METHODIST HOMES REPORT AND FINANCIAL STATEMENTS 31 March 2017

Charity Registered No. 1083995
Company Registered No. 4043124

METHODIST HOMES
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METHODIST HOMES
BOARD OF DIRECTORS' REPORT INCLUDING STRATEGIC REPORT
31 MARCH 2017

The Trustees of MHA present their report and financial statement for Methodist Homes (MHA) for the year ended March 2017. The trustees confirm that the annual report and financial statements of the Charity comply with current statutory regulations, the requirements of the Charity's governing document and the provisions of the Statement of Recommended Practice 'Accounting and Reporting by Charities' (SORP 2015).

1. STRATEGIC REPORT

Objectives and Activities

Who we are

Methodist Homes (MHA) is an award-winning charity providing care, accommodation and support services for older people throughout Britain. We are one of the most well-respected care providers in the sector and amongst the largest charities in Britain, providing services to older people since we were set up in 1943.

We provide community-based care and support services as well as residential care for older people.

MHA includes the subsidiaries MHA Auchlochan, the charity's retirement living village in Scotland, Methodist Homes Housing Association and the three trading entities acquired during the year, comprising of Silk Healthcare Holdings Ltd, Silk Healthcare Ltd and Swiftbuild Properties Ltd.

Mission

MHA's mission is to improve the quality of life for older people. It wants to tackle loneliness and isolation among older people by connecting people in communities that care.

Values

Our values underpin all our services. They are:

- We respect every person as a unique individual
- We treat others, especially the most frail and vulnerable, with the dignity we wish for ourselves
- We are open and fair in all our dealings
- We always seek to improve, to become the best we can be
- We nurture each person's body, mind and spirit to promote a fulfilled life

Objectives

Our main objectives for the coming year are to reach out to more older people through our services while at the same time maintaining our current high quality offer. We want to do this by continuing to invest in current services to make sure they keep up with demands while at the same time developing new accommodation and support services to meet the changing needs and expectations of Britain's ageing society, now and into the future.

STRATEGIC REPORT (continued)

Activities for achieving objectives, now and in the future

The MHA Board and Leadership Team continues to plan and build a future for the charity which can deliver its ambition to deliver more and better forms of support for even greater numbers of older people. In doing this, MHA recognises it is building on the foundations of all that has been achieved in past years and, as so often been demonstrated in MHA's history, that ambition serves as a challenge and an inspiration.

MHA currently supports 17,306 individuals:

- 4,304 older people living in 88 care homes, either in residential, nursing or specialist dementia care.
- 2,666 older people living independently in 66 retirement living schemes, with flexible support and personalised care to enable them to live independent lives in a supported community.
- 10,336 older people supported through 57 community-based Live at Home services, providing them with services such as exercise and activity sessions, trips out, befriending services and lunch clubs.

Our services are delivered by 6,007 dedicated staff and enhanced by the commitment of 5,500 volunteers.

Longer term, we aim to help and support more older people through growing our services across more communities. We will continue to reinvest our operating surplus in expanding our operation. Our aim is to directly improve the lives of 50,000 older people by 2025, and positively influence the lives of many more.

We are working to raise our profile and aim to become recognised as the leading charity for older people and one of the top three charities for shaping policy and being the voice of older people. We aim to lead the 'Faith in Ageing' movement across all faiths.

The issue of combating loneliness and isolation and its impact on older people is at the heart of our work. In 2016/17 we started to explore ways of broadening our reach through restating our purpose and exploring what might be called our 'brand'. This is to support our ambitious plans and to give us the platform from which we can use our practical experience to influence wider society and policy makers for the benefit of older people in general.

We measure our success in terms of the number of older people who benefit from our services, our resident satisfaction survey results and the quality of our services, all of which demonstrate how we are providing the right services, and in the right way, to support older people.

In 2016/17, MHA's overall satisfaction score in the independent 2016 Your Care Rating survey for care homes was 96%. By the end of 2016/17, 84% of care homes and retirement living schemes inspected by the Care Quality Commission were rated as 'good' or 'outstanding', up from 69% in 2015/16.

To find out more about our work, visit www.mha.org.uk

STRATEGIC REPORT (continued)

Public Benefit

The Board has due regard of the Charity Commission guidance on public benefit, in particular the requirement that public benefit can no longer be presumed but must be demonstrated. We are confident in our role as a charity delivering services to the public and meeting the Charity Commission's public benefit requirements now and into the future.

The Charities Protection and Social Investment Act 2016 received Royal Assent on 16 March 2016 and most of the provisions will be implemented over time.

The new Fundraising Regulator will drive the move towards donor opt-in. This has given MHA the opportunity to build better relationships with its more engaged donors and we have chosen to move towards 'opt-in' in 2017, ahead of it becoming compulsory.

MHA aim for the highest standards in all fundraising activities undertaken. MHA are registered with the Fundraising Regulator and are committed to complying with its Fundraising Promise. MHA's objective is to exceed the standards set by both the Fundraising Regulator and the Institute of Fundraising. MHA does all it can to ensure that our fundraisers, volunteers and any third party agencies comply with all fundraising regulations and this promise to our supporters. MHA does not carry out telephone or door to door fundraising. All donations are used to support the life-changing work that MHA does with older people.

MHA's person-centred care recognises each resident and member as a unique individual and addresses their own spiritual and physical needs, with both reassurance and support. Our services are open to all, as demonstrated by our care home residents being broadly split 58:42 into those that are fully self-funded and those that are partially or fully funded by the local authority or the NHS.

Our care homes and retirement living schemes are made up of diverse communities, while our Live at Home schemes draw from our diverse communities. Opportunities are made available for individuals to develop and practise their faith as they feel appropriate. Whilst our work is inspired by the Christian faith, we have always welcomed people from all religious traditions, as well as those without any religious affiliation. We encourage residents to maintain links with their own faith communities.

For many residents, MHA will provide them with their last home. Our Chaplains have a particular role in helping residents, and their relatives, approach their final years, hopefully with a sense of acceptance, peace and fulfilment.

MHA aims to support and care for people living with dementia with understanding and expertise. We focus on the individual needs of our residents and make sure they are able to lead interesting and satisfying lives.

MHA is currently compiling a Modern Slavery Act Transparency Statement in compliance with section 54 of the Modern Slavery Act 2015, once complete and signed off by the Board; it will be available to view on the Company's website here: www.mha.org.uk . During the year MHA has implemented and exercised new procedures within the procurement process to ensure that slavery and human trafficking are not taking place in the supply chain.

STRATEGIC REPORT (continued)

Significant Activities

The significant charitable activities undertaken are:

i. Care Homes - MHA runs 88 residential, dementia and nursing care homes offering 24-hour person-centred care and support for 4,304 residents in specially designed accommodation. www.mha.org.uk/care-homes.
ii. Retirement Living - MHA runs 66 retirement living communities across the UK, with further seven in development. www.mha.org.uk/retirement-apartments.
iii. Live at Home - these 57 community-based schemes provide practical and social support to 10,336 older people living in their own homes, promoting independence and wellbeing through clubs, activities, and information and signposting services. www.mha.org.uk/community-support.

Achievements and Performance Methodist Homes

2016/17 achievements and performance

We are continuously looking to reconfigure and ultimately expand the amount of care and support we provide to older people through the provision of more places. The charity therefore re-invests a substantial proportion of its surplus in the provision of additional settings where these services can be delivered. In the year net growth was achieved.

In December 2016, MHA welcomed Silk Healthcare and its four care homes, plus one under development, into the MHA family. The four homes, which have 320 residents in total, are Reuben Manor in Yarm, Cleveland, Heather Grange at Burnley, Mapplewell Manor, Barnsley, and Belvedere Manor, Colne. In addition, Stainton Manor in Middlesborough is due to open in 2018.

For care homes elsewhere, work has been completed on phase one of the re-development at Hall Grange, Shirley, and Oak Manor, MHA's newest care home at Shefford in Bedfordshire, is due to open in Autumn 2017.

The quality measure of care in our homes and schemes as inspected by the independent Care Quality Commission (CQC) has increased during 2016/17. The percentage of our homes rated 'good' or 'outstanding' rose from 69% to 84% in the year, with Cedar Lawn at Stratford upon Avon and Starr Hills at Lytham St Annes being rated as 'outstanding'.

We have continued to develop our innovative national music therapy programme. Our award-winning in-house team of trained music therapists deliver weekly one-to-one and group sessions for residents living with dementia. MHA currently employs 21 music therapists, making it the largest employer of this specialist service in the country. In 2016/17, we delivered 10,940 one-to-one and group sessions. At least 2,000 residents benefitted from group sessions, while 750 residents received one-to-one music therapy sessions.

The music therapy service was the subject of a feature in The Observer newspaper and we continue to seek opportunities to raise the profile of this service and our others through the media. In 2016/17, we held a successful fundraising event for music therapy. The event was hosted by the world-renowned piano maker Steinway & Sons and launched the South West Music Therapy Appeal, to raise funds for the six homes in the region.

STRATEGIC REPORT (continued)

Achievements and Performance Methodist Homes (continued)

Our expertise in dementia care was recognised in 2016/17 by the popular ITV programme Emmerdale, which approached MHA to advise on its dementia storyline. The show subsequently went on to win awards for the actors involved and the storyline, with MHA being recognised publically in the national media for its support and work in the field of dementia care.

We have 57 Live at Home schemes across the UK, all funded through charitable donations and fundraising. These are supported by 2,596 volunteers who help to significantly improve the quality of life for people living independently in their own homes, where they might otherwise feel lonely or isolated. This help includes befriending visits, supporting older people on social outings and trips and helping run activities such as lunch clubs, crafts and keep fit activities.

In 2016/17 new retirement living developments included:

•Waterlooville in Hampshire. Wellesley Court has been developed to provide independent living in 48 one and two bedroom apartments

•the completion of the re-development of Nethanvale at Auchlochan Garden Village in Scotland. 52 one and two bedroom apartments have been formed out of the former care home. Whilst we sold 7 units off plan with the residents moving in December 2016, our budget for sales in the same period was 10. Further sales have been slower than expected. As such, we have focused additional marketing attention to this area and have seen an increase in interest.

•the redevelopment of Maidment Court in Poole from a care home to retirement living. 17 residents have made the move from the former care home into retirement living as well as new residents welcomed to the 47 apartment schemes

•continued work at Mickle Hill, the retirement living development in North Yorkshire. Phase 1 has now been completed. Whilst our contract with the developer to act as sales agent came to an end in January 2017, we have focused on building a new community in our role as operator of the scheme.

MHA has worked closely with the Association of Retirement Care Operators (ARCO) – of which we are a founding member – to improve the clarity and quality of materials provided to prospective residents in our retirement housing. We are delighted that all our schemes assessed so far against the ARCO consumer code are compliant.

Membership of Live at Home schemes continues to rise and the community-based schemes now support more than 10,330 older people who live independently in their own homes. Staff at Live at Home schemes are supported by 2,596 volunteers. This expansion has been achieved alongside a review of governance arrangements for Live at Home and the introduction of new IT systems.

At a time when local authority funding is being cut back for services like Live at Home, MHA has been able to partner with Hampshire County Council to deliver Live at Home across the county. Funding has been assured for at least three years and the schemes will open in 2017/18.

STRATEGIC REPORT (continued)

Achievements and Performance Methodist Homes (continued)

MHA's Christmas appeal for 2016 focused on raising funds for Live at Home and was named 'Good Deedcember'. The campaign focused on encouraging people to do a Good Deed for an older person while also supporting MHA's Live at Home service. We were delighted that two of ITV's Emmerdale actors were able to join us to do their Good Deed by spending time with Horsforth Live at Home in Leeds.

You can read more about our work in 2016/17 in our impact statement at www.mha.org.uk.

The following KPI's illustrate the MHA settings maintained:

	2017	2016
Number of Care Homes	88	86
Number of Care Home Places	4,693	4,481
Number of Retirement Living Communities	66	64
Number of Retirement Properties Served	2,711	2,571
Number of Live at Home Schemes	57	55
Number of Supported Older People in Live at Home Schemes	10,336	9,734
Volunteer Engagement at Live at Home Schemes	2,596	2,614

Future Developments

The Board has agreed a strategy for MHA with ambitions to become the leading charity for older people. MHA plans to triple the number of people directly supported by the charity to 50,000 people each year by 2025 and influence national policy that will help many more.

Loneliness and isolation is a growing issue for older people, especially those over the age of 75 and people who have lost their partner or are in ill health. Meanwhile society continues to have a negative perception of care homes. MHA will continue to use its communications and influence to demonstrate how we improve the lives of older people and to emphasise the part that great care homes can play in addressing this.

In order to extend our services to more older people, we plan to increase the number of our operating sites through new build and to redevelop existing facilities where provision can be extended or improved.

MHA's newest care home, Oak Manor at Shefford, is due to open in autumn 2017 and Stainton Manor in Middlesborough in 2018. Work continues on the second phase of redevelopment at Hall Grange in Shirley.

For retirement living, we believe the time is now right to review the next stage of our development strategy, looking at both our latest developments and the types of design that older people are likely to want in the future. As a consequence, some projects we would have expected to have begun by 2016/17 have been put on hold while they are re-appraised.

STRATEGIC REPORT (continued)

Future Developments (continued)

Thanks to the backing of Hampshire County Council, new Live at Home schemes are expected to open in the county in early 2017/18. Hampshire County Council has funded new schemes at Winchester and Gosport, and has gone on to pledge a further £594,000 over three years for nine new schemes – the first of which was Basingstoke. The other eight schemes have gone to open and are growing quickly in terms of scheme members.

In the two year period from April 2017 to March 2019 the following increase in number of service settings is planned:

	2019
Number of Care Homes	6
Number of Care Home Places	165
Number of Retirement Living Communities	9
Number of Retirement Properties Served	726
Number of Live at Home Schemes	17
Number of Supported Older People in Live at Home Schemes	5,500
Volunteer Engagement at Live at Home Schemes	2,220

Financial Review

The Statement of Financial Activities shows total incoming resources of £207,089,000 (2016: £191,468,000), a 8.2% increase on the previous financial year. This is largely driven by increases in property sales surpluses. The performance of the group's subsidiary undertakings are disclosed within Note 29 – Group Structure.

The surplus generated by our care homes has benefitted from continuing high occupancy levels and cost benefits achieved through procurement savings. This has allowed us to mitigate pressure on margins due to continuing local authority and NHS austerity.

We have been investing in retirement living and creating new services with partners. The flexibility we offer in our terms, and the option of renting, buying, or a combination, are key to the service.

We are grateful for the generous donations received of £5,752,000 (2016: £4,618,000) which we have used to:

- provide chaplaincy services in all our residential services
- provide music therapy in our dementia care services and reflexology in all our care services
- underpin the Live at Home services
- contribute towards the capital costs of our new and existing services.

The net increase in funds of £9,330,000 is added to the total balances brought forward of £244,198,000.

STRATEGIC REPORT (continued)
Key Performance Indicators for the group

	2016/17	2015/16
	Actual £'000	**Actual £'000**
Total income	207,089	191,468
Operating costs excluding exceptional costs	193,186	183,300
Exceptional costs	1,558	854
Surplus for the year (after investment gains and losses)	12,345	7,314
Service users capacity	**Number**	**Number**
Care homes	4,693	4,481
Retirement Living	2,711	2,571
Community services	10,336	9,734
Occupancy		
Care homes	93.3%	93.2%
Retirement living	90.2%	96.9%
Residents' satisfaction – Care homes	n/a	97.0%
Cost of fundraising to voluntary income	9.8%	9.0%

The directors consider the market value at 31 March 2017 of the Freehold and Leasehold land and buildings to be in excess of the costs or valuation as stated in note 13 to the financial statements, based on independent valuations.

The £1,558,000 of exceptional costs in the current year relates to employee, contractor and sundry office admin expenses expensed as part of the Good to Great programme of systems and process improvements.

Reserves Policy

The Board of Directors has considered the level of reserves which should be maintained within the group and this is reviewed annually. Such reserves are needed to cover, for example, working capital, the risk of possible shortfalls in charitable income and other contingencies.

The Board considers that minimum unrestricted reserves of cash and investments of approximately £11,000,000 are needed to cover such items, and to enable the group to continue to operate to meet its charitable objectives. Actual unrestricted cash reserves were £16,733,000 (2016: £29,388,000). The high value of reserves represents cash to fund planned developments.

Since MHA is confident that it can meet the required pension contributions from projected future income without significantly impacting on its planned level of charitable activity, it continues to calculate its 'free' or general reserves without setting aside designated reserves to cover the pension liability.

The Directors are satisfied that there are sufficient reserves to meet pension liabilities arising from the MHA defined benefit scheme, which was closed to new entrants on 31 March 2010.

STRATEGIC REPORT (continued)

Investment Policy and performance

This policy covering investment objectives has been drawn up with assistance from our investment advisors, the Central Finance Board of the Methodist Church (CFB), to cover the different types of funds held. These are:

- general funds to provide working capital in line with the reserves policy
- restricted funds (excluding Live at Home and Amenity Funds)
- permanent endowment funds.

The management of investments is delegated to the CFB. Performance of investments is considered annually by the Board and is judged to be satisfactory. Investments are held in equities, fixed interest deposits and cash totalling £1,197,000 (2016: £1,133,000) at the balance sheet date.

Principal Funding Sources

MHA has fully drawn loan facilities with the Allied Irish Bank, (current balance at 31 March 2017 being £27,965,000) and Barclays Bank Plc (balance at 31 March 2017 being £70,000,000). Methodist Homes Housing Association has a loan facility with the Nationwide Building Society to draw up to £5,000,000 which was utilised in the year, the balance at 31 March 2017 being £3,483,000, and a loan facility with Capita totalling £1,154,000 as at 31 March 2017. MHA Auchlochan has arranged a loan facility with the Allied Irish Bank which was utilised in the year, the balance at 31 March 2017 being £7,466,000. Fixed asset additions of £67,601,000 were financed mainly by existing reserves. This expenditure enables us to redevelop existing properties to meet new standards as well as to build new ones and extend services for older people.

As part of the care home operations, MHA operates 27 (2016: 23) leased homes, which have been established via sale and lease back arrangements.

On acquisition of the Silk Healthcare group, MHA took over existing loan arrangements with RBS, whereby a fully drawn loan facility had a balance outstanding of £13,365,000. This loan facility was settled in full on acquisition, and has a £nil balance as at 31 March 2017. In addition, loans totalling £1,097,000 in relation to Directors' loans and related parties were settled in full on acquisition.

Risk Management

The Board oversees strategic risk and reviews this on an ongoing basis as the external environment evolves. Risk control is exercised appropriately by the Leadership Team carrying out a formal half yearly review of strategic and operational risks for their areas.

The key risks likely to affect the group's ability to meet its objectives include:

- impact of state funding available in the care and housing sector - local authorities continue to pay care and nursing home fees at a level which falls short of that which is required to deliver quality care for older people at the same time as costs continue to rise. Management monitors the levels of funding on a monthly basis and report these to the Board, who take appropriate commercial and pricing decisions to protect the charity.

STRATEGIC REPORT (continued)

Risk Management (continued)

- Brexit - the process, negotiations and eventual outcome are likely to have a range of impacts; including inflation, increased development cost, and especially in relation to potential tighter restrictions on EU citizens living and working in the UK, bringing increased pressures on recruitment and staffing.
- Workforce - the national shortage of nurses is expected to continue and likely to be exacerbated by restrictions on recruitment from abroad, removal of the nursing training bursary and aging workforce. Recruitment of non-nursing staff will continue to be competitive and, while the introduction of the Apprenticeship Levy offers opportunities for MHA to build career pathways into recruitment, it does so at a cost to MHA of more than £500k a year.
- National Living Wage - our approach to staff pay and benefits package has been targeted at the lowest paid among our frontline staff so we continue our move to paying all staff the Living Wage. The Board is regularly appraised of this and sets pay policy through agreement of the annual pay review process.
- Reputational risk - the management of quality is a high priority for MHA. We have an internal system of risk monitoring that focuses on key factors that might indicate potential quality concerns, which are then investigated. The Board is regularly appraised of the results of this monitoring and associated actions. A poor reputation can undermine confidence of supporters and lenders.
- Change management - MHA operates within a dynamic sector and to enable it to deliver its growth strategy, has adopted an integrated approach to managing cultural, process and systems change.
- Fundraising/charity - the 'individual donor' market continues to face scrutiny and criticism which has led to further regulation and increased donor suspicion.
- Final salary scheme funding - A funding plan for payments to reduce the deficit has been agreed and payments are being met as they fall due. The Board receives ongoing professional advice on the management of the pension scheme and the mitigation of risk.

Financial Risk Management

Financial risks are identified by the Leadership Team as part of the annual business planning process and monitored on a regular basis. Financial performance is reported to the Finance Committee for further scrutiny as delegated by the Board. Key areas of risk that impact the group's operations include the management of working capital and long-term funding required to support the group's growth plans. The group takes a risk-averse approach to the effect of interest rates on its borrowings and has entered into appropriate hedging.

2. STRUCTURE, GOVERNANCE and MANAGEMENT

Governing Document

Methodist Homes (MHA) is a company limited by guarantee (Companies House No. 4043124) and a registered charity (Registered Charity No. 1083995). It is governed by Memorandum and Articles of Association dated 31 March 2011.

For the year ended 31 March 2017 Methodist Homes has been the parent company of two connected charitable organisations Methodist Homes Housing Association and MHA Auchlochan, and three trading subsidiaries Silk Healthcare Holdings Ltd, Silk Healthcare Ltd and Swiftbuild Properties Ltd, which acquired as at December 2016.

Organisational Structure

The Board consists of up to twelve Board Members, one of whom is nominated by the Methodist Church. Board Members decide the strategic aims of the charity and hold Management to account in performing executive functions. Decisions are taken in accordance with the instructions laid down in the charity's Standing Orders and related policy documents.

The Board has the following committees, all of which have a group-wide remit:

- Audit Committee – advises the Board on all matters relating to the annual financial statements, external audit, risk management and internal financial control.
- Finance Committee – provides guidance on financial strategy and reviews management information, budgets and forecasts.
- Remuneration Committee – determines, on behalf of the Board, the remuneration of the Leadership Team.
- Quality Committee – focuses on three key areas of quality: resident safety, care effectiveness and resident experience.
- Property Committee – approves expenditure on significant capital projects and reviews progress and quality controls.
- Governance Committee – has delegated responsibility for ensuring good governance of the charity and identifying and proposing new Board members.

The Board delegates authority for day-to-day management to the Executive Leadership Team. Whilst the leadership Team may have the title of Director they are not statutory directors. References within this report to Directors refer to Board Members with statutory responsibilities. Board members receive no remuneration.

Election, Appointment and Training of Board Members

Board Members are appointed by the Board through an open recruitment process led by the Governance Committee and it follows Charity Commission guidelines in making sure there is an appropriate range of skills, knowledge and experience among its members.

The Chair is eligible to serve for one term of four years. Board members are eligible to serve for two terms of three years. The maximum term of office for a Board Member who becomes Chair is nine years, subject to re-election during that period.

The Church nominee is nominated in conjunction with the General Secretary of the Methodist Church and/ or their representative, and reported to the Conference of the Methodist Church.

STRUCTURE, GOVERNANCE and MANAGEMENT (continued)

Election, Appointment and Training of Board Members (continued)

New Board members receive full induction which includes our Code of Conduct, constitutional documents, Board Manual, policies and information relevant to the work of the charity. All Board members visit services and further develop understanding of the work of the organisation as well as appropriate training. Insurance has been taken to indemnify Board members against liability for wrongful acts.

Members who served on the Board during the year are shown in the list of officers on page 17.

Patrons

We would like to take this opportunity to thank our Patrons - Baroness Kathleen Richardson of Calow, OBE, broadcaster and writer Pam Rhodes and Dame Denise Platt. Their support is invaluable in raising the profile of MHA and its work, helping it to reach out to more older people in need. Supporting national events and backing high profile appeals, such as the 2016 event at Steinway & Sons for music therapy, helps us generate essential charitable income. The time and contribution given by our Patrons is greatly appreciated.

Connected Companies

During the year to 31 March 2017 Methodist Homes worked closely with two associated charitable organisations, and three trading companies (acquired December 2016):

Methodist Homes Housing Association (MHHA) - subsidiary undertaking

MHA Auchlochan (MHAA) - subsidiary undertaking

Silk Healthcare Holdings Ltd (SHHL) – subsidiary undertaking

Silk Healthcare Ltd (SHL) - subsidiary undertaking (indirect, 100% owned by SHHL)

Swiftbuild Properties Ltd (SPL) - subsidiary undertaking (indirect, 100% owned by SHHL)

Staff Members

MHA is fortunate in employing staff members who share our values and provide an exceptional service to older people. We are careful in our recruitment and committed to retaining good staff members through rewards, training, personal development and career opportunities, flexible benefits and engagement. We are grateful for the contribution and work of all staff, who together, make a real difference to the lives of older people.

Communication and consultation with staff members has continued at all levels. We make sure they are kept informed through a variety of communication methods and make sure their views are taken into account when decisions are made that are likely to affect their interest.

We have a commitment not to discriminate against any person or group on any basis which underpins our policies and actions. We are open to all and actively support those with disabilities giving full and fair consideration at recruitment and support throughout employment. MHA continues to ensure we reflect the diversity of the local population.

STRUCTURE, GOVERNANCE and MANAGEMENT (continued)

Statement of the Board's Responsibilities

The Board Members (who are also directors of Methodist Homes for the purposes of company law) are responsible for preparing the Board of Directors' Report (including the Strategic Report) and the financial statements in accordance with applicable law and regulation.

Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice). Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the charitable company and the group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Statement of Recommended Practice: Accounting and Reporting by Charities (2015) and the Housing Statement of Recommended Practice;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, 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 charitable company will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Internal Financial Controls Assurance

The Board is responsible for the group systems of internal financial control. Such systems can only provide reasonable, not absolute, assurance against material misstatement or loss. The Board and Leadership Team are reviewing the controls around key risks, which will evolve as the sector environment changes.

STRUCTURE, GOVERNANCE and MANAGEMENT (continued)

Internal Financial Controls Assurance (continued)

The Board confirms there is an ongoing process for identifying, evaluating and managing significant risks to the achievement of the group strategic objectives. It has established a number of procedures, which are designed to provide effective internal financial controls:

- Control environment and procedures - the Board has approved The Leadership Team delegation document, giving clear management responsibilities in relation to financial control and limits to management discretion. Financial processes are supervised by staff with appropriate experience and qualification.Risk Management - the Board has adopted financial strategies, designed to identify and control significant risks facing the organisation. All significant initiatives and capital investments are subject to formal authorisation procedures.
- Management Information - the Board approves a rolling plan annually, which incorporates an annual budget and receives regular financial and management reports that identify variances from budget and key financial indicators.
- Monitoring systems - the Board has an Audit Committee, which reviews reports from management, external auditors and internal control assessments to provide reasonable assurance that control procedures are in place and being followed. The Committee makes regular reports to the Board.

The Board has reviewed the effectiveness of the system of internal control for the year ended 31 March 2017 and until the date of approval of the financial statements. No weaknesses were found that resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements, or in the auditors' report on those financial statements.

Statement as to Disclosure of Information to Auditors
In accordance with the provisions of Section 418 of the Companies Act 2006, each of the persons who are trustees of the company at the date when this report is approved confirms that:

(a) so far as the trustee is aware, there is no relevant audit information of which the company's auditors are unaware; and
(b) he/she has taken all the steps that he ought to have taken as a trustee in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning their re-appointment will be proposed at the Annual General Meeting.

The report of the board including the Strategic Report was approved on 27 September 2017 and signed on its behalf by:

John Robinson Chair
Epworth House
Stuart Street
Derby
DE1 2EQ

METHODIST HOMES BOARD, OFFICERS AND ADVISORS 31 MARCH 2017

Reference and administrative details

Patrons

Baroness Kathleen Richardson of Calow, OBE
Pam Rhodes
Dame Denise Platt

Board

	Term of Office		Committee Memberships
	Start	**Finish**	
Graham Smith (Chair)	Apr 2011	Aug 2017	Remuneration & Governance Committees
John Robinson (Chair)	Aug 2017		Remuneration & Governance Committees
Other Board Members:			
Moira Simpson	Jul 2010	Jul 2016	Audit Committee
Malcolm Johnson	Jul 2010	Jul 2016	Quality Committee
David Hall	Aug 2013		Governance & Audit Committee
Norman Mann	Aug 2014		Audit & Remuneration Committees
Hilary Cocker	Aug 2014		Finance & Governance Committees
Andrew Mason	Nov 2014	Aug 2017	Property Committee
Ian Ailles	Nov 2014		Finance & Remuneration Committees
Andrew Cozens	Aug 2015		Finance & Quality Committees
Bala Gananpragasam	Aug 2015		Quality Committee
Debbie Aplin	Aug 2015		Property Committee
Vanella Jackson	Aug 2015		Property Committee
Vijay Thakrar	Aug 2016		Audit Committee
James Reilly	July 2016		Quality Committee

Leadership Team

Name	Joined	Resigned	Position
Rev Dr Keith Albans	2001	2017	Director of Chaplaincy & Spirituality
Carol Artis	2005		Director of Care Homes
Anna Marshall-Day	2006		Director of People & Organisation Development
Annie Webber	2013		Director of Quality
Adrian Bagg	2014	2017	Chief Executive
Joy Kingsbury	2014		Director of Retirement Living
Mark Terry	2015		Director of Finance
Sue Allchurch	2015	2016	Director of Marketing
Lincoln Clarke	2017		Director of Marketing
Rev Dr Chris Swift	2017		Director of Chaplaincy & Spirituality

METHODIST HOMES
BOARD, OFFICERS AND
ADVISORS 31 MARCH 2017

Company Secretary

Mark Terry

Registered Office

Methodist Homes
Epworth House
Stuart Street
Derby DE1 2EQ

Tel: (01332) 296200
Fax: (01332) 296925
Email: enquiries@mha.org.uk Website: www.mha.org.uk

Charity Registered Number - 1083995

Company Registered in England and Wales Number - 4043124

Professional Advisors

Solicitors	Pinsent Masons LLP 3 Colmore Circus Birmingham B4 6BH
External Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Cornwall Court 19 Cornwall Street Birmingham B3 2DT
Bankers	HSBC Plc 70 Pall Mall London SW1Y 5EZ
	AIB Group (UK) Plc Podium Floor St. Helens 1 Undershaft London EC3A 8AB
	Nationwide Building Society Kings Park Road Moulton Park Northampton NN3 6NW

Professional Advisors (continued)

	Barclays Bank Plc 1 Snowhill Snowhill Queensway Birmingham B3 2WN
Investment Advisors	Central Finance Board of the Methodist Church 9 Bonhill Street London EC2A

Independent auditors' report to the members of Methodist Homes

Report on the financial statements

Our opinion

In our opinion, Methodist Homes' group financial statements and parent charitable company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent charitable company's affairs as at 31 March 2017 and of the group's and parent charitable company's incoming resources and application of resources, including its income and expenditure and of the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Methodist Homes Report and Financial Statements (the "Annual Report"), comprise:

- the group and parent charitable company statements of financial position as at 31 March 2017;
- the group statement of financial activities and the group summary income and expenditure account for the year then ended;
- the group cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).
In applying the financial reporting framework, the trustees have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Board of Directors' Report, including the Strategic Report, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Board of Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Board of Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent charitable company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Methodist Homes

Trustees' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of trustees' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the trustees

As explained more fully in the Statement of the Board's Responsibilities, the trustees are responsible for the preparation of the 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.
This report, including the opinions, has been prepared for and only for the charity's members and trustees as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent charitable company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the trustees; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the trustees' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.
In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.
With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Andrew Hammond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
27 September 2017

METHODIST HOMES
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
(including consolidated income and expenditure account)
For the year ended 31st March 2017

	Note	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 £'000	2016 £'000
Income and endowments from:						
Donations and legacies	2	3,866	1,886	-	5,752	4,618
Charitable activities	3/6					
Homes		159,006	141	-	159,147	148,080
Retirement Living		34,963	3,060	-	38,023	35,097
Live at Home		-	2,277	-	2,277	3,039
Other		1,762	-	-	1,762	413
Total charitable activities		195,731	5,478	-	201,209	186,629
Investments	4	80	43	5	128	221
Total		199,677	7,407	5	207,089	191,468
Expenditure on:						
Raising funds		563	-	-	563	417
Charitable activities	6					
Homes		146,774	967	-	147,741	143,465
Retirement living		33,031	3,456	-	36,487	36,074
Live at home		796	3,746	-	4,542	3,072
Other		5,233	-	-	5,233	836
Total charitable activities		185,834	8,169	-	194,003	183,447
Other	7	242	-	-	242	277
Total	5	186,639	8,169	-	194,808	184,141
Net gains/(losses) on investments	11	-	30	34	64	(13)
Net income/(loss)		13,038	(732)	39	12,345	7,314
Transfer between funds		(1,187)	1,124	63	-	-
Other recognised losses:						
Actuarial (loss)/gain on defined benefit pension schemes	26	(2,225)	-	-	(2,225)	2,773
Other losses – interest rate swaps	19	(790)	-	-	(790)	(1,641)
Net movement in funds		8,836	392	102	9,330	8,446
Reconciliation of funds:						
Total funds brought forward	25	216,952	26,365	881	244,198	235,752
Total funds carried forward		225,788	26,757	983	253,528	244,198

All activities in both years are continuing activities. There were no gains or losses other than as set out above, therefore no separate Statement of Comprehensive Income has been presented.

METHODIST HOMES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31st March 2017
Company Registered No. 4043124

	Note	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 £'000	2016 £'000
Fixed assets						
Intangible fixed assets	12	2,766	-	-	2,766	-
Tangible fixed assets	13	439,878	18,521	-	458,399	445,664
Investments	16	-	439	758	1,197	1,133
		442,644	18,960	758	462,362	446,797
Current assets						
Debtors	17	14,185	-	-	14,185	11,957
Cash at bank and in hand		16,733	7,797	225	24,755	35,931
Total current assets		30,918	7,797	225	38,940	47,888
Liabilities						
Creditors: Amounts falling due within one year	18	(38,252)	-	-	(38,252)	(34,538)
Net current (liabilities)/assets		(7,334)	7,797	225	688	13,350
Total assets less current liabilities		435,310	26,757	983	463,050	460,147
Creditors: Amounts falling due after more than one year	19	(137,193)	-	-	(137,193)	(144,165)
Provisions for liabilities	20	(59,245)	-	-	(59,245)	(60,153)
Total net assets before defined benefit pension liability		238,872	26,757	983	266,612	255,829
Defined benefit pension scheme liability	26	(13,084)	-	-	(13,084)	(11,631)
Total net assets		225,788	26,757	983	253,528	244,198
Funds						
Endowment funds	23	-	-	983	983	881
Restricted income funds	24	-	26,757	-	26,757	26,365
Unrestricted income fund: General fund	25	225,788	-	-	225,788	216,952
Total	25	225,788	26,757	983	253,528	244,198

The financial statements on pages 22 to 70 were approved on behalf of the Board and authorised for issue on 27 September 2017 and signed on its behalf by:

John Robinson – Chair

METHODIST HOMES
STATEMENT OF FINANCIAL POSITION (PARENT COMPANY)
As at 31st March 2017
Company Registration No. 4043124

	Note	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 £'000	2016 £'000
Fixed assets						
Tangible fixed assets	13	342,555	18,521	-	361,076	352,369
Investments in subsidiaries	15	24,374	-	-	24,374	-
Investments	16	-	439	758	1,197	1,133
		366,929	18,960	758	386,647	353,502
Current assets						
Debtors	17	26,494	-	-	26,494	22,565
Cash at bank and in hand		9,239	7,783	225	17,247	26,944
Total current assets		35,733	7,783	225	43,741	49,509
Liabilities						
Creditors: Amounts falling due within one year	18	(55,532)	-	-	(55,532)	(29,384)
Net current (liabilities)/assets		(19,799)	7,783	225	(11,791)	20,125
Total assets less current liabilities		347,130	26,743	983	374,856	373,627
Creditors: Amounts falling due after more than one year	19	(106,703)	-	-	(106,703)	(108,482)
Provisions for liabilities	20	(44,464)	-	-	(44,464)	(46,378)
Total net assets before defined benefit pension liability		195,963	26,743	983	223,689	218,767
Defined benefit pension scheme liability	26	(13,084)	-	-	(13,084)	(11,631)
Total net assets		182,879	26,743	983	210,605	207,136
Funds						
Endowment funds	23	-	-	983	983	881
Restricted income funds	24	-	26,743	-	26,743	26,179
Unrestricted income fund: General fund	25	182,879	-	-	182,879	180,076
Total	25	182,879	26,743	983	210,605	207,136

The financial statements on pages 22 to 70 were approved on behalf of the Board and authorised for issue on 27 September 2017 and signed on its behalf by:

John Robinson – Chair

METHODIST HOMES
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31st March 2017

		2017		2016	
	Note	£'000	£'000	£'000	£'000
Cash flow from operating activities:					
Net cash provided by operating activities	27		19,666		16,236
Cash flow from investing activities:					
Investment income		128		221	
Purchase of tangible fixed assets		(34,698)		(29,999)	
Purchase of investment		(23,071)		-	
Proceeds from the sale of tangible fixed assets		49,684		8,405	
Proceeds from the sale of investments		-		-	
Net cash used in investing activities			(7,957)		(21,373)
Cash flow from financing activities:					
Interest paid and similar charges		(4,017)		(4,068)	
Cash inflows from new borrowing		-		28,325	
Repayments of borrowings		(18,868)		(10,955)	
Net cash (used in)/provided by financing activities			(22,885)		13,302
Net change in cash and cash equivalents			(11,176)		8,165
Cash and cash equivalents at the beginning of the year			35,931		27,766
Cash and cash equivalents at the end of the year			24,755		35,931

1. Principal Accounting Policies

General information

Methodist Homes (MHA) is a company limited by guarantee (Companies House No. 4043124) and a registered charity (Registered Charity No. 1083995). It is governed by Memorandum and Articles of Association dated 31 March 2011. It is incorporated and domiciled in the UK. The address of its registered office is Methodist Homes, Epworth House, Stuart Street, Derby, DE1 2EQ.

Summary of significant accounting policies

The principal accounting policies adopted, judgments and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

Basis of preparation

These financial statements have been prepared under the historical cost convention, with the exception of owned Freehold Care Homes, Long Leasehold Care Homes and investments which are shown at deemed cost. They have also been prepared in accordance with the Statement of Recommended Practice "Accounting and Reporting by Charities" (Charities SORP (FRS102)) applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) (effective 1 January 2015) and the Companies Act 2006 except for the treatment of MHHA Social Housing Grants. These would normally be shown through the Statement of Financial Activities as Restricted Funds. MHA has chosen to maintain the Housing Association treatment of recognising grants under accrual model which is a departure from the charity SORP (FRS102), but is in line with the Companies Act 2006 and the Statement of Recommended Practice "Accounting by Registered Housing Providers" which is adopted by MHHA. The Directors believe this is the appropriate policy to use within the consolidated financial statements.

Owned Freehold and Long Leasehold Care Homes are valued at deemed cost as permitted by the transitional arrangements to FRS102. The deemed cost is the historic value or market value at transition. The valuations of land and buildings for care homes were made in 2013 by Knight Frank on an existing use open market value basis, in accordance with the Statement of Assets Valuation Practice Note 4 and the Guidance Notes of the Royal Institution of Chartered Surveyors. The method used and significant assumptions applied in estimating the fair values for the care homes were by reference to the 'profits method' as this is the basis on which such properties are commonly bought or sold. In undertaking the valuation of the property, Knight Frank have made an assessment on the basis of a collation and analysis of appropriate comparable transactions, together with evidence of demand within the vicinity of the subject property and purchaser sentiment. Knight Frank have then applied these to the properties, taking into account size, location, aspect. Other material factors, such as where planned works were due to take place creating a reduced occupancy, have been factored in.

The properties have been valued separately with the exception of Nethanvale and Lower Johnshill which would be sold as a single asset. As a result the values reported on an individual basis are an apportionment of the value as a whole. Knight Frank have assumed that the properties have been marketed in an orderly way.

1. Principal Accounting Policies (continued)

Open Market Value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

The subject properties are valued having regard to trading potential, having been well maintained and effectively operated, offering high standards of care and meeting the requirements of the relevant regulatory bodies.

The charity constitutes a public benefit entity as defined by FRS102.

Going concern

The charity's business activities, its current financial position and factors likely to affect its future development are set out in the Board of Directors' Report. The charity has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the charity's day to day operations. The charity also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants. Debt facilities were significantly restructured after the year-end to provide additional funds to support the charity's growth plans.

On this basis, the board has a reasonable expectation that the charity has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in the financial statements.

The trustees consider that there are no material uncertainties about the charity's ability to continue as a going concern.

Basis of consolidation

The consolidated group financial statements of Methodist Homes and its subsidiary undertakings are presented using acquisition accounting on a line by line basis. Intra-group profits are eliminated on consolidation. A separate Statement of Financial Activities and Income and Expenditure Account for the company has not been presented because the company has taken advantage of the exemption afforded by section 408 of the Companies Act 2006. The performance of the charity is set out in note 24.

1. Principal Accounting Policies (continued)

The wholly controlled subsidiaries which are consolidated are:

Methodist Homes Housing Association - Registered Provider of Social Housing

MHA Auchlochan – Charity

Silk Healthcare Holdings Ltd – Holding company

Silk Healthcare Ltd – trading company providing care in 4 homes

Swiftbuild Properties Ltd – property development company, specialising in building care homes

A subsidiary is an entity controlled by the Parent. The parent charity can exercise control through trusteeship, which gives a parent charity the ability to govern the financial and operating policies of the subsidiary. The above two entities are subsidiaries of Methodist Homes by means of various inter-group agreements. Methodist Homes has the power to appoint and/or remove a majority of the trustees and thus demonstrate control.

Income recognition

All income is recognised once the charity has entitlement to the income, any performance conditions attached to the item(s) of income have been met, it is probable that the income will be received and the amount of income receivable can be measured reliably.

Income from government and other grants, whether 'capital' grants or 'revenue' grants, is recognised when the charity has entitlement to the funds, any performance conditions attached to the grants have been met, it is probable that the income will be received and the amount can be measured reliably and is not deferred.

Donations are recognised when the charity has been notified in writing of both the amount and settlement date. In the event that a donation is subject to conditions that require a level of performance before the charity is entitled to the funds, the income is deferred and not recognised until either those conditions are fully met, or the fulfilment of those conditions is wholly within the control of the charity and it is probable that those conditions will be fulfilled in the reporting period. The charity received substantial amounts of voluntary help from its supporters but no attempt is made to place a financial value on these services and they are not included in these financial statements. Voluntary help covers a range of activities from fundraising to helping with activities in the homes.

For legacies, entitlement is taken as the earlier of the date on which either: the charity is aware that probate has been granted, the estate has been finalised and notification has been made by the executor(s) to the Trust that a distribution will be made, or when a distribution is received from the estate. Receipt of a legacy, in whole or in part, is only considered probable when the amount can be measured reliably and the charity has been notified of the executor's intention to make a distribution. Where legacies have been notified to the charity or the charity is aware of the granting of probate, and the criteria for income recognition have not been met, then the legacy is a treated as a contingent asset and disclosed if material.

Interest on funds held on deposit is included when receivable and the amount can be measured reliably by the charity; this is normally upon notification of the interest paid or payable by the bank.

1. Principal Accounting Policies (continued)

Charitable activities

Fees, charges and rents – Income represents the amounts charged for occupation costs and services provided in the year, and is recognised on a delivered basis.

Supported retirement housing for sale – Income and expenditure represents amounts relating to individual units sold during the year on long-term lease. A sale is recognised on completion where the contract is unconditional and the risks and rewards of ownership have passed.

Transactions with a guaranteed buyback commitment are not recognised at the date of completion, but are accounted for as operating leases for the period to when it is considered probable that the property will be bought back (currently considered by the directors to be ten years from the completion date). This principle applies irrespective of the duration of the buyback commitment.

The difference between the sale price and the buyback price is recognised as rental revenue on a straight-line basis over the duration of the buyback commitment. The property is initially recognised at production cost in property, plant and equipment. Depreciation expense is calculated over expected useful economic life of the property by the straight-line method, on the basis of the property's cost less its estimated residual value, representing the anticipated resale price on the property market.

Provision is made for the expected value of the buyback commitment in the future, discounted at the appropriate risk-free rate (being the relevant ten and five year government bond rates depending on the remaining expected life of the individual commitments by property). The carrying value of the provision is re-assessed at each financial reporting period end to adjust for transactions during the period, changes in remaining lives of the commitments, and periodic fluctuations in the risk free rate. The unwinding of the associated discount factor is recognised within interest payable and similar charges.

On the buyback of a property under the guaranteed commitment by the company, any resulting gain or loss is recognised within the Operating Surplus / (Deficit) in the period, as is the release of any associated buyback provision. The remaining unwound discount is released to interest.

Expenditure recognition

Expenditure is recognised once there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

Central costs

All staff employed in the central office are employed by Methodist Homes, the office premises are jointly occupied and office services are shared.

Within the financial statements of the group, these expenses are allocated on the basis of time spent to three items:

(i) Charitable activities

These costs relate to services provided centrally and identified as wholly or mainly in support of direct charitable expenditure, together with an appropriate proportion of management and office overheads.

1. Principal Accounting Policies (continued)

(ii) Costs of generating funds
All expenses relating to fund-raising, publicity and public relations (except the marketing of accommodation and care services) are charged to this heading. This item bears an appropriate proportion of management and office overheads.

(iii) Governance costs
These costs relate to the corporate management of the organisation itself. They include expenses of trustees' meetings, audit fees, office costs and other corporate management costs.

Allocation of support and governance costs

Support costs have been allocated between governance costs and other support costs. Support costs are those functions that assist the work of the charity but do not directly undertake charitable activities. Support costs include back office costs, finance, personnel and payroll. Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. These costs include costs related to statutory audit and legal fees together with an apportionment of overhead and support costs. These costs have been allocated between cost of raising funds and expenditure on charitable activities. The bases on which support costs have been allocated are set out in note 7.

Intangible assets and amortisation

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the amortisable amount of the assets to their residual values over their estimated useful lives.

Costs associated with maintaining computer software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the charity are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1. Principal Accounting Policies (continued)

Tangible fixed assets and depreciation

Land is stated at cost, except where it forms part of a revalued care home – in which case it is stated at valuation, and is not depreciated.

Freehold and long leasehold buildings include applicable overhead expenditure and capitalised interest. Interest on loans deemed to be financing a development is capitalised up to the date of practical completion.

Fixed assets with a cost of more than £5,000 are capitalised and depreciated. Improvements which enhance the future economic benefits of the property or extend its overall useful life are capitalised and are fully written off over the expected useful life of the property.

The charity has previously adopted a policy of revaluing freehold and long leasehold care homes and they were stated at their revalued amount less any subsequent depreciation and accumulated impairment losses. The charity has adopted the transition exemption under FRS102 paragraph 35.10(d) and elected to use the previous revaluation as deemed cost.

Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful life.

Freehold and long leasehold buildings are depreciated over their expected useful life of forty years, or the life of the lease if shorter, on a straight-line basis.

Furniture, equipment and motor vehicles are depreciated over three to five years on a straight line basis except for minibuses financed from restricted funds, which are written off in the year of purchase.

Assets in the course of construction are stated at cost and are not depreciated until they are available for use. The assets in the course of construction are recognised where it is probable economic benefit will flow to the charity and can be reliably measured.

Social housing grants

The group's housing developments are financed wholly or partly by Social Housing or other capital grants. Section 24 of FRS102,'Government grants' permits either the performance model or the accrual model to recognise the government grants. As required by the Housing SORP (FRS102), housing properties accounted at valuation must recognise government grants using the performance model and those accounted at cost must recognise government grants using the accrual model.

The group accounts for its housing property at cost and recognises government grants using the accrual model. Under this model, grants are recognised in income on a systematic basis over the expected useful life of the housing property structure (not land and structure), even if the fair value of the grant exceeds the carrying value of the structure in the financial statements, or over the useful life of the housing property structure and its individual components (excluding land) on a pro rata basis.

On disposal of an asset for which government grants were received, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the statement of financial position related to such asset is derecognised as a liability and recognised as revenue in the statement of financial activities.

There are no unfulfilled conditions or other contingencies attaching to the government grants that have been recognised as income.

1. Principal Accounting Policies (continued)

Financial instruments

The group has chosen to adopt sections 11 and 12 of FRS102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other debtors, cash and bank balances, are initially recognised at transaction value unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the consolidated Statement of Financial Activities.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the consolidated Statement of Financial Activities.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii) Financial liabilities

Basic financial liabilities, including trade creditors, bank loans, loans from fellow group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in "Other recognised gains/(losses)" of the Statement of Financial Activities.

1. Principal Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Retirement housing stock

Unsold units of retirement housing stock and work in progress at the year end are treated as fixed assets and are therefore valued at the lower of cost and estimated selling price less cost to complete. Cost includes capitalised interest incurred on specific projects during the period of development and any other relevant applicable costs.

Impairment of non-financial assets

Where the carrying values of care/housing properties or retirement housing stock are considered to have suffered a permanent diminution in value, the fall in value is recognised in the Statement of Financial Activities. An impairment review is carried out and appropriate impairment provisions made.

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measurable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

1. Principal Accounting Policies (continued)

Business combinations and goodwill (continued)

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units ('CGU's) that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life which is estimated to be two years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. No reversals of impairment are recognised.

Investments

Investments are a form of basic financial instrument and are initially recognised at their transaction value and subsequently measured at their fair value as at the statement of financial position date using the closing quoted market price. The statement of financial activities includes the net gains and losses arising on revaluation and disposals throughout the year.

The main form of financial risk faced by the charity is that of volatility in equity markets and investment markets due to wider economic conditions, the attitude of investors to investment risk, and changes in sentiment concerning equities and within particular sectors or sub sectors.

All gains and losses are taken to the Statement of Financial Activities as they arise. Realised gains and losses on investments are calculated as the difference between sales proceeds and their opening carrying value or their purchase value if acquired during the financial year. Unrealised gains and losses are calculated as the difference between the fair value at the year end and their carrying value. Realised and unrealised investment gains and losses are combined in the Statement of Financial Activities.

1. Principal Accounting Policies (continued)

Fund accounting

Unrestricted funds are available to spend on activities that further any of the purposes of charity. Designated funds are unrestricted funds of the charity which the directors have decided at their discretion to set aside to use for a specific purpose.

i) Restricted income funds

Restricted funds are donations which the donor has specified are to be solely used for particular areas of the charity's work or for specific projects being undertaken by the charity. They represent voluntary income or grants from statutory authorities and fees and charges in Live at Home schemes, which have been received for purposes set out in note 24.

The application of these funds is restricted by the terms of a special appeal, the expressed wishes of the donor, the will of the testator, or the terms of the grant.

ii) Endowment funds

These represent money given for a particular purpose and are intended to be permanent with the original capital being maintained and the income and capital growth being utilised.

Pensions

The group's pension arrangements comprise various defined benefit and defined contribution schemes.

Where the underlying assets and liabilities of the defined benefit schemes can be separately identifiable, the group recognises in full the schemes' surpluses or deficits on the Statement of Financial Position. Actuarial gains and losses for these schemes are included in the Consolidated Statement of Financial Activities.

Current and past service costs, curtailments and settlements are recognised within net incoming resources. Returns on scheme assets and interest on obligations are recognised as other finance income or expenses.

Where it is not possible to separately identify the share of the underlying assets and liabilities of a defined benefit scheme, the amount charged to the Consolidated Statement of Financial Activities represents the contributions payable in the year.

The defined benefit schemes are funded, with the assets held separately from the group in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each Statement of Financial Position date. The pension scheme assets are measured at fair value.

The pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency. A pension scheme asset is recognised on the Statement of Financial Position only to the extent that the surplus may be recovered by reducing future contributions or to the extent that the trustees have agreed a refund from the scheme at the Statement of Financial Position date.

1. Principal Accounting Policies (continued)

Pensions (continued)

A pension scheme liability is recognised to the extent the group has a legal or constructive obligation to settle the liability. For defined contribution schemes contributions are charged to the Consolidated Statement of Financial Activities as they become payable in accordance with the rules of the scheme.

The charity participates in a defined benefit scheme, as detailed in note 26, which was closed to new entrants on 31 March 2010. Where it is not possible in the normal course of events to identify the schemes underlying assets and liabilities belonging to individual participating employers, under accounting standards the accounting charge for the year represents the employer contributions payable. Contributions are charged to the Statement of Financial Activities as they become payable in accordance with the rules of the scheme.

Employee benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Taxation

The group has charitable status and is therefore not subject to Corporation Tax on its surplus from charitable activities.

The group is registered for VAT. Most of the group's income (residential charges, rents and grants) is exempt for VAT purposes, which significantly restricts the recovery of VAT on expenditure.

Liabilities

Liabilities are recognised when either a constructive or legal obligation exists.

Leased assets and obligations

Leases are considered operating leases where the risks and rewards equivalent to ownership have not been passed to the group. As such, the annual rentals are charged to the Statement of Financial Activities on a straight line basis over the lease term.

Rent free periods or other incentives received for entering into a lease are accounted for over the period of the lease so as to spread the benefit received over the lease term or, if shorter, the period ending when prevailing market rentals will become payable.

The group has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS102 (1 April 2013) as per FRS102 para 35.10(p) and continues to credit such lease incentives to the Statement of Financial Activities over the period to the first review date on which the rent is adjusted to market rates.

1. Principal Accounting Policies (continued)

Critical judgements in applying the accounting policies

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgments, estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

i) Provisions for liabilities

The charity has recognised provisions for the re-purchase of properties sold as leasehold interests under guaranteed buy-back arrangements, on the basis that the timing of the re-purchase is uncertain. Additionally provisions have been recognised in relation to liabilities in respect of exceptional items. The judgments, estimates and associated assumptions necessary to calculate these provisions are based on historical experience, professional advice and other reasonable factors.

ii) Exceptional items

Judgments are required as to whether items that are material in size, unusual or infrequent in nature should be disclosed as exceptional. Details of these items categorised as exceptional are outlined in note 8.

iii) Fair Value on acquisition of Silk Healthcare Holdings Limited

The fair value of tangible assets, intangible assets and liabilities acquired on the acquisition of Silk Healthcare Holdings Ltd involved the use of valuation techniques and the estimation of future cash flows to be generated over a number of years. In addition the estimation of the contingent consideration payable required estimation of the level of profitability of the business acquired. The estimation of the fair values requires the combination of assumptions including revenue growth, sales mix and volumes, rental values and increases and customer attrition rates. In addition the use of discount rates requires judgment.

Future amendments to FRS102

The charity will adopt any new provisions arising from future developments to FRS102 where relevant. As at the date of approval of the financial statements, the trustees do not consider that any current or proposed amendments will have a material impact on the reported results.

2. Donations and legacies

	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 Total £'000	2016 Total £'000
Donations	2,030	1,038	-	3,068	4,370
Big Lottery Fund grant	-	175	-	175	120
Legacies receivable	1,836	673	-	2,509	128
	3,866	1,886	-	5,752	4,618

3. Charitable activities

	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 Total £'000	2016 Total £'000
Fees and charges	174,484	4,303	-	178,787	164,025
Rents	7,094	-	-	7,094	8,480
Grants	1,170	1,175	-	2,345	3,186
Consultancy income	682	-	-	682	413
Sale of housing	12,301	-	-	12,301	10,525
	195,731	5,478	-	201,209	186,629

Forms of government assistance from which the charity has benefitted amounts to £1,305,000 (2016: £1,348,000).

4. Investments

	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 Total £'000	2016 Total £'000
Investment securities – UK	-	9	5	14	21
Bank and deposit interest	80	34	-	114	200
	80	43	5	128	221

5. Analysis of expenditure

	Note	Homes £'000	Retirement Living £'000	Live at home £'000	Other £'000	2017 Total £'000	2016 Total £'000
Staff costs	10	90,627	12,669	2,396	7,393	113,085	106,314
Operational costs:							
Supplies and services		24,117	5,178	1,500	7,639	38,434	36,651
Repairs and rents		14,008	2,147	284	130	16,569	15,587
Retirement housing cost of sales		-	6,202	-	-	6,202	6,859
Depreciation	13	6,528	4,239	-	1,190	11,957	11,187
Amortisation	12	-	-	-	395	395	-
Finance charges		-	2,843	-	-	2,843	1,248
Bank loan interest		3,293	793	-	(693)	3,393	3,962
Other costs		1,120	152	13	2,400	3,685	1,202
Exceptional items	8	-	-	-	1,558	1,558	854
Taxes		(3,555)	-	-	-	(3,555)	-
Allocated costs/(income)		11,603	2,264	349	(14,216)	-	-
Governance costs	7	-	-	-	242	242	277
Total expenditure		147,741	36,487	4,542	6,038	194,808	184,141

5. Analysis of expenditure (continued)

Charitable expenditure for the group includes tax relief of £3,555,000 in relation to the disposal of four care home properties in Swiftbuild Properties Ltd.

Allocated costs represent central overheads. Allocation has been performed based on an assessment of the utilisation of each function by the operating business streams.

6. Summary analysis of expenditure and related income for charitable activities

	Note	Homes £'000	Retirement Living £'000	Live at home £'000	Other £'000	2017 Total £'000	2016 Total £'000
Income from charitable activities							
Fees and charges		158,988	18,778	981	40	178,787	164,025
Rents		159	6,935	-	-	7,094	8,480
Grants		-	9	1,296	1,040	2,345	3,186
Consultancy income		-	-	-	682	682	413
Sale of housing		-	12,301	-	-	12,301	10,525
Total income	3	159,147	38,023	2,277	1,762	201,209	186,629
Expenditure on charitable activities							
Staff costs		(90,627)	(12,669)	(2,396)	(7,393)	(113,085)	(105,620)
Operational costs		(45,511)	(21,554)	(1,797)	(10,498)	(79,360)	(76,973)
Allocated (costs)/income		(11,603)	(2,264)	(349)	14,216	-	-
Exceptional items		-	-	-	(1,558)	(1,558)	(854)
Total	5	(147,741)	(36,487)	(4,542)	(5,233)	(194,003)	(183,447)
Total surplus/(deficit) from charitable activities 2017		11,406	1,536	(2,265)	(3,471)	7,206	
Total surplus/(deficit) from charitable activities 2016		4,615	(977)	(33)	(423)		3,182

7. Analysis of governance and support costs

The group initially identifies the costs of its support functions. It then identifies those costs which relate to the governance function. Having identified its governance costs, the remaining support costs together with the governance costs are apportioned between the key charitable activities undertaken (see note 6) in the year. Refer to the table below for the basis for apportionment and the analysis of support and governance costs.

7. Analysis of governance and support costs (continued)

	Support Costs £'000	Governance function £'000	2017 Total £'000	2016 Total £'000	Basis of allocation
Employment costs	-	35	35	17	Staff time
Trustee expenses	-	13	13	12	Invoiced events
External auditors – audit services:					
Parent	-	116	116	155	Governance
Subsidiaries	-	65	65	24	Governance
Bank covenants	-	6	6	6	Governance
FRS 102 conversion	-	-	-	18	Governance
System conversion	-	-	-	20	Governance
Life insurance	227	-	227	213	Cost
Other costs	-	7	7	25	Governance
Total	227	242	469	490	

In addition to the above audit fees, a further £20,000 was paid to the auditors in the year for work associated with the acquisition of the Silk Healthcare group, which have been capitalised as directly attributable costs.

Life assurance costs are comparable with Employment costs in the prior year, except that the basis of allocation has been changed as noted.

8. Exceptional items

	2017 £'000	2016 £'000
Impairment of assets	-	373
Remediation provision	-	481
Good to Great programme resource and admin costs	1,558	-
Total costs	1,558	854

The impairment of assets relates to the disposal of Churchfield care home which was closed in 2016. The charge of £373,000 related to an impairment to align the net book value with the net realisable value.

The remediation provision (formerly called the demolition provision) relates to ongoing works at Auchlochan village for planned refurbishment.

During the period MHA invested £2,565,000 in the Good to Great programme of systems and process improvements. Of this, £1,558,000 relates to employee, contractor and sundry office admin expenses and the remainder (hardware and software) has been capitalised as an asset in the course of construction.

9. Operating lease commitments

	2017 Total £'000	2016 Total £'000
Operating leases		
The following lease payments were made during the year in respect of operating leases:		
Land and buildings	9,244	8,335

At 31 March the group and charity had commitments under non-cancellable operating leases as follows:	Land & Buildings	Land & Buildings
- expiring in one year or less	10,260	8,335
- expiring in one to two years	10,260	8,335
- expiring in two to five years	30,780	25,006
- expiring in more than five years	222,206	182,619
	273,506	224,295

10. Analysis of staff costs and remuneration of key management personnel

	2017 Number	2016 Number
Average monthly number employed		
Care homes	4,799	4,951
Retirement living	806	736
Live at home	155	154
Office staff	247	212
	6,007	6,053

	2017 £'000	2016 £'000
Group staffing costs		
Wages and salaries	103,794	97,617
Social security costs	7,273	6,566
Other pension costs		
- Defined benefit pension costs (note 26)	516	629
- Defined contribution pension costs	1,502	1,502
	113,085	106,314

Staff costs of £749,000 for staff working only on the Good to Great programme of system and process improvement are included as an exceptional cost in the current year and not included in the group staffing costs disclosed above. These staff are included in the headcount numbers.

10. Analysis of staff costs and remuneration of key management personnel (continued)

The key management personnel is comprised of the Leadership Team alongside the Trustees of the charity. During the year the total remuneration received by the leadership team was £926,577 (2016: £891,020). The employer's pension contribution for the key management personnel staff was £153,690 (2016: £114,648).

The key management personnel of the group are all remunerated from the parent charity. These comprise the leadership team listed in page 17 of the financial statements. The total employee benefits of the leadership team of the charity were £4,462 (2016: £10,787)

The number of directors who received reimbursement for the cost of travel to and from meetings was 15 (2016: 12). The cost of travel expenses reimbursed was £13,375 (2016: £11,555). During the year an insurance premium of £8,651 (2016: £8,374) was paid to indemnify directors against liability for wrongful acts. No emoluments were paid during the year to any director. 35 (2016:21) employees earned over £60,000 in the year excluding pension contribution within the following bands:

	2017 Number	2016 Number
Between £60,001 and £70,000	18	8
Between £70,001 and £80,000	8	4
Between £80,001 and £90,000	3	2
Between £90,001 and £100,000	-	4
Between £100,001 and £110,000	3	1
Between £110,001 and £120,000	1	1
Between £120,001 and £130,000	-	-
Between £130,001 and £140,000	1	-
Between £190,001 and £200,000	1	1
	35	21

35 (2016:21) employees were members of the defined contribution pension scheme.

11. Net gains/(losses) on investments

	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 Total £'000	2016 Total £'000
Realised gains	-	-	-	-	-
Unrealised gains/(losses)	-	30	34	64	(13)
	-	30	34	64	(13)

12. Intangible Fixed Assets

Group	Customer relationships	Goodwill	Total
	£'000	£'000	£'000
At 1 April 2016	-	-	-
Additions	2,782	379	3,161
Amortisation charge	(348)	(47)	(395)
At 31 March 2017	2,434	332	2,766

The individual intangible assets, excluding goodwill, which are material to the financial statements, are as follows. The intangible assets acquired in the year to relate to the acquisition of Silk Healthcare Holdings Ltd. The details of the business combination are included in note 28.

	Carrying amount		Remaining amortisation period	
	2017	2016	2017	2016
	£'000	£'000	Yrs	Yrs
Resident base				
Silk Healthcare Holdings Ltd	2,434	-	1.75	-

The established resident base at the acquired four care homes represents ongoing value. The four care homes are 87% occupied of the 324 places available, of this 58% of the residents are private fee paying residents.

The useful life of the established resident base is linked to the average duration of a resident's stay in such an establishment. This has been calculated per fee paying category of resident as being 2 years, on average.

Company

The Company had no intangible assets at 31 March 2017 (2016: £nil).

13. Tangible Fixed Assets

Group	Care homes: Freehold land and buildings at valuation £'000	Care homes: Leasehold land and buildings at valuation £'000	Other: Freehold land and buildings at cost £'000	Other: Leasehold land and buildings at cost £'000	Furniture, equipment and vehicles at cost £'000	Assets in the course of construction £'000	Total £'000
Cost / valuation							
1 April 2016	248,106	9,707	172,692	36,539	26,666	-	493,710
Additions during the year	1,216	123	8,580	-	1,509	21,143	32,571
Additions via acquisition	37,444	-	-	-	435	-	37,879
Disposals during the year	(38,886)	-	(5,762)	(1,250)	(576)	-	(46,474)
Transfer between category	-	-	(9)	11	(2)	-	-
31 March 2017	**247,880**	**9,830**	**175,501**	**35,300**	**28,032**	**21,143**	**517,686**
Accumulated depreciation impairment							
1 April 2016	20,522	1,376	16,020	3,563	6,565	-	48,046
Charge for the year	5,056	208	3,901	861	1,931	-	11,957
Impairment on disposal	-	(373)	-	-	-	-	(373)
On disposals	(306)	-	2	(35)	(4)	-	(343)
Transfer between category	-	373	(385)	(178)	190	-	-
31 March 2017	**25,272**	**1,584**	**19,538**	**4,211**	**8,682**	**-**	**59,287**
Net book value							
31 March 2017	222,608	8,246	155,963	31,089	19,350	21,143	458,399
31 March 2016	227,584	8,331	156,672	32,976	20,101	-	445,664

13. Tangible Fixed Assets (continued)

The net book value at 31 March 2017 represents fixed assets used for:

Group	Care homes: Freehold land and buildings at valuation £'000	Care homes: Leasehold land and buildings at valuation £'000	Other: Freehold land and buildings at cost £'000	Other: Leasehold land and buildings at cost £'000	Furniture, equipment and vehicles at cost £'000	Assets in the course of construction £'000	Total £'000
Direct charitable purposes:							
Homes	222,608	8,246	-	-	6,851	9,544	247,249
Independent living	-	-	153,281	31,089	12,063	10,290	206,723
Support offices	-	-	2,682	-	436	1,309	4,427
	222,608	8,246	155,963	31,089	19,350	21,143	458,399

Included within freehold land and buildings above is land of £58,238,000 (2016: £58,238,000) which is not depreciated.

Additions to freehold land and buildings include capitalised interest of £685,000 (2016: £530,000). The cumulative amount of capitalised interest included is £3,728,000 (2016: £3,043,000).

Included within freehold land and buildings is £21,143,000 (2016: £23,162,000) of assets in the course of construction.

13. Tangible Fixed Assets (continued)

Company	Care homes: Freehold land and buildings at valuation £'000	Care homes: Leasehold land and buildings at valuation £'000	Other: Freehold land and buildings at cost £'000	Other: Leasehold land and buildings at cost £'000	Furniture, equipment and vehicles at cost £'000	Assets in the course of construction £'000	Total £'000
Cost / valuation							
1 April 2016	220,060	9,707	115,808	28,115	18,217	-	391,907
Additions during the year	1,994	123	7,543	-	1,444	15,321	26,425
Disposals during the year	(2,319)	-	(5,154)	(1,250)	(143)	-	(8,866)
31 March 2017	**219,735**	**9,830**	**118,197**	**26,865**	**19,518**	**15,321**	**409,466**
Accumulated depreciation impairment							
1 April 2016	19,168	1,376	10,123	2,847	6,024	-	39,538
Charge for the year	4,455	208	2,565	669	1,676	-	9,573
Impairment on disposal	-	(373)	-	-	-	-	(373)
On disposals	(306)	-	-	(35)	(7)	-	(348)
Transfer between category	-	373	(373)	-	-	-	-
31 March 2017	**23,317**	**1,584**	**12,315**	**3,481**	**7,693**	**-**	**48,390**
Net book value							
31 March 2017	196,418	8,246	105,882	23,384	11,825	15,321	361,076
31 March 2016	200,892	8,331	105,685	25,268	12,193	-	352,369

13. Tangible Fixed Assets (continued)

The net book value at 31 March 2017 represents fixed assets for:

Company	Care homes: Freehold land and buildings at valuation £'000	Care homes: Leasehold land and buildings at valuation £'000	Other: Freehold land and buildings at cost £'000	Other: Leasehold land and buildings at cost £'000	Furniture, equipment and vehicles at cost £'000	Assets in the course of construction £'000	Total £'000
Direct charitable purposes:							
Homes	196,418	8,246	-	-	6,683	7,704	219,051
Independent living	-	-	103,200	23,384	4,720	6,308	137,612
Support offices	-	-	2,682	-	422	1,309	4,413
	196,418	8,246	105,882	23,384	11,825	15,321	361,076

Included within freehold land and buildings above is land of £50,484,000 (2016: £50,484,000) which is not depreciated.

Additions to freehold land and buildings include capitalised interest of £587,000 (2016: £530,000). The cumulative amount of capitalised interest included is £3,624,000 (2016: £3,037,000).

Included within freehold land and buildings is £15,321,000 (2016: £21,390,000) of assets in the course of construction.

14. Capital Commitments

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Expenditure contracted, less certified	14,534	26,430	14,534	22,810

Included within the capital commitments of the group and company are contracts relating to the development of sites which are executory contracts in nature as at 31 March 2017. A liability for these items has not been recorded in the financial statements as neither party has yet performed their obligations and the contracts are not onerous.

15. Investments - In Subsidiaries

Company	2017
	£'000
At 1 April 2016	-
Acquisitions	24,374
At 31 March 2017	24,374

Analysed as:

Silk Healthcare Holdings Ltd	24,374
	24,374

Fixed asset investments comprise equity shares in Silk Holdings Limited which is not a publicly trading company.

Silk Healthcare Holdings Ltd

MHA acquired 100% of the equity share capital of Silk Healthcare Holdings Limited on 7 December 2016. The address of the registered office of Silk Holdings Limited is Greenside House, Greenside Avenue, Staincross, Barnsley, South Yorkshire, S75 6BB. Refer to note 28 for details of the acquisition.

16. Investments - Group and Company

	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2017 Total £'000	2016 Total £'000
1 April 2016	-	410	723	1,133	1,146
Net gain/(loss) on revaluation	-	30	34	64	(13)
31 March 2017	-	440	757	1,197	1,133
The securities represent:					
Methodist Church Central Finance Board:					
Equity fund units	-	330	-	330	300
Fixed interest fund units	-	110	757	867	833
31 March 2017	-	440	757	1,197	1,133

All investments are carried at their fair value. Investment in equities and fixed interest units are all traded in quoted public markets, primarily the London Stock Exchange. Holdings in common investment funds, unit trusts and open-ended investment companies are at the bid price. The basis of fair value for quoted investments is equivalent to the market value, using the bid price. Asset sales and purchases are recognised at the date of trade at cost (that is their transaction value).

17. Debtors

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade debtors	6,469	6,219	5,548	5,774
Due from group undertakings	-	-	14,476	11,145
Other debtors	1,377	1,364	731	1,296
Prepayments and accrued income	6,339	4,374	5,739	4,350
	14,185	11,957	26,494	22,565

Amounts receivable from group undertakings comprise a formal loan of £3,500,000 (2016: £3,500,000) which is interest bearing at a rate of 0.5% per annum (2016: 0.5%) unsecured and repayable on demand, and £10,976,000 (2016: £7,645,000) recharges arising from operational activities which is not interest bearing, is unsecured and payable on demand.

18. Creditors: Amounts falling due within one year

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Trade creditors	4,915	1,400	4,446	1,400
Due to group undertakings	-	-	23,210	-
Charges and rents in advance	5,143	5,911	4,668	5,911
Deferred Income – buy back properties	1,139	1,254	929	1,254
Accruals and deferred income	10,821	11,810	9,740	9,368
Taxation and social security	3,537	3,181	3,344	3,088
Unpaid pension contributions	373	336	358	336
Loans – principal and interest	3,264	2,358	1,127	992
Other creditors	9,060	8,288	7,710	7,035
	38,252	34,538	55,532	29,384

Amounts due to group undertakings have arisen from the acquisition of the Silk Healthcare group by MHA and are non interest bearing. Part of the proceeds of the sale and leaseback of the four Silk care homes have been transferred to MHA for use within the charity. This has been paid down post year end.

19. Creditors: Amounts falling due after more than one year

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Derivative financial instruments	6,615	5,825	6,615	5,825
Loans:				
- Between one and two years	3,160	2,419	1,349	1,081
- Between three and five years	5,593	4,212	2,996	2,165
- In five years or more	98,097	105,595	92,361	94,770
Less loan arrangement fees	(924)	(1,056)	(924)	(1,056)
	105,926	111,170	95,782	96,960
Unamortised grants – deferred income:				
- Between one and two years	1,040	1,040	-	-
- Between three and five years	2,062	3,120	-	-
- In five years or more	16,275	16,257	-	-
	19,377	20,417	-	-
Deferred Income – buy back properties:				
- Between one and two years	1,111	1,218	914	1,014
- Between three and five years	2,066	2,293	1,702	1,921
- In five years or more	2,098	3,242	1,690	2,762
	5,275	6,753	4,306	5,697
Total	137,193	144,165	106,703	108,482

The loans are secured on certain care home and housing properties, representing 46% of the value of Freehold Land and Buildings (2016: 46%). The interest rates payable on these loans, plus the short-term loans of £3,418,000 (2016: £2,490,000), are as detailed below, confirming the drawn down amounts as at 31 March 2017, the interest rate and the respective terms.

Company £'000

- £70,000 is payable at LIBOR plus a margin of 2.2% until March 2025
- £27,965 is payable at LIBOR plus a margin 0.78%

£97,965 **Company total**

Subsidiaries £'000

- £3,483 is payable at LIBOR plus a margin of 0.48% until 31 December 2021
- £165 is fixed at a rate of 4.5% until 1 March 2023
- £1,154 is fixed at a rate of 10.6878% until 31 March 2049
- £4,662 is payable at LIBOR plus a margin of 1% until 7 January 2024
- £599 is payable at LIBOR plus a margin of 1% until 7 September 2018
- £2,204 is payable at LIBOR plus a margin of 1% until 1 January 2024

£12,267 **Subsidiaries total**

£110,232 **Group total**

19. Creditors: Amounts falling due after more than one year (continued)

The company has fixed interest rates to guard against future rate movements. The fair value of the interest swaps as at 31st March 2017 is £6,615,000 (2016: £5,825,000) representing the cost of exiting this arrangement, which is not currently intended by the company. The effect of this interest rate swap is to increase bank loan interest by £790,000 (2016: £1,641,000) above LIBOR.

20 Provisions for liabilities

	1 April 2016 £'000	Created on new transactions £'000	Charge for year £'000	Increase in provision £'000	Utilisation of provision £'000	31 March 2017 £'000
Group						
Guarantee property buy-backs	59,731	1,729	2,628	236	(5,824)	58,500
Remediation provision	422	-	-	-	-	422
Live at Home provision	-	-	-	323	-	323
Deferred Tax	-	-	-	-	-	-
	60,153	1,729	2,628	559	(5,824)	59,245
Company						
Guarantee property buy-backs	46,378	98	2,000	-	(4,335)	44,141
Live at Home provision	-	-	-	323	-	323
	46,378	98	2,000	323	(4,335)	44,464

The guarantee property buy-backs provision arises when MHA enters into transactions to sell the leasehold interest in Retirement Living properties with an option (exercisable by either party) for MHA to re-purchase the leasehold at a pre-agreed amount. Buy-back commitments have been estimated to average 10 years. Provisions are discounted at the appropriate risk free rate. The relevant ten and five year government bond rates have been used depending on the remaining expected life of the individual commitments by property, these being 1.072% and 0.398% respectively (2016: 1.42% and 0.84%).

The remediation provision (formerly called the demolition provision) relates to ongoing works at Auchlochan village for planned refurbishment.

The Live at Home provision relates to the post year end liabilities, specific to identified Live at Home schemes, which are under review for continuation and viability.

Deferred tax provisions arisen from the trading activity of Silk Healthcare acquired during the year.

21. Financial instruments

Group

The group has the following financial instruments:

21 Financial instruments

	Note(s)	2017 £'000	2016 £'000
Financial assets that are debt instruments measured at amortised cost:			
Trade debtors	17	6,469	6,219
Other debtors and accrued income	17	1,449	1,676
		7,918	7,895
Financial assets measured at fair value through statement of financial activities:			
Investment in securities	16	1,197	1,133
Financial liabilities measured at amortised cost:			
Trade creditors	18	(4,915)	(1,400)
Accruals	18/19	(10,570)	(11,270)
Loans (including interest)	18/19	(110,246)	(113,528)
Other creditors	18	(12,056)	(10,858)
		(137,787)	(137,056)
Financial liabilities measured at fair value through statement of financial activities:			
Derivative financial instruments	19	(6,615)	(5,825)

21. Financial instruments (continued)

Company

The company has the following financial instruments:

	Note(s)	2017 £'000	2016 £'000
Financial assets that are debt instruments measured at amortised cost:			
Trade debtors	17	5,548	5,774
Due from group members	17	14,476	11,145
Other debtors and accrued income	17	1,506	1,621
		21,530	18,540
Financial assets measured at fair value through statement of financial activities:			
Investment in securities	16	1,197	1,133
Financial liabilities measured at amortised cost:			
Trade creditors	18	(4,446)	(1,400)
Due to group undertakings	18/19	(23,210)	-
Accruals	18/19	(9,640)	(9,306)
Loans (including interest)	18/19	(97,833)	(97,952)
Other creditors	18	(11,372)	(10,524)
		(146,501)	(119,182)
Financial liabilities measured at fair value through statement of financial activities:			
Derivative financial instruments	21	(6,615)	(5,825)

Derivative financial instruments

The group has entered into interest rate swaps to mitigate the risk from future rate movement. The fair value of the interest rate swaps as at 31 March 2017 is £6,615,000 (2016: £5,825,000). The fair values of the assets and liabilities held at fair value through the Statement of Financial Activities at the Statement of Financial Position date are determined using quoted prices. Where quoted prices are not available for derivatives the fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.

22. Share Capital

The company is limited by guarantee and has no share capital.

23. Endowment funds

Movement in Funds

Group and Company	1 April 2016	Incoming	Outgoing	Gains on investment assets	Transfers between restricted funds	Transfers between restricted and unrestricted funds	31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
H D Clarke Memorial	816	5	-	34	-	63	918
Redcroft Residential Home	65	-	-	-	-	-	65
	881	5	-	34	-	63	983

24. Restricted income funds

Movement in Funds
Group

	1 April 2016 £'000	Incoming £'000	Outgoing £'000	Gains on investment assets £'000	Transfers between restricted funds £'000	Transfers between restricted and unrestricted funds £'000	31 March 2017 £'000
Care Homes	15,404	1,065	(502)	30	167	195	16,359
Independent living	2,070	408	(618)	-	10	1	1,871
Retirement housing	4,761	2,436	(2,615)	-	-	19	4,601
Big Lottery Fund grant	-	175	(175)	-	-	-	-
Live at home	2,887	2,737	(3,657)	-	-	929	2,896
Amenity funds	1,243	587	(603)	-	(177)	(20)	1,030
	26,365	7,408	(8,170)	30	-	1,124	26,757

Movement in Funds
Company

	1 April 2016 £'000	Incoming £'000	Outgoing £'000	Gains on investment assets £'000	Transfers between restricted funds £'000	Transfers between restricted and unrestricted funds £'000	31 March 2017 £'000
Care Homes	15,313	1,065	(502)	30	167	194	16,267
Independent living	1,981	214	(260)	-	10	11	1,956
Retirement housing	4,761	2,436	(2,615)	-	-	19	4,601
Big Lottery Fund grant	-	175	(175)	-	-	-	-
Live at home	2,887	2,737	(3,657)	-	-	929	2,896
Amenity funds	1,237	575	(592)	-	(177)	(20)	1,023
	26,179	7,202	(7,801)	30	-	1,133	26,743

24. Restricted income funds (continued)

The Homes, Independent Living and Retirement Housing funds relate to amounts donated for use and subsequently used to improve specific homes or schemes. The Live at Home Scheme funds relate to amounts raised by local schemes to fund their day to day running costs. Amenity funds relate to amounts raised for the provision of additional benefits for residents and tenants within a specific home or scheme.

The Big Lottery Fund Grant helped to establish eight new Community Hubs within existing Methodist Homes housing projects. The total value of the grant is £264,000 over four years beginning June 2012. £nil was received in the year (2016: £24,000). Other Big Lottery Fund Grants of £175,000 (2016: £96,000) were received in the year to support Live at Home.

25. Funds

	Restricted Income Funds	Endowment Funds	Unrestricted Income Fund	Total
	£'000	£'000	£'000	£'000
Group				
At 1 April 2016	26,365	881	216,952	244,198
Surplus for the year	(732)	39	13,038	12,345
Actuarial loss	-	-	(2,225)	(2,225)
Deficit on interest rate swaps	-	-	(790)	(790)
Transfers	1,124	63	(1,187)	-
At 31 March 2017	26,757	983	225,788	253,528

	Restricted Income Funds	Endowment Funds	Unrestricted Income Fund	Total
	£'000	£'000	£'000	£'000
Company				
At 1 April 2016	26,179	881	180,076	207,136
Surplus for the year	(569)	39	7,014	6,484
Actuarial loss	-	-	(2,225)	(2,225)
Deficit on interest rate swaps	-	-	(790)	(790)
Transfers	1,133	63	(1,196)	-
At 31 March 2017	26,743	983	182,879	210,605

The company's surplus before donations for the year to 31 March 2017 amounted to £3,253,000 (2016: £2,031,000). The company's surplus after donations for the year to 31 March 2017 amounted to £3,469,000 (2016: £6,401,000) from a gross income of £190,308,000 (2016: £178,053,000).

26. Pensions and Similar Obligations

A defined contribution scheme, Growth Plan 4, was available to all employees. The charge for the year covered 456 (2016: 456) employees. The contribution rate of MHA for the year varied between 1% and 6% depending on the employee's contribution, which is a minimum of 6%.

MHA operates a number of pension schemes;

(i) A defined benefit scheme, which was a funded scheme, with the assets held in separate trustee administered funds, was closed to new members and future accrual on 31 March 2010.

As per para 28.38 of FRS102, where an entity participates in a defined benefit plan that shares risks between entities under common control it shall obtain information about the plan as a whole measured in accordance with this FRS on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost of a defined benefit plan as a whole measured in accordance with this FRS to individual group entities, the entity shall, in its individual financial statements, recognise the net defined benefit cost of a defined benefit plan so charged. If there is no such agreement or policy, the net defined benefit cost of a defined benefit plan shall be recognised in the individual financial statements of the group entity which is legally responsible for the plan. The other group entities shall, in their individual financial statements, recognise a cost equal to their contribution payable for the year. Methodist Homes is the sponsoring employer of the defined benefit pension scheme and has legal responsibility for the plan. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the plan as a whole to individual group entities and therefore the company has recognised the entire net defined benefit cost and the relevant net defined benefit liability of the defined benefit pension scheme in its individual financial statements.

The financial assumptions used to calculate the group's scheme liabilities are as follows:

	2017	2016	2015	2014
	%pa	%pa	% pa	% pa
Inflation (CPI)	2.30%	2.00%	2.00%	2.40%
Inflation (RPI)	3.30%	3.00%	3.00%	3.30%
Rate of increase in salaries	4.30%	4.00%	4.00%	4.30%
Rate of increase for pensions in payment	1.75%	1.70%	1.70%	2.00%
Rate of increase for deferred pensions	3.30%	3.00%	3.00%	3.30%
Discount rate	2.60%	3.50%	3.10%	4.40%

* Pensions accrued before 1 January 2000 for members who joined the scheme before 1 November 1998 are subject to guaranteed fixed increases of 5% (2016: 5%) per annum in deferment and in payment.

26. Pensions and Similar Obligations (continued)

The current mortality assumptions used in the valuation of the pension liabilities were:

	2017	2016	2015	2014
Life expectancy	S1PA Year of birth CMI09 with a minimum improvement of 1.25% p.a. for males and 1.0% p.a. for females	S1PA Year of birth CMI09 with a minimum improvement of 1.25% p.a. for males and 1.0% p.a. for females	S1PA Year of birth CMI09 with a minimum improvement of 1.5% p.a. for males and 1.25% p.a. for females	S1PA Year of birth CMI09 with a minimum improvement of 1.5% p.a. for males and 1.25% p.a. for females

The assumed life expectations on retirement age 65 are:

	2017	2016	2015	2014
Pensioner currently aged 65:	Years	Years	Years	Years
Male	23.20	23.10	23.30	23.10
Female	24.90	24.80	25.00	25.10
Non-Pensioner currently aged 45:				
Male	24.90	24.80	25.10	25.30
Female	26.40	26.30	26.50	27.00

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected yields on bonds are based on gross redemption yields at the Statement of Financial Position date, whilst the expected returns on the equity and property investments reflect the long-term real rates of return experienced in the respective markets. The fair value of assets in the scheme, the present value of the liabilities in the scheme and the long-term rate of return expected at the Statement of Financial Position date were:

	Fair value 2017 £'000	Fair value 2016 £'000
Equities	28,353	23,911
Government bonds	20,376	16,528
Property	3,172	3,144
Cash	154	94
Total market value of assets	52,055	43,677
Present value of scheme liabilities	(65,139)	(55,308)
Deficit in the scheme	(13,084)	(11,631)

26. Pensions and Similar Obligations (continued)

The last formal valuation of the scheme was performed as at 30 September 2016 by a professionally qualified actuary.

The actuary has confirmed that the existing contribution level can continue given the deficit which is forecast to be removed within 10 years.

The group's pension charge for the year calculated under FRS102 assumptions is included in the financial statements.

Analysis of amounts charged to net incoming resources

	2017	2016
	£'000	£'000
Current service cost	(129)	(149)
Expected return on scheme assets	1,515	1,343
Interest on pension scheme liabilities	(1,902)	(1,823)
Net cost	(387)	(480)
Total cost	(516)	(629)

26. Pensions and Similar Obligations (continued)

Analysis of amount recognised as Actuarial (loss)/gain

	2017 £'000	2016 £'000
Actuarial (loss)/gain recognised in the Consolidated Statement of Financial Activities	(2,225)	3,753
Employer contribution adjustment	-	(980)
	(2,225)	2,773
Total (charge)/credit to Consolidated Statement of Financial Activities	(2,741)	2,144
Cumulative actuarial losses	(17,512)	(15,287)

Statement of Financial Position impact	2017 £'000	2016 £'000
Present value of funded obligations	65,139	55,308
Fair value of scheme assets	52,055	43,677
Deficit in the scheme at 31 March	13,084	11,631

Changes in the present value of the defined benefit obligation	2017 £'000	2016 £'000
Opening defined benefit obligation	55,308	59,511
Service cost	129	149
Interest cost	1,902	1,823
Actuarial loss/(gain)	9,868	(4,579)
Net benefits paid including expenses	(2,068)	(1,596)
Closing defined benefit obligation	65,139	55,308

Changes in fair value of plan assets	2017 £'000	2016 £'000
Opening fair value of plan assets	43,677	44,486
Expected return	1,515	1,343
Actuarial gain/(loss)	7,643	(826)
Contributions by employer	1,288	1,250
Employer contribution adjustment	-	(980)
Net benefits paid including expenses	(2,068)	(1,596)
Closing fair value of plan assets	52,055	43,677
Return on plan assets	9,158	517

26. Pensions and Similar Obligations (continued)

(ii) The previous Growth Plan is a multi-employer defined benefit scheme which is administered by The Pensions Trust. The actuary has completed a tri-annual valuation as at 30 September 2016 showing a funding level of 88.8%. Additional contributions of £60,359 (2016: £66,597) were paid during the year.

(iii) The contribution by the group to the defined benefit scheme paid during the year amounted to £1,288,000 (2016: £1,250,000). Further payments will be made in future years to further reduce the pension deficit.

(iv) The current growth plan is a multi-employer defined contribution scheme. Contributions paid during 2016/17 in respect of the defined contribution scheme were £810,972 (2016: £858,553).

(v) During the year all employees were eligible to join the auto-enrolment scheme. The new scheme is compulsory for all employees who have not specifically opted out of the scheme. MHA contributed 1% of pensionable pay for all those included in the scheme from 1 April 2013. The contributions for the year were £779,699 (2016: £643,203).

(vi) During the year, MHA acquired Silk Healthcare Holdings. The employees were eligible to join the auto enrolment scheme. The scheme is compulsory for all employees who have not opted out of the scheme. Silk Healthcare contributed 1% of pensionable pay for 299 employees included in the scheme. The scheme contribution for the year was £7,860.

27. Notes to the Cash Flow Statement

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

	2017	2016
	£'000	£'000
Net income	12,345	7,314
Unrealised (gains)/losses on investment	(64)	13
Investment income	(128)	(221)
Release of capital grants	(1,040)	(1,040)
Interest charge	3,393	3,962
Proceeds on sale of fixed assets	(2,968)	(50)
Depreciation charges	11,957	11,187
Amortisation	395	-
Impairment of fixed assets	-	373
Defined benefit scheme pension contributions paid in the year	(1,288)	(1,250)
Defined benefit scheme pension cost charged in the year	516	629
Increase in debtors	(920)	(1,093)
Decrease in creditors	(2,532)	(3,588)
Net cash provided by operating activities	19,666	16,236

Movements in debtors and creditors which relate to capital and interest transactions are excluded from the movements in debtors and creditors shown.

Cash and cash equivalents amounting to £225,000 (2016: £158,000) held in endowment funds are not available for use to further charitable activities as they are held for particular purposes and are intended to be permanent.

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

	2017	2016
	£'000	£'000
Increase in cash and cash equivalents	(11,176)	8,165
Movement in borrowings	18,868	(13,302)
Change in net funds resulting from cash flows	7,692	(5,137)
Change in net funds resulting from non-cash flows	(14,530)	(2,681)
Movement in net debt		
Net debt as at 1 April	(77,597)	(69,779)
Net debt as a t 31 March	(84,435)	(77,597)

27. Notes to the Cash Flow Statement (continued)

c) Analysis of changes in net debt

	1 April 2016	Cash flow	Other Non-cash changes	31 March 2017
	£'000	£'000	£'000	£'000
Cash at bank and in hand	35,931	(11,176)	-	24,755
Loans due within one year	(2,358)	18,868	(19,774)	(3,264)
Loans due after more than one year	(111,170)	-	5,244	(105,926)
	(77,597)	7,692	(14,530)	(84,435)

28. Business Combinations

On 7th December 2016, MHA acquired the control of Silk Healthcare Holdings Ltd through the purchase of 100% of the share capital for total consideration of £24,374,000. Silk Healthcare Holdings Ltd operated four care homes across South Yorkshire.

As a result of the acquisition, MHA expects to increase its service delivery to older people in South Yorkshire. The intangible asset of £3,161,000 arising from the acquisition is attributable to the acquired resident base of (£2,782,000) and goodwill (£379,000).

Management have estimated the useful life of the intangibles to be 2 years. The acquired homes are all established in their local communities and have an established history of resident occupancy. The amortisation period is reflective of the average length of stay for an average care home resident. The following table summarises the consideration paid by MHA, the fair value of assets acquired and liabilities assumed at the acquisition date.

28. Business Combinations (continued)

The adjustments arising on acquisition were in respect of the following;

Consideration at 7th December 2016	**£'000**
Cash	23,470
Deferred consideration	334
Directly attributable costs	570
Total consideration	24,374

For cash flow disclosure purposes the amounts are disclosed as follows;	**£'000**
Cash consideration	23,470
Directly attributable costs	570
Less	24,040
Cash and cash equivalents acquired	(969)
	23,071

Recognised amounts of identifiable assets acquired and liabilities assumed

	Note	Book values	Adjustments	Fair value
		£'000	£'000	£'000
Property, plant & equipment	(a)	33,472	4,407	37,879
Cash and cash equivalents		969	-	969
Inventories		9	-	9
Trade and other receivables		1,299	-	1,299
Trade and other payables		(1,502)	-	(1,502)
Borrowings		(14,462)	-	(14,462)
Deferred tax liabilities		(2,979)	-	(2,979)
Total identified net assets		16,806	4,407	21,213
Intangible assets and goodwill				3,161
Total				24,374

28. Business Combinations (continued)

a) The uplift in property, plant and equipment to a third party valuation

The deferred consideration was paid on 30th May 2017. The amount relates to the final settlement and agreement of the net debt and working capital value at acquisition.

A further £2,650,000 is payable based on the future delivery of a fifth care home (Stainton) at a future point in time and to a defined budget. Any overspend is to be recovered by reduction in this residual consideration. This value is included within the sales and purchase agreement as consideration for the receipt of share capital, however, as this value depends upon the outcome of future milestones that are yet to be reached, this value has not been recognised, but is included within capital commitments, as disclosed in note 14.

The income from Silk Heathcare Group included in the consolidated Statement of Methodist Homes from the 7th December 2016 (date of acquisition) to the year ended 31 March 2017 is £4,032,000, of which £825,000 arises from trading activities and the balance of £3,207,000 relates to a deferred tax release.

29. Group Structure

Methodist Homes has the following subsidiary undertakings:

Methodist Homes Housing Association

Incorporation:	Co-operative and Community Benefit Societies Act 2014
Registered Number	LH2343
Principal activity:	Charitable provision and management of social housing.

	2017	2016
	£'000	£'000
Assets	70,607	73,238
Liabilities	(26,943)	(31,691)
Funds	43,664	41,547
Incoming resources	6,646	6,251
Resources expended	(4,529)	(4,195)
Movement in funds	2,117	2,056

MHA Auchlochan Limited

Incorporation:	Charity Registered Number SCO40155
Company Registered Number:	SC352117
Principal activity:	Charitable provision and management of residential care homes.

	2017	2016
	£'000	£'000
Assets	33,309	29,579
Liabilities	(37,689)	(34,063)
Funds	(4,380)	(4,484)
Incoming resources	7,074	7,194
Resources expended	(6,970)	(7,205)
Movement in funds	104	(11)

29. Group Structure (continued)

Silk Healthcare Limited
Company Registered Number: 05893616
Principal activity: Provision of Healthcare

	2017	2016
	£'000	£'000
Assets	3,516	1,800
Liabilities	(1,198)	(985)
Funds	2,318	815
Incoming resources	12,046	7,999
Resources expended	(10,543)	(7,612)
Movement in funds	1,503	387

Silk Healthcare Holdings Limited
Company Registered Number: 07839421
Principal activity: Holding Company of two subsidiaries

	2017	2016
	£'000	£'000
Assets	576	572
Liabilities	(7)	(4)
Funds	569	568
Incoming resources	350	60
Resources expended	(316)	(6)
Movement in funds	34	54

29. Group Structure (continued)

Swift Build Properties Limited
Company Registered Number: 05095073
Principal activity: Development of Care Homes

	2017	2016
	£'000	£'000
Assets	24,963	34,483
Liabilities	(2,605)	(20,047)
Funds	22,358	14,436
Incoming resources	1,666	1,695
Resources expended	(1,008)	(1,173)
Profit on disposal of investment property	4,407	2,198
Tax	3,206	(548)
Movement in funds	8,271	2,171

The five organisations are deemed to be subsidiaries of Methodist Homes by means of various intra-group agreements.

30. Related party transactions

The charity has taken advantage of the exemption conferred by paragraph 33.1A of FRS102, 'related party transactions', that transactions with wholly controlled subsidiaries do not need to be disclosed.

The contribution by the group to the defined benefit scheme paid during the year amounted to £1,288,000 (2016: £1,250,000).

During the financial year to 31 March 2017 two (2016: two) members of the senior management of the company and one Board member had close family members residing in the company's care homes. In both situations arrangements were established and continue to be monitored in accordance with the company's published relatives' policy. The policy stipulates line management oversight of all instances where MHA services are provided to relatives of Board members and employees. The policy ensures that there is no preference given to the availability or price of MHA's services and also ensures the safeguarding of family members and carers.

30. Related party transactions (continued)

The related party transactions are as follows:

	2017 £'000	2016 £'000
Transactions		
Pension scheme – Defined benefit	1,288	1,250
Pension scheme – Defined contribution	2,962	2,697
Care England	30	29
	4,280	3,976

	2017 £'000	2016 £'000
Balances		
Pension scheme – Defined benefit	(13,084)	(11,631)
Pension scheme – Defined contribution	(237)	(211)
	(13,321)	(11,842)

31. Statement of Financial Activities for prior year

	Note(s)	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2016 £'000
Income and endowments from:					
Donations and legacies	2	3,737	881	-	4,618
Charitable activities	3/6				
Homes		147,711	369	-	148,080
Retirement Living		34,903	194	-	35,097
Live at Home		-	3,039	-	3,039
Other		-	413	-	413
Total charitable activities		182,614	4,015	-	186,629
Investments	4	193	16	12	221
Total		186,544	4,912	12	191,468
Expenditure on:					
Raising funds		417	-	-	417
Charitable activities	6				
Homes		142,957	508	-	143,465
Retirement living		35,860	214	-	36,074
Live at home		-	3,072	-	3,072
Other		98	738	-	836
Total charitable activities		178,915	4,532	-	183,447
Other	7	277	-	-	277
Total	5	179,609	4,532	-	184,141
Net gains/ (losses) on investments	11	-	(19)	6	(13)
Net income		6,935	361	18	7,314
Transfer between funds		(425)	425	-	-
Other recognised losses:					
Actuarial losses on defined benefit pension schemes	26	2,773	-	-	2,773
Other losses – interest rate swaps		(1,641)	-	-	(1,641)
Net movement in funds		7,642	786	18	8,446
Reconciliation of funds:					
Total funds brought forward		209,310	25,579	863	235,752
Total funds carried forward		216,952	26,365	881	244,198