

ALBYN HOUSING SOCIETY LIMITED
REPORT OF THE BOARD
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014

Registered Housing Association Number 64
Financial Conduct Authority Number 1776 R (S)
Charity Number SC027123

ALBYN HOUSING SOCIETY LIMITED Report
of the Board and Financial Statements
For the Year ended 31 March 2014

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Registration Particulars

| | |
|---------------------------------------|---|
| Financial Conduct Authority | Industrial and Provident Society Act 1965 Registration number – 1776 R (S) |
| Scottish Housing Regulator | Housing (Scotland) Act 2010 Registration number – 64 |
| Office of Scottish Charities Register | Recognised as a Scottish Charity Registration number – SC027123 |

ALBYN HOUSING SOCIETY LIMITED

Report of the Board and Financial Statements

For the Year ended 31 March 2014

The Board presents its report and the audited financial statements for the year ended 31 March 2014.

Principal Activities

The principal activity of Albyn is the development, management and maintenance of housing in the Highlands of Scotland for people in housing need.

Albyn is registered with the Financial Services Authority as a Friendly Society, The Office of the Scottish Charities Regulator (OSCR) as a Scottish Charity and the Scottish Housing Regulator as a Registered Social Landlord.

Our Strategic Aims

Our Vision

Our vision is of everyone in the Highlands well housed within sustainable communities.

Our Mission

Our mission is to build, manage and maintain quality housing in the Highlands, and to support communities to thrive.

Our Strategic Objectives

Albyn has as its Strategic Objectives which have been reviewed during the last year:

- Achieving successful tenancies through quality customer/landlord relationships
- Building and maintaining a sustainable, quality housing stock
- Supporting neighbourhoods and communities to thrive
- Providing access to housing and support in the Highlands
- Delivering good value for money in rents and other charges

Albyn also has a wholly owned subsidiary, Albyn Enterprises Limited, whose objective is to undertake activities of a non charitable nature that will help Albyn to meet its objectives.

The table below shows the property we own:

| Managed Property Numbers | 2014 | 2013 |
|-----------------------------|--------------|--------------|
| Tenanted Properties | 2,782 | 2,715 |
| Managed on behalf of others | 22 | 26 |
| Shared Ownership Properties | 167 | 175 |
| Total | 2,971 | 2,916 |

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Financial Review

Albyn made a deficit of £2,060,000 (2013 – surplus of £785,000) during the year. The key reason for the deficit in the year was the increase in the provision required for the Past Service Deficit on the defined benefit pension scheme of which Albyn was a member until 31 March 2014.

During the year the Board considered whether the Society should continue to be a member of the Scottish Housing Associations' defined benefit pension scheme. In recent years it had become very costly to maintain the benefit of this for our staff and the contributions to reduce the past service deficit within the pension fund were growing, with the estimate of future payments needed at 31 March 2014 totalling £5.2 million. The Board considered that allowing this deficit to potentially grow further over time was not sustainable for the Society and its tenants.

The Board therefore took professional advice and consulted with staff, and made the decision to close the scheme to all staff with effect from 31 March 2014 to try to limit any further growth in the deficit on this fund. Staff are now offered a defined contribution pension option which will not create any deficits in the future as staff only receive the value of the contributions made to their pension at the time they retire, not a guaranteed future income.

Albyn offers a graduated contribution rate where Albyn will contribute double the employee rate up to a maximum employer rate of 7.5%. Albyn also offers a salary sacrifice option to employees. The new pension arrangements commenced on 1 April 2014.

| | 2014 | 2013 |
|---|----------------|------------|
| | £000's | £000's |
| Surplus before Exceptional Item | 1,072 | 843 |
| Exceptional Item – provision for past service deficit | (3,132) | (58) |
| (Deficit) / Surplus for the year | (2,060) | 785 |

Albyn continues to be in a strong financial position. Albyn continues to have a substantial major repair investment programme with work to comply with the Scottish Housing Quality Standards and maintain the quality of our properties. We estimate that we will have expenditure of £2.3m over the next year. Albyn continues to have a development programme for next year.

Cash surpluses will continue to be made, subject to our planned major repair programme over the next few years and continuing to make efficiencies in our operational costs.

Business and Operational Review

This report details issues that have arisen during the year relating to the main activities undertaken by Albyn.

Corporate Governance

Albyn has a Board (as listed on page 12) which is elected by the members of Albyn. It is the responsibility of the Board to undertake the strategy, setting of policy and overall direction for Albyn. They also monitor the operational activities of Albyn. The members of the Board undertake this work in a voluntary, unpaid capacity.

The Albyn Executive Team (as listed on page 13) is responsible for achieving the set strategy and undertaking the operational activities in line with the agreed policies.

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The revised Regulatory Plan, issued in March 2014 by the Scottish Housing Regulator, defined their engagement with Albyn as Medium on the basis of their risk assessment. The plan identified Albyn's level of new build development activity as a particular area of risk.

Operational Review

During the previous year Albyn had implemented an operational review. This review was undertaken:

- to improve our service to our customers
- to improve our performance
- to improve our staff satisfaction

We created a Customer Services Team, Asset Management and Investment Team and a Finance & Corporate Services Team. We implemented these changes during the last six months of 2013. We have continued to bed-in new operational processes, job processes and performance reporting processes, and training tailored to individual requirements which are now delivering the improvements that we identified at the start of the process and are listed above.

Customer Services Team

Direct input from our customers remains central to the development and delivery of our services. During the year, we have completed the review of our Customer Involvement Strategy which continues to provide a framework for both formal and informal input from our customers on the issues that are of interest to them. A lively steering group consisting of front line staff, tenants and a Board representative has been re-established to develop and take forward an action plan to deliver the strategy over the next three years.

We now also have formal tenant input to the monitoring and scrutiny of our performance through designated places on our Performance Committee. We will be working over the next year to develop training and support to enable more tenants to become involved in our formal decision making and performance monitoring processes if they wish to do so.

We continue to involve our customers through a range of formal and informal consultation processes. These have included:

- meetings with registered resident groups
- focus groups with other tenants not normally part of organised groups
- discussions with staff teams
- policy consultation questionnaires and regular resident satisfaction surveys

We also continue to consult with and involve residents in our communities in a variety of ways, provide high quality information to customers and support new resident groups. We have carried out formal and informal consultations on a number of issues during the year, including Policy consultations with all tenants on a wide range of issues. Within the last year these have included: The Scottish Social Housing Charter, our Customer Involvement Strategy, Equalities and Diversity, and annual Rent increases. We have also consulted on a range of particular policies and procedures as part of our ongoing review processes, including repairs and maintenance priorities, contracts access, the provision of assisted garden maintenance, standards for empty homes and decoration allowances.

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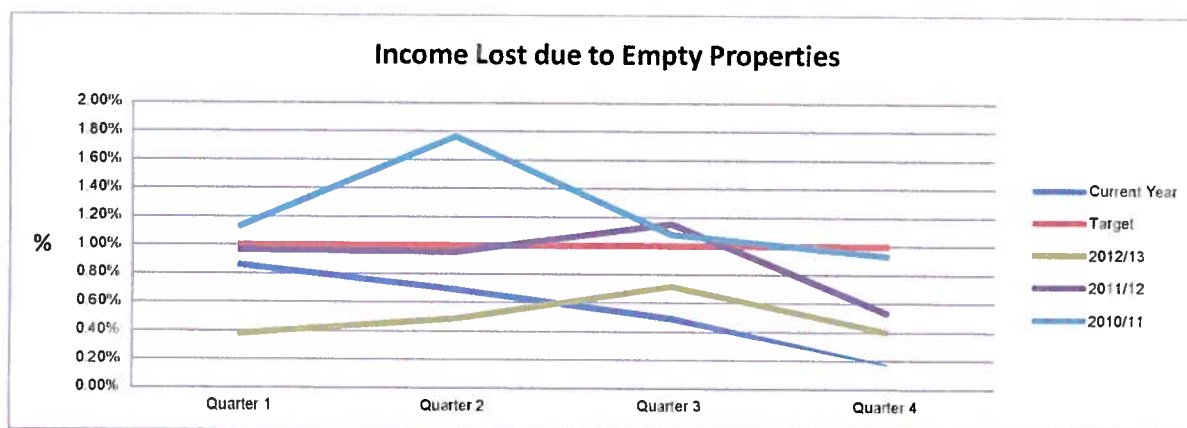
For the Year ended 31 March 2014

Allocations

We have continued to reduce the period of time taken to let empty properties, to make sure that we maximise our effectiveness in housing people in need, and to reduce our costs.

| Empty properties in the year | 2014 | 2013 |
|------------------------------|------|------|
| Re-lets | 263 | 220 |
| New Build | 61 | 100 |
| Total | 324 | 320 |

Our performance on allocating has continued to show improvement with the average time taken to re-let a property now reduced by a further week to 22 days including properties in more difficult to let areas. This has resulted in loss of rent due to empty properties reducing to below 0.5% of collectable rent as illustrated in the graph below:



We are working in partnership with 3 social landlord partners to develop joint approaches to managing lower demand properties in the Caithness area. Combined with the appointment of a locally based generic housing services officer for the area this has resulted in a significant improvement and reductions in void losses in this more difficult to let area.

We also achieve high levels of satisfaction with the condition of our homes, with 95% of tenants responding to new tenancy surveys indicating that they are satisfied with the condition of their home when they move in.

Rent Arrears

Over the last few years, our rent arrears performance has seen a slow but steady improvement despite a difficult economic climate. In the early part of this year, our levels of rent debts increased due to the combined effects of far reaching welfare reform changes, in particular the impacts of deductions from tenants' benefits for under-occupation, with over 320 tenants immediately affected when the 'bedroom tax' rules came into effect in April. In addition we had unanticipated staff absences and the implementation of far-reaching service delivery and team structure changes.

But during the second part of the year we have benefited from the increased availability of Discretionary Housing Payments funding being made available in the area, and from the application of a new arrears management plan within the team. This has resulted in a steady and consistent improvement since October. During the 3rd and 4th quarters, the number of tenants with rent arrears has reduced by over 500 cases and the value of debts has reduced by over £50,000. This can be

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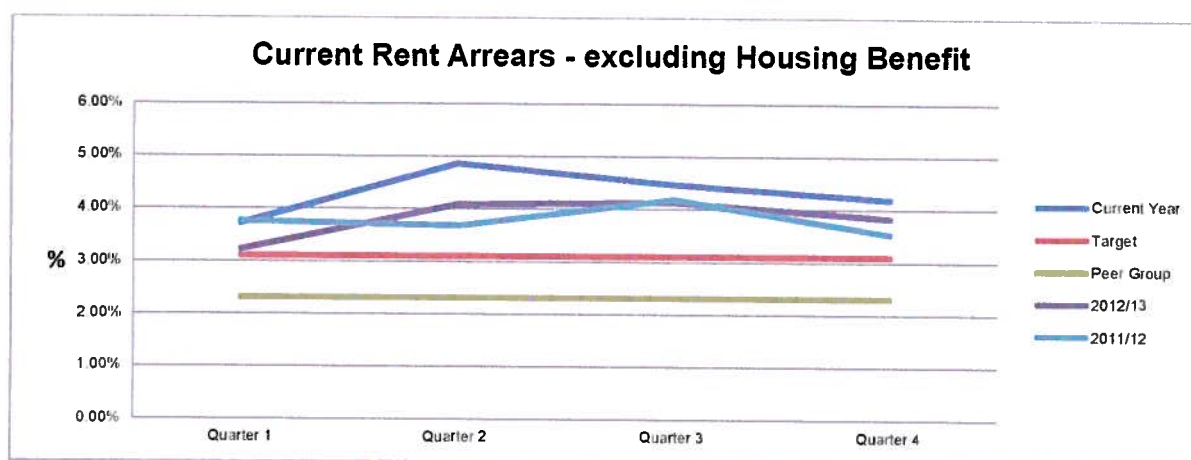
Report of the Board and Financial Statements

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attributed to the changes in the way that arrears are being managed by an increased staff resource and caseload distribution. We have also improved our data collection and reporting functions. These changes, coupled with increased early intervention work and proactive work on securing Discretionary Housing Payments by Tenancy Sustainment Officers and Assistants, are all helping to reduce the number of tenants falling into arrears in the first place and catching debts at an earlier, more manageable level. As staff become more experienced in managing arrears, it is hoped that this trend will continue and further improvements will be seen over the next financial year.

We have also increased our recovery of former tenancy debts by 25% in value compared to the previous year through the targeted use of resources within the team.

The graph below details our quarterly performance.



Tenancy Management

We continue to work in partnership with other local agencies to tackle anti-social behaviour and to manage our estates.

| Number of Anti-social Cases | | 2014 | 2013 |
|-----------------------------|--|------------|------------|
| Category 1 | Most serious and involves criminal activity | 23 | 22 |
| Category 2 | Deliberate attempt to cause disturbance or annoyance | 117 | 89 |
| Total | | 140 | 111 |

The number of reported cases of nuisance and anti-social behaviour cases we have to deal with at any one time remain fairly constant and a low percentage of all tenancies and predominantly in the lower category. It is always worth noting that whilst the ASB cases can be small in numeric terms as a proportion of the overall stock, the cases often require a disproportionate amount of time and effort to find eventual resolution. These cases invariably require close customer liaison and support.

The number of tenancies created in the previous financial year that were still successfully in place remained very high at 92.0% (2013 – 98.9%).

Tenancy Sustainment

Our Tenancy Sustainment team continues to support the work of colleagues across the organisation. The majority of referrals come from colleagues and continue to be mostly for assistance with benefit

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For the Year ended 31 March 2014

claims and for help with housing debt and household budgeting advice, followed by assisting with access for essential safety checks, improvement contracts and for energy advice.

Community Engagement Issues

Albyn is committed to working with our communities in Highland to improve the social, economic and environmental opportunities of the people living in them. We work with a wide range of organisations from community groups through social enterprises to the public sector. We do this by helping with advice and giving in kind support, partnership working and also through supporting and developing funding bids and projects that meet our aims.

In this last year we have been involved in developing successful funding bids with other social landlord partners in the area and with local advice agencies to develop plans and resources to manage the impacts of continuing welfare reform changes for our tenants.

We have been successful as the lead partner in a £210,000 funding bid for advice funding awarded through the Scottish Legal Aid Board's *Making Advice Work* programme. This has allowed us to develop a Highland-wide project to provide money advice and housing options advice for tenants affected by under occupation penalties with a group of 11 voluntary sector partners.

We also continue to work as lead partner with all the Highland based housing associations to develop a longer term joint bid for Big Lottery funding for broader welfare advice posts to prepare our tenants for the broader welfare reform changes to be implemented over the next few years, and have now successfully reached Stage 2 of the bidding process.

Property Maintenance

The reactive repair service now forms part of the Customer Services Team. The performance of the Reactive Repairs is detailed in the following table.

| Category | Performance Measure | Target | 2014 | 2013 |
|------------------|---------------------------------------|---------|-----------|---------|
| Emergency | Average time to complete | 8 hours | 3.28 hrs | n/a |
| Non Emergency | Average time to complete | 10 days | 6.09 days | n/a |
| Right First Time | | | 94.12% | n/a |
| Gas Servicing | Within 12 Mths of previous inspection | 100% | 98.15% | 99.26% |
| | Within 13 Mths of previous inspection | 0% | 1.85% | 0.74% |
| | | | 100.00% | 100.00% |

We carried out over 5670 repairs during the year. 95% of tenants who returned satisfaction slips were satisfied with the overall quality of our repairs service.

Significant progress has also been made during the year in improving our data collection and reporting functions and in streamlining our workflow management and quality assurance inspection arrangements. As a result we will be better able to monitor quality and value for money over the coming year.

Asset and Investment Team

The re-organisation that we implemented in 2013 brought together the development and the major component replacement contracts under one team which has the responsibility to build and upgrade our property portfolio so that the properties all achieve modern standards. This is being achieved by

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providing the best designed specifications of components when building the property and then ensuring that they are maintained during their life. During the current year we have commissioned sample surveys on 1,125 properties. The sample surveys have been chosen so that we cover all the property types and locations that we operate in. The results of the stratified sample will be applied to all of our stock to give us a robust tool to plan and maintain our properties in the next 10 years and beyond. The Energy Efficiency Standard for Social Housing (EESH) was launched in March 2014 which, building on SHQS, gives a revised standard for 2020. We are looking to achieve EESH in our current programme of upgrades and the stock condition survey will give us the data we need to assess where we are in terms of compliance.

During the year we have incurred expenditure as follows:

| Replacement Type | 2014 | 2013 |
|--|--------------|--------------|
| | £000's | £000's |
| Energy Efficiency Measures | 1,188 | 1,339 |
| Kitchen Replacements | 314 | 723 |
| Bathroom Replacements | 35 | 229 |
| Individual Property Upgrades and Other Costs | 93 | 134 |
| Total | 1,630 | 2,425 |

We continued to build and complete properties as affordable rented properties 61 (2013 – 100) and as LIFT properties 13 (2013 - 25) throughout the year with completions in the following communities:

| Developments completed in year | Rented | LIFT | Total |
|----------------------------------|-----------|-----------|-----------|
| Inverness, Kessock Court North | 8 | 0 | 8 |
| Kiltarlity, the Glebe | 4 | 2 | 6 |
| Clachnaharry | 11 | 5 | 16 |
| Dingwall, St Andrews Road | 16 | 0 | 16 |
| Inverness, North Kessock | 12 | 4 | 16 |
| Inverness, Leachkin, Brudes Hill | 10 | 2 | 12 |
| Total | 61 | 13 | 74 |

During the year we bought back two shared ownership properties to be rented out by AEL under the Mid Market Rent provisions, and one shared ownership property was bought back with financial assistance from The Highland Council so that it could be made available for social rent.

This table details our spend in the year on these completed projects together with projects that are currently being built:

| Development Funding | 2014 | 2013 |
|---------------------|--------|--------|
| | £000's | £000's |
| Expenditure | 2,425 | 7,570 |
| Grant | 1,553 | 2,335 |
| Loan | | 2,000 |
| Own resources | 872 | 3,235 |

Due to the continuing decline in our development programme similar to other RSLs we have reviewed the staffing with our Asset Management & Investment team and have made the decision to make the Director of that department redundant. This decision was implemented in March 2014. Continuity and future achievements are in the safe hands of the Asset Management & Investment Manager and the Senior Management Team.

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Finance and Corporate Services Team

Albyn's Finance and Corporate Team which includes IT and Human Resources continued to support the Albyn Group throughout the year. The team supported the Board in making the transition from a defined benefit pension offering to defined contribution and it is hoped that this will keep future costs of our staff pension offering within the control of the Society for the benefit of its tenants.

We completed the review of our ICT Infrastructure which recommended that we upgrade our IT hardware and improve our connection between the two main offices. We also took the opportunity to effectively make the Inverness office able to act as the main office if the Invergordon office could not be operated for any reason thus providing an effective and robust plan in case of a disaster and enable business continuity.

Albyn Enterprises Limited

Albyn Enterprises Limited (AEL) is our wholly owned subsidiary.

In addition to the 17 properties sold on behalf of Albyn in the year, AEL also sold 7 units (2013 – 21) for Cairn Housing Association and 6 units (2013 – nil) for The Highland Council.

AEL also acts as agent for the Scottish Government under the Developer New Supply Shared Equity (NSSE), Open Market Shared Equity (OMSE) and Help to Buy (HTB) initiatives which offer grants to individuals to help them buy properties on the open market and from non RSL developers. AEL helped 137 households (2013 – 43) by delivering grants to the value of £5,288,000 (2013 - £1,758,000).

AEL has secured the contract from the Scottish Government for the delivery of the OMSE programme for Highland and Shetland until 2015, as well as securing the contract from the Scottish Government for the delivery of the Help to Buy initiative for Highland and Shetland until 2015.

During the year AEL recruited staff to take on the management of the Factoring and Service Charge activity undertaken by the Group. This work will enable the Albyn Group to focus on this activity so that a better service is delivered and a sustainable business is achieved.

During 2013/14 Albyn continued to be involved in a series of discussions with other agencies on potential social enterprise ventures, primarily in Inverness. This includes detailed business planning for the creation of a Social Enterprise Hotel on the Inverness Campus site in Inverness. During the year we established CALBYN SCIO a Joint Venture Body for the Hotel. It is jointly owned with the Calman Trust. This body will hold the investment that the two partner organisations are making in the venture. CALBYN SCIO have also established two CICs to own and run the Hotel, namely Calbyn Properties CIC and Hotel Artysans CIC respectively. None of these corporate bodies was financially active during the year. These discussions and more detailed planning will continue in 2014/15.

We are also working with partners to engage the community, through community organisations, to develop a system of support that will enable individuals to maintain independent living through a purpose-built smart phone application.

Other Issues

Credit Payment Policy

Albyn's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The average payment period is within thirty days.

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Rental Income

Albyn's Rent Policy is based on the size, type and facilities of the accommodation. The policy ensures that the rent structure is easy to administer and covers the wide variations of properties. The rent charged is reviewed annually to ensure that the rents cover the required costs. This policy follows the generally accepted practice / principles of the Housing Association Sector.

Sales of Housing Properties

We sold 1 (2013 – 4) property under Right to Buy and 5 (2013 – nil) Shared Ownership properties.

Properties are disposed of under the appropriate legislation and guidance. All costs, first tranche sales, and grants relating to the share of the property sold are removed from the financial statements at the date of sale. Any grants received that cannot be repaid from the proceeds of sale are abated and the grants removed from the financial statements.

Management Structure

The Board has overall responsibility for Albyn and there is a formal schedule of matters specifically reserved for decision by the Board.

Risk Management Policy

The Board has a formal risk management process to assess business risks and implement risk management strategies. This involved identifying the types of risks Albyn faces, prioritising them in terms of potential impact and likelihood of occurrence, and identifying means of mitigating the risks. As part of this process the Board has reviewed the adequacy of Albyn's current internal controls.

The Board has set policies on internal controls which cover the following:

- consideration of the type of risks Albyn faces
- the level of risks which they regard as acceptable
- the likelihood of the risks concerned materialising
- Albyn's ability to reduce the incidence and impact on the business of risks that do materialise
- management of the costs of operating particular controls relative to the benefit obtained
- clarified the responsibility of management to implement the trustees' policies to and identify and evaluate risks for their consideration
- communicated that employees have responsibility for internal control as part of their accountability for achieving objectives
- embedded the control system in the charity's operations so that it becomes part of the culture of Albyn
- developed systems to respond quickly to evolving risks arising from factors within the charity and to changes in the external environment
- included procedures for reporting failings immediately to appropriate levels of management and the Board together with details of corrective action being undertaken.

Sustainability and Asset Management

The Albyn Sustainability Strategy was revised in May 2011, with a focus on sustaining Albyn as a business whilst helping improve the quality of life for the residents in our communities. This Strategy

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is supported by an Asset Management Plan which identifies initiatives for sustaining/improving the performance of our property assets. A revised Sustainability and Asset Management Strategy will be prepared during 2014 -15.

In addition, Albyn has a long term programme of major repairs to cover work which has become necessary since the original development was completed, including works required for subsequent legislative changes. This includes replacement or repairs to features of the properties which have come to the end of their economic lives. The costs of these repairs are charged to the Income and Expenditure Account, unless it is agreed they be capitalised within the terms outlined in the Statement of Recommended Practice for Registered Social Landlords.

Budgetary Process

Each year the Board approves the annual budget and rolling three-year strategic plan. Key risk areas are identified. Performance is monitored and relevant action taken throughout the year through quarterly reporting to the Board of variances from the budget, updated forecasts for the year together with information on the key risk areas. Approval procedures are in place in respect of major areas of risk such as major contract tenders, expenditure and treasury management.

Treasury Management

Albyn has an active treasury management function, which operates in accordance with the Treasury Policy approved by the Board. In this way Albyn manages its borrowing arrangements to ensure that it is always in a position to meet financial obligations as they fall due, whilst minimising excess cash and liquid resources held.

Albyn, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2014, Albyn has a mix of fixed and variable rate finance, which it considers appropriate at this time.

Quality and Integrity of Staff

The integrity and competence of staff are ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the Chief Executive.

Our staff also have the opportunity to take part in a range of training opportunities to develop their skills and knowledge.

Albyn is committed to involving staff in decision making and policy making. The Staff Consultative Forum (SCF) which is made up of both Board members and staff enables employer and employee involvement in these decisions.

Employee Involvement and Health and Safety

Albyn encourages employee involvement in all major initiatives and maintaining Health & Safety standards in all areas.

Disabled Employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with Albyn

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may continue. It is the policy of Albyn that training, career development and promotion opportunities should be available to all employees.

Future Developments

Albyn will continue with its policy of improving the quality of housing and housing services within its area of activity working with its existing and new partners.

Board

The Board of Albyn during the year to 31 March 2014 was as follows:

| | | Committees |
|------------------|---|--|
| Mrs I McLaughlan | Chair Person until 13 August 2013 | Performance, Staffing |
| Mr D Russell | Chair Person from 13 August 2013 | Performance, Staffing |
| Mr G Sinclair | Vice-Chair Person | Audit, Staffing |
| Ms M Smith | Secretary from 24 June 2014 | Staffing |
| Mr B Summerfield | Secretary from 13 August 2013, resigned 24 June 2014 | Performance, Health & Safety |
| Mr G Kelman | Secretary until 13 August 2013, resigned 13 August 2013 | |
| Mr J A Convery | | Audit, Performance |
| Mr J W Oag | | Audit, Performance |
| Mrs S Slimon | | Performance, Staffing, Health & Safety |
| Mrs P Dingwall | Appointed 13 August 2013 | Health & Safety |
| Mrs E Grant | Appointed 13 August 2013 | Staffing |
| Mr T Solle | Appointed 13 August 2013 | Audit |
| Mrs K Williams | Appointed 13 August 2013 | Staffing |
| Mrs M Cairney | Resigned 13 August 2013 | |
| Miss C J Cameron | Resigned 13 August 2013 | |
| Mrs I M MacRae | Resigned 13 August 2013 | |

Committees (from 10 September 2013)

| | |
|--------------------|---------------------------|
| Audit Committee | Performance Committee |
| Staffing Committee | Health & Safety Committee |

Each member of the Board holds one fully paid share of £1.00 in Albyn. The executive officers of Albyn hold no interest in Albyn's share capital and although not having the legal status of "director" they act as executives within the authority delegated by the Board.

Board and Officers' Insurance

Albyn has purchased and maintains insurance to cover its Board and officers against liabilities in relation to their duties on behalf of Albyn, as authorised by the Society's rules.

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For the Year ended 31 March 2014

Directors

The Directors of Albyn at 31 March 2014 were as follows:

| | |
|--------------------|--|
| Mr Calum Macaulay | Chief Executive |
| Mr Robin Nairn | Finance & Corporate Services Director and Deputy Chief Executive |
| Ms Helen Barton | Customer Services Director |
| Mr Donald Lockhart | Asset and Investment Director |

Mr Donald Lockhart was Asset and Investment Director until 1 April 2014.

Internal Financial Controls

The Board acknowledges its ultimate responsibility for ensuring that Albyn has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- The reliability of financial information used within Albyn or for publication;
- The maintenance of proper accounting records; and
- The safeguarding of assets (against unauthorised use or disposition).

It is the Board's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material mis-statement or loss. Key elements include ensuring that:

- Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of Albyn's assets.
- Experienced and suitably qualified staff take responsibility for important business functions.
- Forecasts and budgets are prepared regularly which allow the Board and staff to monitor the key business risks and financial objectives and progress towards the financial plans set for the year and the medium term; regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variance from budgets are investigated as appropriate.
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures.
- The Board reviews reports from management and from both internal and external auditors to provide reasonable assurance that control procedures are in place and are being followed.
- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Board has reviewed the system of internal financial control in Albyn during the year ended 31 March 2014. No weaknesses were found in internal financial controls, which could result in material losses, contingencies, or uncertainties, which require disclosure in the financial statements or in the auditors' report on the financial statements.

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Information for Auditors

As far as the Board members are aware there is no relevant audit information of which the auditors are unaware and the Board members have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to ensure that the auditors are aware of any such information.

Auditors

Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

By order of the Board

A handwritten signature in blue ink, appearing to be 'MS', with a long horizontal stroke extending to the right.

Maxine Smith
Secretary
24 June 2014

ALBYN HOUSING SOCIETY LIMITED

STATEMENT OF BOARD RESPONSIBILITIES

31 MARCH 2014

Statute requires the Board to prepare financial statements for each financial year which give a true and fair view of the affairs of Albyn and of the surplus or deficit for that period. In preparing those financial statements, the Board are required to fulfil the following obligations:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether applicable accounting standards 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 Albyn will continue in business.

The Board confirms that the financial statements comply with the requirements.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of Albyn and to enable them to ensure that the financial statements comply with the Industrial and Provident Societies Act 1965 to 2002, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – April 2012. They are also responsible for safeguarding the assets of Albyn and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



Maxine Smith
Secretary
24 June 2014

ALBYN HOUSING SOCIETY LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
ALBYN HOUSING SOCIETY LIMITED

We have audited the financial statements of Albyn Housing Society Limited for the year ended 31 March 2014 on pages 17 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Society's members as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As explained more fully in the Board's Responsibilities Statement set out on page 15, the Board 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). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 March 2014 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – April 2012 .

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 requires us to report to you if, in our opinion:

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

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
Statutory Auditors
Chartered Accountants
Breckenridge House
274 Sauchiehall Street
Glasgow
G2 3EH

27/6/14
Date

ALBYN HOUSING SOCIETY LIMITED

Income and Expenditure Account

For the Year ended 31 March 2014

| | Notes | 2014 £000's | 2013 £000's as restated |
|--|-------|-----------------------|-------------------------------|
| Turnover | 2 | 14,504 | 15,863 |
| Operating Costs | 2 | (11,974) | (13,487) |
| Operating Surplus | 6 | <u>2,530</u> | <u>2,376</u> |
| Sale of fixed assets | 5 | 95 | 42 |
| Interest receivable | 8 | 16 | 17 |
| Interest payable and other charges | 9 | (1,569) | (1,592) |
| Exceptional loss | 10 | (3,132) | (58) |
| (Deficit) / Surplus on ordinary activities | | <u>(2,060)</u> | <u>785</u> |
| Donations | | - | - |
| (Deficit) / Surplus on ordinary activities before tax | | <u>(2,060)</u> | <u>785</u> |
| Taxation on surplus on ordinary activities | 11 | - | - |
| (Deficit) / Surplus for the year | | <u><u>(2,060)</u></u> | <u><u>785</u></u> |

The results relate to continuing activities.

Statement of total recognised surpluses and deficits for the year ended 31 March 2014

| | 2014 £000's | 2013 £000's as restated |
|--|-----------------------|-------------------------------|
| (Deficit) / Surplus for the year | (2,060) | <u>785</u> |
| Prior period adjustment [note 12] | (2,011) | |
| Total surpluses and deficits recognised since the last reporting period | <u><u>(4,071)</u></u> | |

ALBYN HOUSING SOCIETY LIMITED

Balance Sheet

As at 31 March 2014

| | Notes | 2014 £000's | 2013 £000's as restated |
|---|-------|---------------------|-------------------------------|
| Tangible fixed assets | 13 | | |
| Housing properties - gross cost less depreciation | | 208,574 | 206,314 |
| less Housing Association Grant | | (137,550) | (136,283) |
| less Other Grants | | <u>(9,119)</u> | <u>(9,216)</u> |
| | | 61,905 | 60,815 |
| Investments | | | |
| Homestake Loan | 14 | 2,537 | 3,307 |
| Homestake Grant | 14 | <u>(2,537)</u> | <u>(3,307)</u> |
| | | - | - |
| Other fixed assets | 15 | <u>2,152</u> | <u>2,191</u> |
| | | 64,057 | 63,006 |
| Current assets | | | |
| Stock - LIFT Properties in Development | 16 | 693 | 1,981 |
| Debtors | 17 | 2,936 | 3,376 |
| Bank and Cash in hand | | <u>4,038</u> | <u>1,549</u> |
| | | 7,667 | 6,906 |
| Current liabilities | | | |
| Creditors due within one year | 18 | <u>(5,294)</u> | <u>(5,748)</u> |
| Net current assets | | 2,373 | 1,158 |
| Total assets less current liabilities | | <u>66,430</u> | <u>64,164</u> |
| Creditors: | 19 | (53,343) | (52,149) |
| amounts falling due after more than one year | | | |
| Provisions for liabilities and charges | 20 | (5,201) | (2,069) |
| Net assets | | <u><u>7,886</u></u> | <u><u>9,946</u></u> |
| Capital and reserves | | | |
| Share capital | 21 | 1 | 1 |
| Revenue reserves | 22 | 7,885 | 9,945 |
| | | <u><u>7,886</u></u> | <u><u>9,946</u></u> |

These financial statements were approved and authorised for issue by the Board on 24 June 2014

Douglas Russell - Chair

Gavin Sinclair - Vice Chair

Maxine Smith - Secretary

ALBYN HOUSING SOCIETY LIMITED

Cash Flow Statement

For the Year ended 31 March 2014

| | 2014 | | 2013 | |
|--|----------------|---------------------|----------------|-----------------------|
| | £000's | £000's | £000's | £000's |
| Operating Surplus | | 2,530 | | 2,376 |
| Depreciation | 2,039 | | 2,104 | |
| Movement in stock | 1,288 | | 1,773 | |
| Movement in debtors | 93 | | (292) | |
| Movement in creditors | <u>1,445</u> | | <u>32</u> | |
| | | <u>4,865</u> | | <u>3,617</u> |
| Net cash inflows from operating activities | | 7,395 | | 5,993 |
| Donations received | - | | - | |
| Interest received | 16 | | 17 | |
| Interest paid | <u>(1,569)</u> | | <u>(1,592)</u> | |
| | | <u>(1,553)</u> | | <u>(1,575)</u> |
| Net cash inflows from returns on investments and servicing of finance | | 5,842 | | 4,418 |
| Taxation | | <u>-</u> | | <u>-</u> |
| | | 5,842 | | 4,418 |
| Capital expenditure and financial investment | | | | |
| Development of own property | 5,187 | | 9,895 | |
| Less Grants on own property | <u>(313)</u> | | <u>(2,350)</u> | |
| | 4,874 | | 7,545 | |
| Disposal of property | <u>(226)</u> | | <u>(129)</u> | |
| | 4,648 | | 7,416 | |
| Acquisition of other fixed assets | <u>31</u> | | <u>163</u> | |
| Net cash (outflows) from investing activities | | <u>(4,679)</u> | | <u>(7,579)</u> |
| Net cash inflows / (outflows) before financing | | 1,163 | | (3,161) |
| Financing | | | | |
| Loans received for housing | 2,000 | | 2,000 | |
| Loans repaid | <u>(677)</u> | | <u>(650)</u> | |
| | | 1,323 | | 1,350 |
| Movement in cash | | <u><u>2,486</u></u> | | <u><u>(1,811)</u></u> |

Note 23 should be read in conjunction with this statement

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

1 Principal Accounting Policies

Albyn is registered under the Industrial and Provident Societies Act 1965 with the Financial Services Authority and with Communities Scotland as a Registered Social Landlord. Albyn adopted Charitable Rules on 18 March 1997 and its Charity Number is SC 027123.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom including the Statement of Recommended Practice (SORP) and in compliance with The Determination of Accounting Requirements – April 2012. A summary of the accounting policies which have been applied consistently is stated below.

a Basis of Accounting

The Financial Statements are prepared on the historical cost basis of accounting.

b Consolidation

Albyn and its subsidiary (Albyn Enterprises Limited) comprise a group. The Society does not prepare consolidated accounts due to the immateriality of the results of the subsidiary as detailed in note 25. The accounts represent the results of Albyn Housing Society Limited and not of the group.

c Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable.

d Mortgages

Mortgage loans are advanced by private lenders under the terms of individual mortgage deeds in respect of properties on which they are secured. Advances are available only in respect of those developments that have been given approval for Housing Association Grant.

e Tangible Fixed Assets - Housing properties [Note 13]

Housing Properties are stated at cost less social housing and other public grants less accumulated depreciation.

Works to existing properties will generally be capitalised under the following circumstances:

- (i) Where a component of the housing property that has been treated separately for depreciation purposes and depreciated over its useful economic life is replaced or restored; or
- (ii) Where the subsequent expenditure provides an enhancement of the economic benefits of the tangible fixed assets in excess of the previously assessed standard of performance. Such enhancement can occur if the improvements result in an increase in rental income, a material reduction in future maintenance costs or a significant extension of the life of the property.

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

Works to existing properties which fail to meet the above criteria are charged to the Income and Expenditure account.

f Housing Association Grants (HAG)

HAG is receivable from the grant awarding body and are utilised to reduce the capital costs of housing properties. Grants received in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate. Where following the sale of a property, HAG becomes repayable subject to abatement; it is included as a current liability until repaid. HAG is subordinated in respect of loans on agreement with the grant awarding body.

g Other Grants

These include grants from local authorities and other organisations. The capital costs of housing properties are stated net of grant receivable on these properties. Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

h Depreciation

i) Housing Properties

Depreciation is charged on a straight line basis over the expected economic useful lives of each major component that makes up the housing property as follows:

| | |
|--|-----------------|
| Land | Not depreciated |
| Main Fabric | 100 Years |
| Roof | 70 Years |
| Windows and Doors | 30 Years |
| Heating | 15 Years |
| Kitchen | 20 Years |
| Bathroom | 30 Years |
| Other Mechanical and Engineering Works | 30 Years |

ii) Other Fixed Assets

Depreciation of other fixed assets is charged by equal annual instalments commencing with the year of acquisition at rates estimated to write off their cost or valuation less residual value over the expected useful lives, which are as follows:

| | |
|--------------------------------|-----|
| Buildings - for own occupation | 2% |
| Computer Equipment | 25% |
| Equipment | 15% |

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

i Impairment of Fixed Assets

Reviews for impairment of housing properties are carried out on an annual basis and any impairment in an income generating unit is recognised by a charge to the income and expenditure account. Impairment is recognised where the carrying value of an income generating unit exceeds the higher of its net realisable value or its value in use. Value in use represents the net present value of expected future cash flows from these units. Impairment of assets would be recognised in the income and expenditure account.

j Low Cost Initiatives for First Time Buyers (LIFT)

LIFT transactions are grants received from grant making body and passed on to an eligible beneficiary. Grant making body has a benefit of a fixed charge on the property entitling grant making body to a share of the proceeds on the sale of the property by the beneficiary. These are classified as investments and are carried at historical cost with the linked finance cost (the grant received) being deducted from the gross amount of the LIFT asset.

k Properties for Sale

Completed properties for outright sale (mainly LIFT Properties) and work in progress are valued at the lower of cost and net realisable value. Cost comprises the cost of land, development and interest. Net realisable value is based on estimated sale price after allowing for all further costs of completion and disposal.

l Sales of Housing Accommodation

Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of property sold are removed from the financial statements at the date of sale, except for first tranche sales. Any grants received that cannot be repaid from the proceeds of sale are abated and the grant removed from the financial statements.

m Shared ownership

Proceeds from first tranche disposals of shared ownership properties are accounted for in the Income and Expenditure account of the period in which the disposal occurs, with any surpluses on disposal recognised in the Income and Expenditure account as turnover. The cost of disposal of first tranche disposals is included within cost of sales. The first tranche element of any unsold properties is shown as a current asset.

n Leases and Hire Purchase Contracts

Rentals paid under operating leases are charged to income as incurred.

o Taxation

Albyn is a registered charity and therefore is not liable to tax on its charitable activities.

p Value Added Tax

Albyn is VAT registered. However, a large proportion of the income, namely rents, is exempt for VAT purposes and therefore gives rise to a partial exemption calculation. Expenditure as a result is shown inclusive of VAT.

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

q Pension Schemes

Until 31 March 2014 the Society participated in the centralised Scottish Housing Associations' defined benefit pension scheme. Retirement benefits for employees of Albyn are funded by contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

The expected cost to Albyn Housing Society Limited of pensions is charged to the Income and Expenditure Account so as to spread the cost of pensions over the service lives of the employees.

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

2 Particulars of Turnover, Operating Costs and Operating Surplus

| | Turnover £000s | Operating Costs £000s | 2014 £000s | 2013 £000s |
|----------------------------|----------------------|-----------------------------|---------------------|---------------------|
| Social Lettings Activities | 11,130 | (8,020) | 3,110 | 2,716 |
| Other Activities | 3,374 | (3,954) | (580) | (340) |
| Total | <u>14,504</u> | <u>(11,974)</u> | <u>2,530</u> | <u>2,376</u> |
| 2013 | <u>15,863</u> | <u>(13,487)</u> | <u>2,376</u> | |

3 Particulars of Turnover, Operating Costs and Operating Surplus from Social Letting Activities

| | General Needs Housing £000s | Shared Ownership Housing £000s | 2014 £000s | 2013 £000s |
|--|--------------------------------------|---|---------------------|---------------------|
| Income | | | | |
| Rent Receivable Net of Service Charges | 10,489 | 341 | 10,830 | 10,084 |
| Service Charges | 333 | 20 | 353 | 362 |
| Gross Income from Rents and Service Charges | <u>10,822</u> | <u>361</u> | <u>11,183</u> | <u>10,446</u> |
| Less Voids | (53) | - | (53) | (56) |
| Total Turnover from Social Letting Activities | <u>10,769</u> | <u>361</u> | <u>11,130</u> | <u>10,390</u> |
| Expenditure | | | | |
| Management and Maintenance Administration Costs | 3,008 | 179 | 3,187 | 3,293 |
| Service Costs | 433 | 20 | 453 | 452 |
| Planned and Cyclical Maintenance including Major Repairs Costs | 523 | - | 523 | 274 |
| Reactive Maintenance Costs | 1,616 | - | 1,616 | 1,427 |
| Bad Debts - Rents and Service Charges | 272 | - | 272 | 224 |
| Depreciation of Social Housing | 1,956 | 13 | 1,969 | 2,004 |
| Operating Costs for Social Letting Activities | <u>7,808</u> | <u>212</u> | <u>8,020</u> | <u>7,674</u> |
| Operating Surplus for Social Lettings | <u>2,961</u> | <u>149</u> | <u>3,110</u> | <u>2,716</u> |
| 2013 | <u>2,589</u> | <u>127</u> | <u>2,716</u> | |

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

4 Particulars of Turnover, Operating Costs and Operating Surplus from Other Activities

| | Supporting People Activities £000's | Wider Role Activities £000's | Development Activities £000's | Properties for Sale £000's | Other activities £000's | 2014 £000's | 2013 £000's |
|--------------------------|--|---------------------------------------|-------------------------------------|----------------------------------|-------------------------------|----------------|----------------|
| Ministers | - | - | - | - | - | - | - |
| Supporting People Income | - | - | - | - | - | - | - |
| Other Income | - | - | 500 | 2,779 | 95 | 3,374 | 5,473 |
| Total Income | - | - | 500 | 2,779 | 95 | 3,374 | 5,473 |
| Other Operating Costs | - | - | (1,080) | (2,779) | (95) | (3,954) | (5,813) |
| Operating Deficit | - | - | (580) | - | - | (580) | (340) |
| 2013 | - | - | (340) | - | - | (340) | |

The Accounting Order includes additional information lines to that shown in notes 3 and 4 above.
The Board does not feel that any additional information is required with regard to these notes.

5 a Sale of Housing Properties

| | | |
|------------------|------------|-----------|
| Sale proceeds | 440 | 186 |
| Cost of sales | (333) | (120) |
| Gain on disposal | <u>107</u> | <u>66</u> |

5 b Loss on disposal of components

| | | |
|--|-------------|-------------|
| | <u>(12)</u> | <u>(24)</u> |
|--|-------------|-------------|

6 Operating surplus

Operating surplus is stated after charging

| | | |
|------------------------------------|-----------|------------|
| Staff costs [see note 7] | 2,616 | 2,679 |
| Auditors' remuneration | 17 | 16 |
| Depreciation on heritable property | 1,969 | 2,004 |
| Depreciation on other fixed assets | <u>70</u> | <u>100</u> |

Baker Tilly received £ nil (2013 - £ nil) for professional services other than audit.

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

| | | | |
|--|--------------------|----------------|----------------|
| 7 Directors and employees | | 2014 | 2013 |
| | | £000's | £000's |
| [a] Staff costs including Directors' emoluments | | | |
| Wages | | 2,068 | 2,131 |
| Social security | | 177 | 185 |
| Other pension costs | | <u>371</u> | <u>363</u> |
| | | 2,616 | 2,679 |
| Temporary, seconded and agency staff costs | | 139 | 83 |
| | | <u>2,755</u> | <u>2,762</u> |
| | | No | No |
| Average full time equivalent number employed | | | |
| Finance and Corporate Services | | 11 | 15 |
| Customer Services | | 35 | 35 |
| Asset Management and Investment | | <u>13</u> | <u>12</u> |
| | | <u>59</u> | <u>62</u> |
| [b] Directors' emoluments | | | |
| The Directors are defined as the members of the Board, the Chief Executive and any other person reporting directly to the Chief Executive or the Board whose total emoluments excluding pension contributions exceed £60,000 per year. | | | |
| | | £ | £ |
| Aggregate Emoluments payable to Directors (excluding pension contributions but including benefits in kind) | | <u>290,106</u> | <u>353,739</u> |
| Pension Contributions payable on behalf of Directors | | <u>25,978</u> | <u>28,700</u> |
| Emoluments payable to Highest Paid Director (excluding pension contributions) | | <u>85,758</u> | <u>81,666</u> |
| Albyn's contribution to the pension scheme for this director is £7,740 (2013 - £7,514) | | | |
| Other Directors excluding pension contributions | Salary Bands | No | No |
| | 60,001 70,000 | 3 | 4 |
| No member of the Board received any emoluments in respect of their services to the Society. Expenses paid to Board Members totalled £9,718 (2013 - £6,567). | | | |
| 8 Interest receivable and other income | | 2014 | 2013 |
| | | £000's | £000's |
| Interest receivable from banks | | <u>16</u> | <u>17</u> |

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

9 Interest payable and other charges

| | | |
|---|--------------|--------------|
| Banks and Building Society loans | 1,569 | 1,592 |
| Interest Capitalised as part of Development Costs | 200 | 137 |
| | <u>1,769</u> | <u>1,729</u> |

10 Exceptional Loss

| | | |
|--|--------------|-----------|
| Increase in provision for Past Service Deficit on defined benefit pension fund [see note 12] | <u>3,132</u> | <u>58</u> |
|--|--------------|-----------|

11 Corporation Tax

Albyn was recognised as a Charity on 18 March 1997. Albyn does not undertake any activities outwith those associated with its charitable activities. Albyn has no liability to Corporation Tax.

12 Prior Period Adjustment

Until 31 March 2014 the Society participated in the centralised Scottish Housing Associations' defined benefit pension scheme. Both the existing Financial Reporting Standard 12 and the future Financial Reporting Standard 102 require a provision to be recognised when:

- (a) an entity has an obligation at the reporting date as a result of a past event;
- (b) it is probable that the entity will be required to transfer economic benefits in settlement; and
- (c) the amount of the obligation can be estimated reliably.

In December 2010 The Pensions Trust advised the Society of the future annual contributions payable in order to reduce the Past Service Deficit attributable to the Society over the next eleven years and this amount was disclosed as a Contingent Liability in the accounts of the Society for the year ended 31 March 2013.

A detailed actuarial review of the pension fund was completed during the course of the year ended 31 March 2014 and the Pensions Trust formally advised the Society of its future liability for the past service deficit. A revised contribution has been calculated in order to reduce the Society's share of the deficit to £ nil over a period of thirteen years and six months from 1 April 2014.

With effect from 1 April 2014 the Society has closed the defined benefit option to all employees and now offers only the defined contribution option.

The previously notified liability is now considered to meet the recognition criteria set out above and so the Board of the Society has agreed that the liability should have been reflected in 2013 and therefore will be reflected in the Balance Sheet of the Society as a prior period adjustment. The results for the year ended 31 March 2013 have therefore been restated to reflect the value of the estimated liability as at that date, and the balance of the provision advised in March 2014 has been recognised. Both adjustments have been treated as an Exceptional Loss [refer note 10].

The effect of this change on the comparative year's figures in the Income and Expenditure Account for 2013 has been to:

| | |
|-------------------------------------|--------------|
| Increase exceptional loss | <u>2,011</u> |
| Decrease in the surplus of the year | <u>2,011</u> |

In addition the effect on the Balance Sheet has been to:

| | |
|------------------------------------|--------------|
| Increase provisions | <u>2,011</u> |
| Decrease in net assets of the year | <u>2,011</u> |

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

13 Fixed Assets - Housing Property

| | Housing Properties | | | Total £000's |
|----------------------------------|--------------------------------|-------------------------------|---------------------------------|-----------------|
| | Rented Occupation £000's | Shared Ownership £000's | Under Construction £000's | |
| Cost | | | | |
| 1 April 2013 | 200,959 | 6,005 | 12,898 | 219,862 |
| Additions | 193 | - | 4,567 | 4,760 |
| Transfers | 10,314 | - | (10,314) | - |
| Disposals | (229) | (450) | - | (679) |
| 31 March 2014 | <u>211,237</u> | <u>5,555</u> | <u>7,151</u> | <u>223,943</u> |
| Depreciation | | | | |
| 1 April 2013 | 13,346 | 202 | - | 13,548 |
| Charge for year | 1,956 | 13 | - | 1,969 |
| Disposals | (140) | (8) | - | (148) |
| 31 March 2014 | <u>15,162</u> | <u>207</u> | <u>-</u> | <u>15,369</u> |
| Housing Association Grant | | | | |
| 1 April 2013 | 125,606 | 4,429 | 6,248 | 136,283 |
| Additions | - | - | 1,570 | 1,570 |
| Transfers | 4,058 | - | (4,058) | - |
| Disposals | (29) | (274) | - | (303) |
| 31 March 2014 | <u>129,635</u> | <u>4,155</u> | <u>3,760</u> | <u>137,550</u> |
| Other Grants | | | | |
| 1 April 2013 | 9,054 | 21 | 141 | 9,216 |
| Additions | - | - | - | - |
| Transfers | 40 | - | (40) | - |
| Disposals | (1) | - | (96) | (97) |
| 31 March 2014 | <u>9,093</u> | <u>21</u> | <u>5</u> | <u>9,119</u> |
| Net Book Value | | | | |
| 31 March 2014 | <u>57,347</u> | <u>1,172</u> | <u>3,386</u> | <u>61,905</u> |
| 31 March 2013 | <u>52,953</u> | <u>1,353</u> | <u>6,509</u> | <u>60,815</u> |

No properties are held under lease.

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

13 Fixed Assets - Housing Property (continued)

| | 2014 £000's | 2013 £000's |
|--|----------------|----------------|
| Total cost of development administration | (1,080) | (773) |
| Development income from third parties | 185 | 168 |
| Development administration capitalised | 315 | 265 |
| Deficit on development administration | <u>(580)</u> | <u>(340)</u> |
| HAG received against this expenditure | <u>275</u> | <u>265</u> |
| Interest capitalised | <u>200</u> | <u>137</u> |

As at 1 April 2010, valuations were obtained from external valuers DTZ Pidea Consulting on the basis of Existing Use Value - Social Housing (EUV - SH). This valuation was undertaken in accordance with the RIC Statement of Assets Practice and Guidance Notes. In determining the valuation, the valuers made use of discounted cash flow methodology and key assumptions were made concerning the level of future rents, the rate of turnover of existing tenants, the level of further right to buy and shared ownership equity sales and the discount rate. The assumed discount rate was 6.5%. These valuations have been undertaken on a consistent basis to that undertaken previously. Properties developed since April 2010 have not been included in the valuation.

The valuation has not been incorporated in the financial statements.

Albyn would not be able to sell its properties at these values without repaying HAG from the proceeds of the sale. At 31 March 2014 total HAG received in respect of these properties amounted to £113 million.

The amount of the valuation is:

| | Valuation £000's | Net Book Value £000's | Uplift of Value £000's |
|----------|---------------------|-----------------------------|------------------------------|
| EUV - SH | <u>61,572</u> | <u>45,578</u> | <u>15,994</u> |

14 Investments

| | 2014 £000's | 2013 £000's |
|---|----------------|----------------|
| Homestake Loans made to the Homestake Owner | 2,537 | 3,307 |
| Homestake Grants | (2,537) | (3,307) |
| | <u>-</u> | <u>-</u> |

These amounts represent the amount granted to the Homestake owner and the corresponding grant Albyn has received from the Scottish Government and the Highland Council. Albyn is responsible for the administration of these grants.

ALBYN HOUSING SOCIETY LIMITED

Notes to the Financial Statements

31 March 2014

15 Fixed Assets

Other Fixed Assets

| | Office £000's | Equipment £000's | Total £000's |
|-----------------------|------------------|---------------------|-----------------|
| Cost | | | |
| 1 April 2013 | 2,391 | 549 | 2,940 |
| Additions | 9 | 22 | 31 |
| Disposals | - | - | - |
| 31 March 2014 | <u>2,400</u> | <u>571</u> | <u>2,971</u> |
| Grant | | | |
| 1 April 2013 | 75 | - | 75 |
| Additions | - | - | - |
| Disposals | - | - | - |
| 31 March 2014 | <u>75</u> | <u>-</u> | <u>75</u> |
| Depreciation | | | |
| 1 April 2013 | 328 | 346 | 674 |
| Charge | 4 | 66 | 70 |
| Disposals | - | - | - |
| 31 March 2014 | <u>332</u> | <u>412</u> | <u>744</u> |
| Net Book Value | | | |
| 31 March 2014 | <u>1,993</u> | <u>159</u> | <u>2,152</u> |
| 31 March 2013 | <u>1,988</u> | <u>203</u> | <u>2,191</u> |

16 Stock - LIFT Properties in Development

| | 2014 £000's | 2013 £000's |
|--------------------------------------|----------------|----------------|
| Cost of developing properties | 3,026 | 5,114 |
| Grant received to develop properties | (2,333) | (3,133) |
| | <u>693</u> | <u>1,981</u> |

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| 17 Debtors | 2014 £000's | 2013 £000's |
|--------------------------------|----------------|----------------|
| Rent in Arrears | 1,098 | 1,072 |
| less Bad debt provision | <u>(430)</u> | <u>(400)</u> |
| | 668 | 672 |
| Other debtors | 1,999 | 2,425 |
| Prepayments and accrued income | 269 | 279 |
| | <u>2,936</u> | <u>3,376</u> |

Included in other debtors is an amount of £693,000 (2013 - £615,000) relating to payments due from the Scottish Government. £693,000 (2013 - £615,000) relates to capital and £ nil (2013 - £ nil) to revenue activities.

Included in other debtors is £125,000 (2013 - £ 127,000) due from Albyn Enterprises Limited of which £122,000 (2013 - £125,000) is due after more than 1 year.

| 18 Creditors due within one year | 2014 £000's | 2013 £000's |
|---|----------------|----------------|
| Loans [see note 19] | 1,472 | 1,343 |
| Trade creditors | 1,628 | 1,079 |
| Other taxation and social security | 85 | 57 |
| Other creditors | 1,713 | 2,649 |
| Accruals and deferred income | 396 | 620 |
| | <u>5,294</u> | <u>5,748</u> |

Included in other creditors is an amount of £779,000 (2013 - £576,000) relating to payments due to the Scottish Government. £779,000 (2013 - £576,000) relates to capital and £ nil (2013 - £ nil) to revenue activities.

Included in other creditors is £130,000 (2013 - £ nil) due to Albyn Enterprises Limited.

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

The loans are secured by specific charges on Albyn's properties and the capital instalments are repayable over periods as indicated at varying rates of interest ranging from 0% to 5.47% (2013 - 0.0% to 5.47%).

| | | |
|-----------------------------|---------------|---------------|
| Loans | <u>53,343</u> | <u>52,149</u> |
| Analysis of loan repayments | | |
| In the next year | 1,472 | 1,343 |
| In the second year | 870 | 908 |
| In the third to fifth year | 2,675 | 2,813 |
| In more than five years | 49,798 | 48,428 |
| | <u>54,815</u> | <u>53,492</u> |

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| | | | |
|--|--|---------------------|-------------------------------|
| 20 Provisions for liabilities and charges | | 2014 £000's | 2013 £000's as restated |
| Pensions liability | | | |
| Past Service Deficit on defined benefit pension fund | | <u>5,201</u> | <u>2,069</u> |
| 1 April - as originally reported | | 2,069 | - |
| Prior Period Adjustment [note 12] | | - | 2,011 |
| 1 April - as restated | | <u>2,069</u> | <u>2,011</u> |
| Increase in provision in the year | | 3,132 | 58 |
| 31 March | | <u><u>5,201</u></u> | <u><u>2,069</u></u> |

| | | | | | |
|--|--|------------------|------------------|------------------|------------------|
| 21 Called up Share Capital | | 2014 | | 2013 | |
| | | No | £ | No | £ |
| Allocated, allotted, called up and fully paid Ordinary shares of £1 each | | | | | |
| 1 April 2013 | | 96 | 96 | 131 | 131 |
| Issue of share capital in year | | 5 | 5 | 10 | 10 |
| Cancelled shares | | <u>(23)</u> | <u>(23)</u> | <u>(45)</u> | <u>(45)</u> |
| 31 March 2014 | | <u><u>78</u></u> | <u><u>78</u></u> | <u><u>96</u></u> | <u><u>96</u></u> |

Each member of Albyn holds one share of £1 in Albyn. These shares carry no rights to dividend s or distributions on a winding up. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid thereon becomes the property of Albyn. Each member has a right to vote at a members' meeting.

| | | | |
|-----------------------------------|--|---------------------|-------------------------------|
| 22 Reserves | | 2014 £000's | 2013 £000's as restated |
| 31 March - as originally reported | | 9,945 | 11,171 |
| Prior Period Adjustment [note 12] | | - | (2,011) |
| 31 March - as restated | | <u>9,945</u> | <u>9,160</u> |
| (Deficit) / Surplus for the year | | (2,060) | 785 |
| 31 March | | <u><u>7,885</u></u> | <u><u>9,945</u></u> |

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23 Cashflow analysis

| Analysis of changes in Cash during the year | 2014 £000's | 2013 £000's |
|---|-----------------|-----------------|
| 1 April 2013 | (51,943) | (48,782) |
| Movement | 1,166 | (3,161) |
| 31 March | <u>(50,777)</u> | <u>(51,943)</u> |

Analysis of the balances of cash as shown in the balance sheet.

| | 2014 £000's | Change £000's | 2013 £000's |
|-----------------------|-----------------|------------------|-----------------|
| Bank and Cash in hand | 4,038 | 2,489 | 1,549 |
| Loans | (54,815) | (1,323) | (53,492) |
| | <u>(50,777)</u> | <u>1,166</u> | <u>(51,943)</u> |

Treasury Management

Albyn has an active treasury management function, which operates in accordance with the Treasury Policy approved by the Board. In this way Albyn manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held. At 31 March 2014 Albyn has a loan facility in place which is available to be drawn down. The amount available is £8m.

Albyn is self funding £693,000 (2013 - £1,981,000) which relates to Albyn's LIFT Activities.

Albyn, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2014 Albyn has a mix of fixed and variable rate finance, which it considers appropriate at this time.

24 Obligations under lease agreements

| | | 2014 £000's | 2013 £000's |
|--|----------------------------|----------------|----------------|
| The following payments are committed to be paid within one year: | | | |
| Land and Buildings | Expiring | | |
| | In the next year | - | 12 |
| | In the second year | - | - |
| | In the third to fifth year | 43 | 43 |
| | In more than five years | 2 | 2 |
| | | <u>45</u> | <u>57</u> |
| Other assets | Expiring | | |
| | In the next year | 62 | 5 |
| | In the second year | 5 | 57 |
| | In the third to fifth year | - | 16 |
| | In more than five years | - | - |
| | | <u>67</u> | <u>78</u> |

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25 Related Party Transactions

Board Members

A number of the Board of Albyn Housing Society Limited are also tenants of Albyn. All matters arising from their tenancies are dealt with under the laid down Policies and Procedures of Albyn which apply to all tenants.

Councillors

Ms M Smith is a councillor with the Highland Council. Any transactions with the Highland Council are made at arm's length, on normal commercial terms and Ms M Smith cannot use her position to her advantage.

Albyn Enterprises Limited

Albyn Enterprises Limited is a wholly owned subsidiary of Albyn Housing Society Limited, a company incorporated in Scotland. All of the directors of Albyn Enterprises Limited are Board Members of Albyn Housing Society Limited.

During the year Albyn Enterprises Limited made a Profit after Taxation of £35,000, accumulating reserves of £77,000.

During the year Albyn Enterprises Limited marketed and sold 17 Low Cost Initiative for First Time Buyers properties on behalf of Albyn Housing Society Limited and was paid £21,000 for its services (2013 - £44,000). Albyn Enterprises Limited also marketed 12 Shared Ownership properties for Albyn Housing Society Limited and was paid £6,000 for its services (2013 - £1,000).

In 2012, Albyn Housing Society Limited advanced a loan of £128,000 to Albyn Enterprises Limited to enable it to purchase photovoltaic units installed on certain properties owned by Albyn Housing Society Limited. The Loan will be repaid over 25 years funded by receipts of Feed in Tariffs from the Government.

The loan accrues interest at 5% per annum for the first 5 years and 3% over 3-month LIBOR thereafter. This debtor is included in other debtors in note 17.

At the year end Albyn Enterprises Limited owed Albyn Housing Society Limited £125,000 (2013 - £248,000), which is included in other debtors in note 17, and Albyn Housing Society Limited owed Albyn Enterprises Limited £130,000 (2013 - £ nil) which is included in other creditors in note 18.

| 26 Housing Stock | Tenanted | Managed on behalf of others | Shared Ownership | 2014 No | 2013 No |
|---|--------------|-----------------------------|------------------|--------------|--------------|
| The number of properties in management were as follows: | | | | | |
| 1 April 2013 | 2,715 | 26 | 175 | 2,916 | 2,812 |
| Additions during the year | 66 | - | - | 66 | 104 |
| Conversion from LIFT / Shared Ownership | 2 | - | (2) | - | 4 |
| Disposals | (1) | (4) | (6) | (11) | (4) |
| 31 March | <u>2,782</u> | <u>22</u> | <u>167</u> | <u>2,971</u> | <u>2,916</u> |

27 Capital Commitments

| | | |
|---------------------------------------|--------------|--------------|
| Expenditure contracted less certified | <u>4,461</u> | <u>6,280</u> |
|---------------------------------------|--------------|--------------|

All developments in progress have been approved by Scottish Government for payment of HAG. Albyn expects that the Scottish Government will finance most of the expenditure by HAG with the remaining expenditure being financed by loans from lenders.

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27 Pension Obligations – SFHA Defined Benefit Scheme

Until 31 March 2014 Albyn Housing Society Limited participated in the Scottish Housing Associations' Defined Benefit Pension Scheme ('the Scheme'). The Scheme is funded and is contracted-out of the State Pension scheme.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to an individual participating employer as the Scheme is a multi-employer arrangement where the assets are co-mingled for investment purposes, benefits are paid from the total Scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the Scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, so that the Scheme can meet its pension obligations as they fall due.

The last formal valuation of the Scheme was performed as at 30 September 2012 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £394 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £304 million, equivalent to a past service funding level of 56.4%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £470 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £272 million, equivalent to a past service funding level of 63%.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buy-out basis, i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

Albyn Housing Society Limited has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme based on the financial position of the Scheme as at 30 September 2013. As of this date the estimated employer debt for Albyn Housing Society Limited was £10,607,398.

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Albyn Housing Society Limited participates in the Scottish Housing Associations' Pension Scheme.

The Scheme is a multi-employer scheme. The Scheme is funded and the defined benefit options are contracted-out of the State Pension scheme.

The Scheme offers five benefit structures to employers, namely:

- Final salary with a 1/60th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate.
- Career average revalued earnings with a 1/70th accrual rate.
- Career average revalued earnings with a 1/80th accrual rate.
- Career average revalued earnings with a 1/120th accrual rate, contracted-in.
- Defined Contribution.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Until 31 March 2014 Albyn Housing Society Limited elected to operate the final salary with a 1/60th accrual rate benefit option for active members as at 31 March 2009 and the career average revalued earnings with a 1/60th accrual rate benefit option for new entrants from 1 April 2009. With effect from 1 April 2014 Albyn Housing Society Limited has closed the defined benefit option to all employees and now offers only the Defined Contribution option.

During the accounting period Albyn Housing Society Limited paid contributions at the rate of 19.0% to 20.0% of pensionable salaries. Member contributions varied between 8.5% and 9.6%.

As at the balance sheet date there were 51 active members of the Scheme employed by Albyn Housing Society Limited. The annual pensionable payroll in respect of these members was £1,642,664.

Albyn Housing Society Limited continues to offer membership of the Scheme to its employees.

The key valuation assumptions used to determine the assets and liabilities of the Scottish Housing Associations' Pension Scheme are:

| 2012 Valuation Assumptions | % p.a. |
|---|--------|
| Investment return pre retirement | 5.3 |
| Investment return post retirement - Non-pensioners | 3.4 |
| Investment return post retirement - Pensioners | 3.4 |
| Rate of salary increases | 4.1 |
| Rate of pension increases | |
| - Pension accrued pre 6 April 2005 in excess of GMP | 2.0 |
| - Pension accrued post 6 April 2005 (for leavers before 1 October 1993 pension increases are 5.0%) | 1.7 |
| Rate of price inflation | 2.6 |

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| Mortality Tables | |
|------------------|---|
| Non-pensioners | 44% of S1PMA (males) and S1PFA (females) projected using CMI_2011 with a long term improvement of 1.50% p.a. for males and 1.25% p.a. for females |
| Pensioners | 90% of S1PMA (males) and S1PFA (females) projected using CMI_2011 with a long term rate of improvement of 1.50% p.a. for males and 1.25% p.a. for females |

| Contribution Rates for Future Service (payable from 1 April 2014) | % |
|---|------|
| Final salary 1/60ths | 24.6 |
| Career average revalued earnings 1/60ths | 22.4 |
| Career average revalued earnings 1/70ths | 19.2 |
| Career average revalued earnings 1/80ths | 16.9 |
| Career average revalued earnings 1/120ths | 11.4 |

Additional deficit contributions are payable from 1 April 2014 and will increase by 3% per annum each 1 April thereafter. Liabilities as at 30 September 2012 have been used as the reference point for calculating the additional contributions required.

28 Pension Obligations – Pension Trust – Growth Plan

Albyn Housing Society Limited participates in the Pensions Trust's Growth Plan. The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension Plan.

Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

The rules of the Growth Plan allow for the declaration of bonuses and / or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses / investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The Trustee commissions an actuarial valuation of the Growth Plan every three years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Growth Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities, known as Technical Provisions.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne

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by the Member and the Member's Employer shall be determined by agreement between them. Such agreement shall require the Employer to pay part of such contributions and may provide that the Employer shall pay the whole of them.

Albyn Housing Society Limited paid no contributions to the Growth Plan during the accounting period. Members paid contributions at the rate of 5% during the accounting period. As at the balance sheet date there were 3 active members of the Plan employed by Albyn Housing Society Ltd. Albyn Housing Society Ltd continues to offer membership of the Plan to its employees. Albyn Housing Society Ltd has closed the Plan to new entrants.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Plan is a multi-employer scheme, where the assets are co-mingled for investment purposes, and benefits are paid out of the Plan's total assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The valuation results at 30 September 2011 were completed in 2012 and have been formalised. The valuation of the Plan was performed by a professionally qualified Actuary using the Projected Unit Method. The market value of the Plan's assets at the valuation date was £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a funding level of 84%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

| | % p.a. |
|--|--------|
| Rate of return pre retirement | 4.9 |
| Rate of return post retirement: | |
| Active/Deferred | 4.2 |
| Pensioners | 4.2 |
| Bonuses on accrued benefits | 0.0 |
| Inflation: Retail Prices Index (RPI) | 2.9 |
| Inflation: Consumer Prices Index (CPI) | 2.4 |

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into pre and post retirement investment return assumptions; such that there is a 60% expectation that the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next 10 years.

The Scheme Actuary has prepared a funding position update as at 30 September 2012. The market value of the Plan's assets at that date was £790 million and the Plan's Technical Provisions (i.e. past service liabilities) was £984 million. The update, therefore, revealed a shortfall of assets compared with the value of liabilities of £194 million, equivalent to a funding level of 80%.

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

The Pensions Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or

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recovery plan are inappropriate. For example, the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Plan liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Plan (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2011 valuation was forwarded to The Pensions Regulator on 2 October 2012, as is required by legislation.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Plan and The Pensions Act 2011 has more recently altered the definition of Series 3 of the Growth Plan so that a liability arises to employers from membership of any Series except Series 4. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buy-out basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Plan's liability attributable to employment with the leaving employer compared to the total amount of the Plan's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Plan liabilities, Plan investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

When an employer withdraws from a multi-employer defined benefit pension scheme which is in deficit, the employer is required by law to pay its share of the deficit, calculated on a statutory basis (known as the buy-out basis). The calculation basis that applies to the Growth Plan was amended due to a change in the definition of money purchase contained in the Pensions Act 2011 but the regulations that will determine exactly how the change will apply in practice are still awaited. As the law stands, it is not yet clear whether the statutory calculation should include or exclude Series 3 liabilities. However, based upon current advice, the most likely interpretation is that Series 3 liabilities will have to be included in the calculation of an employer's debt on withdrawal.

Owing to this situation, we have included 2 figures/calculations, namely:

- The cost of withdrawal if we include Series 3 liabilities in the calculation
- The cost of withdrawal if we exclude Series 3 liabilities from the calculation

If an employer withdraws from the Growth Plan prior to the implementation of the regulations, the debt will be calculated on both bases and we would request payment of the higher amount with any adjustment being made when the regulations are implemented.

Albyn Housing Society Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2012. As of this date the estimated employer debt for the Society was £72,930.