	-	54
Shared Ownership	238	-	-	(1)	237
Social Leaseholders	21	-	-	-	21
	856	55	-	(1)	910
<b>Managed on behalf of mhs homes</b>					
Foyers	36	-	-	-	36
<b>Non-Social Housing:</b>					
Managed Freeholders	6	-	(2)	1	5
Market Rented	17	-	-	-	17
<b>Total owned and managed accommodation</b>	915	55	(2)	-	968

		2023	2022
Units under construction: Commitments contracted	Houses	-	43
	Flats	36	36
	Sheltered	46	90
Units under development: Commitments approved but not contracted	Houses	-	26
	Flats	44	24
		126	219

## 7 Operating Surplus

	2023 £'000	2022 £'000
This is arrived at after charging:		
Depreciation of housing properties:		
- annual charge	1,430	1,337
Accelerated depreciation on replaced components	29	23
Auditor's remuneration (excluding VAT):	28	8
Management fee to mhs homes limited	527	442

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

8	Surplus on disposal of fixed assets	Total	Total
		2023 £'000	2022 £'000
Shared ownership properties:			
	Disposal proceeds	541	941
	Cost of disposals	(289)	(537)
	Legal and other fees	(1)	(3)
	<b>Surplus on sale of fixed assets</b>	<b>251</b>	<b>401</b>

9	Interest receivable	2023	2022
		£'000	£'000
	Interest receivable	6	6
	<b>Total interest receivable</b>	<b>6</b>	<b>6</b>

10	Interest and financing costs	2023	2022
		£'000	£'000
	Recycled Capital Grant Fund interest (Note 19)	-	1
	Bank loans and overdrafts	768	439
	Amortisation of issue costs	21	16
	Arrangement fees	16	2
		<b>805</b>	<b>458</b>
	Interest capitalised on construction of housing properties	(220)	(301)
	<b>Total interest costs</b>	<b>585</b>	<b>157</b>

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

11 Tangible fixed assets: Housing properties	General Needs completed £'000	Shared Ownership completed £'000	General Needs under construction £'000	Total £'000
<b>Cost or valuation:</b>				
At 1 April 2022	83,930	19,637	25,388	128,955
Additions:				
- construction costs	9	-	5,219	5,228
- works to existing properties	54	-	-	54
Completed schemes	17,469	-	(17,469)	-
Disposal under Staircasing	-	(300)	-	(300)
Disposal of replaced components	(54)	-	-	(54)
<b>At 31 March 2023</b>	<b>101,408</b>	<b>19,337</b>	<b>13,138</b>	<b>133,883</b>
<b>Depreciation:</b>				
<b>At 1 April 2022</b>	<b>7,344</b>	<b>1,125</b>	-	<b>8,469</b>
Charge for the year	1,277	153	-	1,430
Eliminated under Staircasing	-	(11)	-	(11)
Disposal of replaced components	(29)	-	-	(29)
<b>At 31 March 2023</b>	<b>8,592</b>	<b>1,267</b>	-	<b>9,859</b>
<b>Impairment:</b>				
<b>At 1 April 2022</b>	467	233	-	700
Charge for the Year	-	-	-	-
<b>At 31 March 2023</b>	<b>467</b>	<b>233</b>	-	<b>700</b>
<b>Net book value at 31 March 2023</b>	<b>92,349</b>	<b>17,837</b>	<b>13,138</b>	<b>123,324</b>
Net book value at 31 March 2022	76,119	18,279	25,388	119,786



# Heart of Medway Housing Association

## Notes forming part of the financial statements for the year ended 31 March 2023 (Continued)

### 11 Tangible fixed assets: Housing properties (continued)

#### Impairment

The group considers schemes to represent separate cash generating units (CGUs) when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2018. No impairments were recognised in the year. The estimated value in use of the social housing stock is £85 million (2022: £76 million).

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
The net book value of housing properties may be further analysed as:		
Freehold	<b>121,710</b>	118,144
Long leasehold	<b>1,614</b>	1,642
	<b>123,324</b>	119,786

#### Interest capitalisation

Interest capitalised in the year	<b>220</b>	301
Cumulative interest capitalised	<b>2,721</b>	2,501
Rate used for capitalisation %	<b>3.00</b>	3.00

#### Works to properties

Improvements to existing properties capitalised	<b>54</b>	18
Major repairs expenditure to income and expenditure account	<b>1,318</b>	172
	<b>1,372</b>	190

### 12 Investment properties: Market Rent

	<b>Completed</b>	<b>Under Construction</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2022</b>	3,465	-	3,465
Revaluation	190	-	190
<b>At 31 March 2023</b>	<b>3,655</b>	<b>-</b>	<b>3,655</b>

The market rented investment properties are measured at cost on initial recognition. In February 2023, the fair value was determined by external valuers. The gain on revaluation of investment property arising of £190,000 (2022: £197,000) has been credited to the Statement of Comprehensive Income for the year.

If investment property had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Historic cost	<b>3,407</b>	3,407
Accumulated depreciation	<b>(462)</b>	(411)
	<b>2,945</b>	2,996

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

## 13 Other investments

	2023 £'000	2022 £'000
Other Investments	185	185
	<b>185</b>	185

## 14 Debtors

	2023 £'000	2022 £'000
<b>Due within one year</b>		
Rent and service charge arrears	366	342
Less: Provision for doubtful debts	(135)	(125)
	<b>231</b>	217
Grant receivable	-	694
Other debtors	-	-
	<b>231</b>	911

## 15 Creditors: amounts falling due within one year

	2023 £'000	2022 £'000
Deferred capital grant	198	178
Rent and service charges received in advance	147	120
Trade Creditors	80	-
Sinking fund balances	413	344
Accruals and Deferred income	848	993
Other Creditors	9	1
	<b>1,695</b>	1,636

## 16 Creditors: amounts falling due after more than one year

	2023 £'000	2022 £'000
Loans (Note 17)	29,483	19,504
Deferred capital grant (Note 18)	18,051	16,291
Recycled capital grant fund (Note 19)	157	138
Amounts owed to group undertakings (Note 23)	510	4,535
	<b>48,201</b>	40,468

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

## 17 Loans and borrowings: maturity of debt

	2023 £'000	2022 £'000
Loans	30,000	20,000
Less issue costs	(517)	(496)
	<b>29,483</b>	19,504

<b>Maturity of debt</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
In more than five years	30,140	24,535
	<b>30,140</b>	24,535

Heart of Medway has two private placements, £10 million due in 2038 at a rate of 3.68% and £20 million due in 2055 at a rate of 2.67%.

## 18 Deferred capital grant

	2023 £'000	2022 £'000
Opening balance	16,470	15,437
Less: Transfers to Recycled capital grant fund	(19)	(91)
Grant amortised	(198)	(177)
Grant received	1,996	1,301
	<b>18,249</b>	16,470
Less: deferred capital grant falling due within one year	(198)	(179)
	<b>18,051</b>	16,291

## 19 Recycled capital grant fund

	£'000
At 1 April 2022	138
Output to fund: Transfers from DCG	19
At 31 March 2023	<b>157</b>

# Heart of Medway Housing Association

## Notes forming part of the financial statements for the year ended 31 March 2023 (Continued)

### 20 Provision

	2023 £'000	2022 £'000
Fire Safety Provision	528	-

The fire safety provision is a result of providing for works to a property identified a block of flats to fulfil its responsibilities with regards to fire safety which does not meet Building Regulations and as such additional work is required to achieve compliance. A programme of works has been identified and communicated to leaseholders.

### 21 Share Capital

	2023 £'000	2022 £'000
At 1 April	8	7
Shares issued in the year	-	2
Shares cancelled in the year	-	(1)
At 31 March	8	8

The share capital of the association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled, and the amount paid thereon becomes the property of the association. Therefore, all shareholdings relate to non-equity interests.

### 22 Capital commitments

	2023 £'000	2022 £'000
Construction		
Commitments contracted but not provided	14,375	24,258
Commitments approved by the Board but not contracted	9,627	13,049
	<b>24,002</b>	37,307
Capital commitments for the association will be funded as follows		
Social housing grant	1,258	3,257
Loans	15,800	25,000
Reserves	6,944	9,050
	<b>24,002</b>	37,307

# Heart of Medway Housing Association

## Notes forming part of the financial statements for the year ended 31 March 2023 (Continued)

### 23 Related party disclosures

The Board includes one tenant member who holds a tenancy agreement on normal terms and cannot use their position to their advantage. The rent charged for the year was £3,747 (2022: £3,655) and the tenant had an arrears balance of £18 at the 31 March 2023 (31 March 2022: £304).

The ultimate controlling party of the association is mhs homes limited a registered charity incorporated under CA2006 registered in England & Wales whose financial statements are available from the association's registered office at Broadside, Leviathan Way, Chatham, Kent ME4 4LL.

### Transactions with non-regulated entities

mhs homes provides management services, other services and loans to its subsidiaries. mhs homes also receives interest charges from its subsidiaries. The quantum and basis of those charges is set out below.

	Management charges		Interest charges	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
mhs homes	527	442	-	-

### Intra-group management charges

Intra-group management fees are payable to the parent organisation, mhs homes, as it provides the management service to properties owned by Heart of Medway Housing Association Limited. A fixed charge per unit is agreed on an annual basis.

### Intra-group interest charges

Interest is charged on the loan provided by mhs homes to Heart of Medway in accordance with the loan agreement. The loan agreement was revised and approved by both organisations in 2015.

### Intra-group loans

Entity granting loan	Entity receiving loan	Opening balance £'000	Movement £'000	Closing balance £'000
mhs homes	Heart of Medway *	4,535	(4,395)	140

### Key Terms of repayment

\* Repayable by 2040. Interest rate 0%

# Heart of Medway Housing Association

Notes forming part of the financial statements for the year ended 31 March 2023  
(Continued)

## 24 Contingent liabilities

Heart of Medway receives grant from Homes England, which is used to fund the acquisition and development of housing properties and their components. Heart of Medway has a future obligation to recycle such grant once the properties are disposed of. At 31 March 2023, the value of grant received in respect of these properties that had not been disposed of was £19.7 million (2022: £17.8 million). As the timing of any future disposal is uncertain, no provision has been recognised in these financial statements.

**Total Social Housing Grant received or receivable to date is as follows:**

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Recycled Capital Grant	<b>157</b>	138
Capital Grant	<b>19,636</b>	17,661
<b>Total Grant</b>	<b>19,793</b>	17,799