

**ARGYLL COMMUNITY HOUSING
ASSOCIATION LIMITED**

**Report of the Board of Management and
Financial Statements
for the year ended
31 March 2011**

Registration Particulars:

Scottish Housing Regulator

Registered Number: 360

Industrial and Provident Societies Act 1965

Registered Number: 2661R (S)

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

For the year ended 31 March 2011

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ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS

For the year ended 31 March 2011

The Board of Management

The Board of Management and the Executive Officers who held office during the year are as follows:

Board of Management Members

		Appointed	Resigned
Norman Beaton	Chair	27 May 2005	
Andy Birnie		27 May 2005	23 September 2010
Bill McIntyre	Vice Chair	27 May 2005	
Margaret MacGregor		27 May 2005	
George Farquhar		10 April 2008	
Alister MacIntyre		13 November 2008	23 September 2010
Marri Malloy		25 September 2007	
George Douglas		25 September 2007	
John Morris		11 September 2008	23 September 2010
Cecilia Keenan		23 September 2009	13 May 2010
Sandra Mackenzie		31 August 2009	
Ann Trotter		24 September 2009	
James Loughery		23 September 2009	
Betty Rhodick		23 September 2009	
Michael Brown		23 September 2010	
Lorraine-Anne Drysdale		23 September 2010	
Alexandra Glazsher		23 September 2010	
Ronald Finnighan		23 September 2010	10 February 2011
John Muir		23 September 2010	

Councillors:

Roddy McCuish	13 June 2007
Alister McAlister	13 June 2007
Al Reay	13 June 2007
Rory Colville	13 June 2007
Neil MacKay	11 September 2008

Executive Officers

Alastair MacGregor	Chief Executive
Nick Pollard	Director of Finance and IT
Christine Johnston	Director of Housing and Neighbourhood Services
Linda Haig	Director of Investment and Regeneration
Colette Benham	Director of Human Resources and Corporate Services

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS

For the year ended 31 March 2011

Registered Office: 63-65 Chalmers Street
Ardrishaig
Argyll
PA30 8DX

Auditors: Baker Tilly UK Audit LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Principal Bankers: Lloyds Banking Group
120 George Street
Edinburgh
EH2 4LH

Solicitors: Brechin Tindal Oatts
48 St. Vincent Street
Glasgow
G2 5HS

Internal Auditors: Scott Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD OF MANAGEMENT

For the year ended 31 March 2011

The Board of Management present their report and audited financial statements for the year ended 31 March 2011. The Association was incorporated on 27 May 2005 and it was registered as a Registered Social Landlord on 21 November 2006. These accounts represent the financial period 1 April 2010 to 31 March 2011.

Principal Activities

The principal activity of the Association is to provide and manage quality affordable housing accommodation for people in housing need across the Argyll and Bute region. The Association received 5,398 homes from Argyll and Bute Council as a result of the whole stock transfer on 21 November 2006. The Association owns and manages a range of housing for rent in primarily general needs accommodation, some sheltered accommodation and a small number of travelling people sites. It provides accommodation for the homeless through tenancies with Argyll and Bute Council.

Organisational Structure and How Decisions are Made

The Association operates under Rules registered under the Industrial and Provident Societies Act 1965 and is a Registered Social Landlord. Its organisational structure consists of a voluntary Board of Management which is supported by a Chief Executive, Senior Management Team and a range of specialist staff. Customer services are provided by four functional departments namely Housing and Neighbourhood Services, Investment and Regeneration Services, Human Resources and Corporate Services, and Finance & IT Services.

All Board members and staff operate within a set of standing orders, policies and financial regulations. Decisions relating to the Association's strategic objectives are taken at monthly Board of Management meetings whilst operational matters are dealt with by the staff Senior Management Team. The Association also has standing committees, which are the Finance and Audit Committee, Policy Committee and Health and Safety Committee which have delegated powers from the Board of Management regarding all finance matters, internal and external audit matters, policy approvals and health and safety issues.

The Association has four Area Committees who deal with operational matters locally. These Area committees are established along the following geographical areas.

- Oban Lorn and the Isles
- Mid Argyll and Kintyre
- Bute and Cowal
- Helensburgh and Lomond

The Association is seeking conversion to a charitable body during the financial year 2011/12 as a result of the impact of the adoption of component accounting on the Association's potential future taxation position.

Recruitment and Training of Board Members

Vacancies on the Board of Management are filled from members of the community, in accordance with the Rules of the Association, who have a commitment to the furtherance of social housing and the aims and objectives of the Association. Members are drawn from a wide range of backgrounds and experience to maintain the necessary mix of skills required to govern and control a complex organisation. All Board of Management Members receive initial induction training and then attend internal and external training events which not only build on existing experience but provide an opportunity to develop new skills.

The Association's Board of Management has five Argyll and Bute Council nominees on its Board.

Reserves

At the year end the Revenue reserves balance had moved to a deficit of £17.6 million including adjustments for the pension reserve. The Association is a whole stock transfer organisation and it plans to make deficits during its early years. There is a pension reserve equal to the deficit noted in liabilities on the pension scheme under the required FRS17 valuation at £1.275 million.

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For the year ended 31 March 2011

No transfers have been made to designated reserves this year. Designated reserves are resources internally generated from operations, which have been set aside to provide for planned cyclical repairs. The Association has no designated reserves owing to the continued losses being generated. The Association's business plan incorporated planned costs for cyclical repairs across the thirty year business plan. The borrowing profile therefore incorporates costs without relying upon a specific designated reserve. The Association has a revolving credit facility of £30 million and a fixed term loan facility of £30 million set aside as committed facilities with Lloyds Banking Group to fund the thirty year business plan.

The Association's thirty year business plan was submitted during the year, together with its long-term repair programme to the Scottish Housing Regulator to demonstrate projected compliance with the Scottish Housing Quality Standard (SHQS) by 2015. The achievement of this objective is an obligation to tenants and an objective for achievement written in to the transfer agreement that was signed by the Association, Argyll and Bute Council and the Scottish Government on 21 November 2006.

Rent Policy

The Association aims to house those in need in affordable rented housing. The objective is to charge affordable rents based on the rents that transferred as at 21 November 2006, with future rent increases guaranteed to tenants under the transfer agreement to be fixed to the Retail Prices Index (RPI) + 1% for a period of five years post transfer. In addition, there is an aim to limit rent increases to RPI + 1% for a further five years after the transfer guarantee has expired. The Association increased rents during the period by 3.4%, being made up of RPI (December 2009 Office of National Statistics) figure of 2.4% with the addition of 1%.

Risk Management

The Association has a Risk Management Strategy determined by its Board of Management based on the known risks. The Association has a risk management policy, which remains under review by the Senior Management Team. The internal audit needs assessment completed during the previous year determined the workflow of the Association's independent internal auditors. The internal audit service completed their review of all planned work during the period amounting to 28 pieces of completed work totalling 17 audit days. The outcomes of internal audit reviews were considered by officers and reported to the Finance and Audit Committee of the Association. During the year reviews of process and procedure were conducted in relation to rent increases, asset registers, committee information, rent ledger accounting, cost centre management and payroll. The Association has addressed all findings in the reports.

Treasury Management Policy

Under its Rules the Association cannot enter into transactions of a speculative nature however it can enter into interest rate hedging instruments which may be used to protect the Association from interest rate risk. The Association operates an active treasury management policy, which operates in accordance with a treasury strategy approved by the Finance and Audit Committee. The Association during the year considered its Treasury Management strategy in line with the approved policy and undertook three fixed forward borrowing rates with its bank Lloyds Banking Group. These fixings hedge forward the projected borrowings in a total amount of £17 million and were as follows. Please note however that no free standing derivatives are in place as a result of interest rate hedging activities.

Fixed Rate Hedging

	Value (£000's)	Term (years)	Rate
Tranche 1 commencing 31 March 2008	2,000	15	5.552%
Tranche 2 commencing 31 March 2009	10,000	20	5.242%
Tranche 3 commencing 31 March 2010	5,000	10	5.520%
Total	17,000		

The rates quoted exclude margins which are stepped throughout the period of the borrowings and do not include lender's capitalisation charges.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD OF MANAGEMENT

For the year ended 31 March 2011

In addition the Association has a £750k development loan for its new office premises in Oban which has a capital and interest repayment profile that is fixed throughout its 15 year life at 5.96% inclusive of lenders' margin and capitalisation charges. The outstanding balance of this loan as at 31 March 2011 is £718k.

The Association actively manages its surplus cash to minimise loan borrowings and/or earn interest on short term money market deposits. The Association does not borrow from any other institution than Lloyds Banking Group.

Maintenance Policies

The Association seeks to maintain its properties to the highest standards. To this end, programmes of cyclical repairs are carried out in the medium term to deal with the gradual and predictable deterioration of building components. It is expected that the cost of all of these repairs will be charged to the Income and Expenditure Account. In addition, the Association has a long-term programme of major repairs which have become necessary since the original developments were completed, including works required by subsequent legislative changes. This includes replacement or repairs to components of the properties, which have come to the end of their economic lives. The cost of these repairs is to be charged to the Income and Expenditure Account, unless it is agreed they can be capitalised within the terms outlined in the Statement of Recommended Practice (SORP).

Going Concern

The Board has considered the Association's going concern status in light of the current accumulated deficits and projected future cash flow deficits and is satisfied that it has sufficient borrowing facilities to meet those deficits and that the business plan demonstrates full repayment within the 30 year viability profile. In the view of the Board therefore the test of being considered a going concern has been met.

Creditor Payment Policy

The payment policy, which the Association follows, is to pay all purchases within 28 days, although some payments are settled in 14 days, and/or in accordance with creditor terms of business. The average creditor payment period for 2011 was 29 days against 35 days for the prior year.

Auditors

The Association is tendering for external audit services as contractual arrangements have come to an end. Baker Tilly UK Audit LLP has indicated its willingness to continue in office. A resolution for the appointment of external auditors will be proposed at the Annual General Meeting.

By order of the Board of Management

Norman Beaton
Chairman

Date 11th August 2011

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

For the year ended 31 March 2011

Statute requires the Board of Management to prepare financial statements for each financial year which give a true and fair view of the affairs of the Association and of the deficit for that period. In preparing those financial statements, the Board of Management is 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 the company will continue in business.

The Board of Management confirms that the financial statements comply with these requirements.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association 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 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Management members have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Board members has confirmed that they have taken all the steps that they ought to have taken as Board members in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

By order of the Board of Management

Norman Beaton
Chairman

Date 11th August 2011

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

Background

Argyll Community Housing ACHA Limited (ACHA) is a not-for-profit organisation. It is constituted as an Industrial and Provident Society incorporated under the Industrial and Provident Societies Act 1965 (Registered Number 2661R(S)) and is registered with the Financial Services Authority (FSA). ACHA is also registered with the Scottish Housing Regulator as a Registered Social Landlord (RSL) No. 360.

ACHA took ownership of the 5,398 homes transferred from Argyll and Bute Council on 21 November 2006 and now has 5,115 homes as a result of both right to buy sales and new development.

The emphasis of ACHAs' activities is the provision of quality housing at affordable rents, with tenants and communities being involved at each stage in this provision: to this end the Board of Management of ACHA comprises tenants, Council representatives and independent representatives of the wider community.

As well as including tenants in the governance structure, there are detailed mechanisms for consultation and opinion seeking.

In addition to proposals to improve the current housing stock as a result of stock transfer, ACHA is committed to regenerating communities through the development of new housing stock. In terms of services, ACHA aims to deliver a high quality service to all customers. ACHA's staff and office structure is organised with this aim in mind and there is a comprehensive staff training and development programme to support this approach.

While ACHA's primary purpose is to improve and maintain the housing stock, ACHA's Business Plan is about more than 'bricks and mortar'. It contains proposals to link housing investment and service to wider community needs. It is additionally intended that the economic regeneration of communities will be encouraged and facilitated, with local benefit in terms of employment and career opportunities.

The Business Plan is also about partnership, as ACHA cannot work in isolation from the strategic priorities of Argyll and Bute Council and other organisations in the region. To this end, ACHA is committed to working with Argyll and Bute Council, other local housing associations and statutory and voluntary agencies.

ACHA therefore aims to improve the quality of life of the residents of Argyll and Bute. One of its main purposes is to provide quality houses where people want to live. It intends to achieve this through the delivery of a considerable investment programme, together with the empowerment of staff to deliver excellent services that are tenant-focussed.

Review of the year's operations

Governance

ACHA has a Board of Management which has places for members as follows:

- Ten Tenants
- Five Council nominees
- Five Independent Members

During the year the Board of Management had five joiners and five leavers and although efforts were made to recruit new members ACHA had one vacancy on the Board of Management at the year end.

The underlying principles of good governance and organisational structure in ACHA are to keep the organisation as manageable and flexible as possible. This allows ACHA to achieve its objectives of tenant-empowerment, devolution of power and decision-making across the communities of Argyll and Bute, thus developing the range of activities that will meet the wider needs of the Argyll and Bute community and provide the highest quality of service to tenants and other customers. ACHA also takes the view that good governance and organisational structures should be organic rather than static. ACHA will therefore regularly review these structures to ensure that they evolve as ACHA evolves itself.

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The Board of Management undertook a review of operations in February 2010 to evaluate the risk management strategy for ACHA for the forthcoming year and this was further formally reviewed in February 2011.

The Board of Management has delegated powers to the Finance and Audit Committee to consider financial aspects of the business. The Finance and Audit Committee's remit included all aspects of financial operations, such as cash flow and treasury management practices, all aspects of audit compliance and internal controls assurance, budgetary and management account performance and contract tendering.

The Board of Management has also established a Policy Committee which has delegated powers to consider the approval of the Association's operating policies thus enabling the Board of Management meetings to focus on strategic matters.

The Board has also established a Health and Safety Committee in recognition of the key strategic importance of health and safety compliance.

Operationally ACHA is divided in to four functional areas:

- Finance and IT
- Housing and Neighbourhood Services
- Human Resources and Corporate Services
- Investment and Regeneration

Housing and Neighbourhood Services is sub divided geographically into the areas of:

- Bute and Cowal
- Helensburgh and Lomond
- Mid Argyll and Kintyre
- Oban Lorn and the Isles

Housing Stock and Other assets

At the start of the financial year, 1 April 2010 ACHA owned 5,091 homes. As a result of the right to buy ACHA sold 35 homes and at financial year end it had also completed 59 new homes for rent and therefore at 31 March 2011, it owned 5,115 homes.

The expected number of house sales under right to buy was less than was originally anticipated in our business plan. This was primarily due to the global economic circumstances prevailing during the period. This resulted in lower than forecast sales receipts as a result of right to buy but higher than expected rental income during the period.

The housing stock at 31 March 2011 by type is broken down as follows:

<u>Rentable Stock</u>	<u>2011</u>	<u>2010</u>
General Needs Houses	4,908	4,886
Sheltered Housing	<u>207</u>	<u>205</u>
	<u>5,115</u>	<u>5,091</u>

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

The housing stock at 31 March 2011 is broken down by geographical area as follows:

<u>Houses</u>	<u>2011</u>	<u>2010</u>
Bute	511	513
Cowal	903	905
Helensburgh and Lomond	1,013	1,023
Islay	333	331
Kintyre	853	829
Lorn and the Isles	908	910
Mid Argyll	594	580
	<u>5,115</u>	<u>5,091</u>

Sheltered housing

ACHA's sheltered housing stock is located in eleven complexes across Argyll and Bute:

<u>Sheltered Housing stock</u>	<u>2011</u>	<u>2010</u>
Bute	34	34
Cowal	43	42
Helensburgh and Lomond	-	-
Islay	10	10
Kintyre	-	-
Lorn and the Isles	64	64
Mid Argyll	56	55
	<u>207</u>	<u>205</u>

The Care Commission inspected ACHA in terms of its services and facilities for Sheltered Housing during the period and awarded ACHA a grade 5 which is deemed to be "very good".

Other assets

In addition, ACHA owns other assets as a result of the stock transfer. These include a number of garages and garage sites which are let primarily to tenants but also owners who have bought under the right to buy. The garages are let at nominal rentals which reflect the condition and level of repairs carried out to the garages. The implementation of a garage clearance and rationalisation strategy during the financial year saw a number of void and particularly poor condition garages demolished. The existing cleared sites are retained by ACHA and may be used at a future date for development or alternate purposes such as car parking. The existing garage sites will be re-let on a more sustainable rent and repair terms in future.

<u>Rentable Stock</u>	<u>2011</u>	<u>2010</u>
Garages	101	208
Garage sites	132	134
	<u>233</u>	<u>342</u>

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For the year ended 31 March 2011

Garages

	Garages 2011	Garages 2010
Bute	8	8
Cowal	10	19
Helensburgh and Lomond	83	181
Islay	-	-
Kintyre	-	-
Lorn and the Isles	-	-
Mid Argyll	-	-
	<u>101</u>	<u>208</u>

Garage Sites

	Garage sites 2011	Garage sites 2010
Bute	-	-
Cowal	13	13
Helensburgh and Lomond	-	-
Islay	-	-
Kintyre	48	48
Lorn and the Isles	46	48
Mid Argyll	25	25
	<u>132</u>	<u>134</u>

ACHA also owns and operates lettings at three travelling people sites:

<u>Travelling People sites</u>	<u>2011</u>
Dunoon, Torlochan	10
Lochgilphead, Dunchologan	14
Oban, Ledaig	8
	<u>32</u>

The Oban and Lochgilphead sites were improved just prior to transfer. During the year the Dunoon site remained partially closed whilst £260,000 of much needed improvements works were undertaken to the site supported by Scottish Government grant.

ACHA owns, or has a direct interest in, the following other assets:

<u>Non-Rentable Stock</u>	<u>2011</u>
Play areas	33
Private water supplies	12
Private sewage systems	36
Offices	2
	<u>83</u>

These elements give rise to maintenance obligations but do not attract any rental income stream. The Association has received grant funding for the initial maintenance of these related assets.

The Association has recently established 8 allotment sites within its Campbeltown development with plots being let at an economic rent.

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For the year ended 31 March 2011

ACHA owns four small shop units in Helensburgh; however 2 of these are let under a peppercorn lease to a local charitable furniture recycling organisation, Beacon Trust.

ACHA owns its registered office in Ardrishaig at 63-65 Chalmers Street and its office at Menzies House in Oban.

The right to buy resulted in 35 homes being sold during the year. ACHA received more applications however many did not progress to conclusion. We are of the view that the general economic and borrowing climate was not conducive for tenants to buy their own homes as mortgage finance availability became more difficult to obtain for low income earners. ACHA recognises our tenant's right to buy their own home but the loss of affordable housing stock in some of our most remote and small communities can cause major housing issues locally.

ACHA is seeking, in partnership with the other local registered social landlords and Argyll and Bute Council, to obtain Pressurised Area status for parts of our stock. If granted this will mean that a moratorium of five years will be placed on the right to buy for new tenancies.

The Housing (Scotland) Bill 2010 progressed through the Scottish Parliament and was given Royal Assent in December 2010. The Act aims to further restrict the right to buy on new build stock and we anticipate that this will further reduce the loss of precious affordable housing stock.

The Association was subject to its first regulatory inspection by the Scottish Housing Regulator during 2009/10 which was a significant undertaking. The inspection identified that, "ACHA is a relatively young organisation that was formed to receive houses transferred from Argyll and Bute Council. It faces a range of challenges and has worked well to improve most of its services over a relatively short period of time" and "The Association has made good progress on most of the commitments it made to its tenants and has strengths including estate management, access to its housing list, financial reporting and it is building good quality new houses". ACHA received a "fair" rating from its regulator as a result of the inspection process and following that its regulatory plan engagement level has been amended from "High" to "Medium".

ACHA increased its rents for all stock by RPI plus 1% at the start of the financial year which is in line with the rental guarantee given to tenants. The nominal increase for the year was therefore 3.4% based on December 2009 RPI data. The average rent across all stock in the current year rose to £58.34. The 2011/12 financial year rent increase is RPI+1% or 5.8%, with RPI being 4.8%.

During the year ACHA had 59 new lettings and 422 relets. These 479 properties were let to the following waiting list categories:

Statutory Homeless	195 (40.7%)
Direct Waiting List	174 (36.3%)
Transfer Waiting List	110 (23.0%)

As at 31st March 2011 the common housing register HOMEArgyll had 3,888 applicants on its list.

ACHA has a number of properties, which are classed as low demand and therefore, have been unable to re-let. ACHA is working on a strategy to improve these properties where letting has not been possible. In Campbeltown a strategy for their future regeneration is well underway. A tailored approach strategy is also being developed for the Bute area.

ACHA at financial year end had 62 properties void (excluding properties awaiting regeneration). ACHA's average time taken to let a property is 23 days against its target of 31 days for non-low demand properties and 136 days against a target of 49 days for properties classed as low demand or difficult to let. These timescales are an improvement of the previous year figure of 58 days.

ACHA had a void loss figure of £309k or 2.06% of all rental income, including garages, for the year. The void rent loss for houses alone was equivalent to circa 1.97% of rent. It is anticipated that our strategies to deal with difficult to let or low demand properties along with a major refurbishment programme will reduce void loss over the coming year.

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ACHA's new garage strategy of demolition and revised rental is designed to arrest the void performance of garage lettings whilst balancing costs of maintenance and improvement. This will complete during the year 2011/12 and the benefits of that strategy should be evident in future years.

ACHA received approximately 56.51% of its total income from housing benefit payments in comparison with 2009/10 where 51.20% of all of its rental income from housing benefit payments direct from the Local Authority. ACHA has 37.50% of its tenants in receipt of full housing benefit and 13.21% who receive partial housing benefit payments.

Housing & Neighbourhood Services

ACHA provides services to tenants, owners and other customers from a network of 9 local offices located throughout Argyll & Bute. Through partnership working, with other local Registered Social Landlords, we have developed improved services to tenants in island and rural communities. From an original business plan commitment, ACHA's Board has approved the development of a Customer Service Centre and training is underway to deliver this. This centre will give customers a single point of quality information on the full range of services offered by the Association.

Our services are developed by taking into account the views of and comments from our service users. We carry out consultation as a matter of course on a wide range of services and have recently developed a strategy on customer contact and feedback which further develops our commitment to consultation, involvement and our continuous improvement agenda. Membership of the Tenants Panel has been opened up to tenants who are on the Tenants Consultation Register and Panel minutes are now available on ACHA's website. The results from the Tenant Satisfaction Survey carried out in early 2010 have been collated and have informed an Action Plan which will assist in improving services. ACHA's commitment to consultation has been reinforced by the use of on-line surveys and also an exercise to request permission from tenants with email addresses, to enable us to conduct electronic surveys with them. Consultation exercises have taken place with tenants on the proposed rent increase and the review of grounds maintenance using these new methods alongside the more traditional methods.

Performance is monitored via key performance indicators and, where appropriate, local performance measurements. These are primarily based upon the Annual Performance and Statistical Return indicators. Our Board and four Area Committees are routinely provided with a suite of performance reports.

ACHA operates a Common Housing Register, HOMEArgyll, in partnership with three other local Registered Social Landlords and Argyll and Bute Council. The partners have been working on updating and improving the HOME Argyll website, procedural improvements, consultation methodology and development of a stakeholders meeting.

Our repairs service is operated by a mix of in house teams and private contractors. We are now able to offer a 'repairs by appointment' service across all of our operating area. Performance and customer satisfaction is closely monitored. Tenants using our repairs service are asked to provide feedback by a number of methods i.e. repairs satisfaction cards, post inspection and telephone call backs.

As a collaborative 'wider role' project ACHA obtained grant funding to deliver a new service to tenants. The Financial Inclusion Services in Housing (FISH) Argyll project has employed a team of four Welfare Rights Officers who assist not only ACHA tenants with benefit advice but also, tenants of West Highland Housing Association and Dunbritton Housing Association. This project has achieved significant outturns in terms of improved take up of benefits, advocacy and referral to other advice agencies. It is hoped to extend the period of this project and to develop other financial inclusion projects through grant funding. Alongside the financial inclusion work ACHA has led another collaborative Wider Role project to deliver fuel poverty help to tenants. The HEAT Argyll project is planned to continue during 2011/12.

While ACHA was developing plans to build new affordable housing in Campbeltown plans were drawn up to create allotment spaces for tenants to enable the production of organic and low cost produce.

ACHA's current rent arrears performance based on the Annual Performance and Statistical Return data remains consistent against the prior year.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

ACHA has a locally managed, case led approach to arrears and legal action and aims to minimise actions and ultimately evictions. The main emphasis is on early intervention in arrears cases with the first written contact over unpaid rent being at two weeks, and personal contact beginning at three weeks unpaid rent. At all stages of the process the most important strand of the strategy is making contact with our tenants to offer advice and assistance where possible.

The advent of the FISH project has meant that Welfare Rights advice has been embedded into rent arrears processes. Tenant contact forms now provide a prompt for staff to make referrals, and referrals across the organisation are monitored on a regular basis. Any member of staff, be they trades or housing management, can make a referral to Welfare Rights for a tenant who requires assistance.

Current tenant rent arrears	£	Percentage of rent charged
Bute	30,490	1.88%
Cowal	65,668	2.21%
Helensburgh and Lomond	44,980	1.41%
Mid Argyll	19,835	1.00%
Kintyre	42,730	1.59%
Oban Lorn and the Isles	45,259	1.53%
Islay	7,430	0.71%
Total current tenant arrears	256,392	1.56%

The Association's current rent arrears target is 2.5%.

ACHA's former tenant arrears for the financial year were £344k for 2010/11 which equates to approximately 2.27% of net rent charged during the year. Of that amount £4k was written off during the year as non-recoverable. ACHA has provided for current tenant debt based on its approved accounting policy. ACHA did however recover £20k of former tenant debt due during the financial year.

ACHA is actively working to resolve the outstanding former tenant arrears and recover where possible in accordance with its policies.

In respect of anti-social behaviour ACHA received 368 complaints during the year as against last year's number of complaints which was 389, a reduction of just over 5%. ACHA issued 13 notices of proceedings in respect of antisocial behaviour which resulted in 3 evictions and applied two Anti-Social Behaviour Orders. This demonstrates ACHA's continued strong stance on nuisance neighbours and anti-social behaviour is being delivered.

ACHA sought to commence legal action to recover houses, on the grounds of rent arrears, from our tenants in 171 cases which was 40% higher than in 2009/10. Of that figure ACHA proceeded to court and was granted decree to evict 20 tenants from our properties, which is 41% lower than the previous year. This reduction in eviction for rent arrears reflects the proactive work carried out by staff to assist tenants who find themselves in financial difficulties.

ACHA completed 18,462 emergency, urgent and routine responsive repairs during the financial year; this is an increase of 12.23% on the previous years completed responsive repairs. The breakdown of these repairs is as follows:

Repairs	2011	Repairs completed on target	Percentage	Target Percentage
Emergency Repairs (2 hours complete within 24 hours)	6,145	6,007	97.75%	99.00%
Urgent Repairs (5 days)	6,363	6,276	98.63%	96.00%
Routine Repairs (20 days)	5,954	5,913	99.31%	96.00%

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

The Association did not meet its emergency repairs target as it operates in a number of remote and island communities where it cannot engage contractors that will agree to contractual arrangements to meet emergency repairs timelines and therefore has to operate on a day rate basis. ACHA operates repairs by appointment with the Term Contractors and in areas in which it has its own in house repairs team and the appointments performance for the year was as follows:

Repairs appointments	2011	2010	2009	2008
No. appointments made	8,888	9,533	8,133	5,693
No. of appointments kept	8,865	9,510	8,107	3,354
Percentage	99.83%	99.76%	99.68%	58.91%

The Association has a 100% target for repairs appointments made and kept.

ACHA issued 12,734 repair satisfaction cards to its tenants regarding repairs and received 3,128 in return amounting to a 25 % return rate compared to 27% the previous year.

In addition ACHA contacted more than 1,848, tenants by phone to ascertain the quality of the service provided and sent 1,469, post inspection surveys.

ACHA carried out 4,250 pre inspections of repair works equating to 23% of the repairs undertaken. ACHA also carried out 3,330 post inspections equating to 18% of repairs undertaken.

Repairs satisfaction returns totalled 6,280 and of that number 6,127 were satisfied or 97.6% were satisfied with the works carried out.

The Association's budgeted cyclical and planned maintenance spend for the year was 14% higher than the previous year but outturn was significantly lower than forecast owing to difficulties principally with pre painter works and owners agreement where common ownership occurred.

Human Resources and Corporate Services

Is a central support department responsible for providing all HR services, as well as training and development, which is also responsible for administration, committee secretariat, compliance and facilities management.

The underlying principles of good governance and organisational structures in ACHA are to keep the organisation as manageable and flexible as possible. This will allow ACHA to achieve its objectives of tenant-empowerment, devolution of power and decision-making across the communities of Argyll and Bute, thus developing the range of activities that will meet the wider needs of the Argyll and Bute community and provide the highest quality of service to tenants and other customers.

ACHA's Rules are based on the Model Rules for a Federal Structure (October 2001) issued by the Scottish Federation of Housing Association's (SFHA), and are undergoing partial rule amendments, in consideration of a Group Structure and Charitable Status change, subject to member agreement in September 2011.

The organisation is developing the depth and detail of data required in terms of management information to assist at all levels.

The department has managed the internal audit process during the year resulting in a completed internal audit needs plan. No major risk issues were highlighted during the year by the internal audit services. ACHA is developing further the next cycle of its internal audit needs plan and has established a plan of work for the following year.

ACHA has Scott Moncrieff as Internal Auditors they have completed an audit needs assessment and carried out further internal audit work reporting directly to ACHA's Finance and Audit Committee. The audit needs assessment plans allowed for substantial testing of policies, procedures and processes during the following year. Both internal and external audit services are being retendered again for 2012 onwards.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

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ACHA has established a risk management policy and has carried out a full organisation wide risk register, in conjunction with the Board strategic planning event and internal audit findings and results. Risk management training has been delivered to managers by Zurich Municipal who are the Association's current insurer.

ACHA has set up a Health and Safety Committee to monitor and control Health and Safety, with quarterly reviews in place and with a full round of annual risk assessments.

ACHA has entered into lease arrangements with the Council for office accommodation in various locations and will be determining changes required where accommodation does not meet our long term needs. 6 monthly service reviews are in place to ensure lease agreements are maintained.

ACHA is committed to a high standard of training and development for Governing Body members (both Board and Area Committee members), and for staff of ACHA.

ACHA's Human Resources and Corporate Services Director is responsible for reviewing ACHA's training strategy annually and for reporting recommendations on changes and further developments to the Management Board.

The department has a Training and Development post, responsible for co-ordinating training and development programmes for staff and Board Members. This also involves co-ordinating a regular training needs assessment and an annual training and development plan.

ACHA is committed to being an equal opportunities employer and welcomes recruitment applications from all sectors of the community. Our policies have been developed in line with good practice and current legislation.

ACHA has a number of communication channels to inform and consult with our employees, which include regular monthly email updates, quarterly Chief Executive "Road shows" and a full staff conference every 2 years.

The department supported the 192 staff in terms of all human resources aspects. The staffing complement is broken down as follows:

Staffing breakdown	2011	Percentage
Office staff	146	76%
Support staff	25	13%
Trades staff	21	11%

During the year ACHA recruited for 24 posts. The department processed 370 applications for those posts providing interviews and selection services to recruiting departments.

During the year ACHA carried out 2 smaller staff surveys which were used to drill down identified areas of strength and weakness. A Health Needs Assessment and Work Tool Indicator were used for this purpose. This supported both the implementation of wellbeing and performance policies, and Health Working Lives initiatives. ACHA's staff satisfaction with their employer has significantly improved year on year as follows:

Satisfaction with employer	2011	2010	2009
Satisfied	85%	82%	62%
Neutral	11%	15%	29%
Dissatisfied	4%	3%	9%

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

ACHA's staff ethnicity is made up as follows:

	2011	Percentage	2010	Percentage
Scottish	160	83.33%	152	82.16%
Other British	24	12.50%	25	13.51%
Irish	3	1.56%	2	1.08%
Any other white background	4	2.08%	4	2.17%
Mixed	1	0.53%	2	1.08%

ACHA has 12 members of staff who consider they have a disability or 6.25% of staff.

ACHA has 121 female staff and 71 male staff.

ACHA received 17 formal complaints through its Staged complaints policy during the year, and 6 appeals.

There were 27 reported health and safety incidents during the year, 10 personal injuries, 11 vehicle incidents and 6 incidents of verbal or physical abuse against staff members.

ACHA carried out 66 Health and safety risk assessments during the year which was in excess of planned numbers.

ACHA currently has 283 members and has been actively recruiting via newsletters and other media.

The department supported the monthly Board of Management meetings and the four area committees in their bi-monthly meetings.

ACHA actively engages with its union and non-union membership. ACHA communicates via a regular monthly newsletter with its staff and other less formal mechanisms.

ACHA projects no significant increase in staffing numbers in future years.

Investment and Regeneration

The Investment and Regeneration department has had another challenging year delivering the main programme of works and the repairs to the existing homes to bring them up to the Scottish Housing Quality Standard (SHQS) by 2015 as per the transfer commitments.

In September 2010 a key contractor to ACHA, Connaught plc was placed in Administration. The department was key in evaluating the impact and negotiating the termination and novation of existing contracts to new owner Lovell. There was no loss of funds as a result of Connaught's collapse but its demise impacted on the planned programme delivery of their work.

ACHA has delivered the following elements of work during the period:

Investment programme	Outturn	Planned	Percentage
No of kitchen/bathrooms completions - Units	2,078	2,139	97%
No of window/door completions - Units	732	664	110%
No of heating/rewire completions - Units	94	600	16%
No of roof/roughcast completions - Units	112	138	81%

ACHA has undertaken an EU procurement process for the new contracts for heating and rewire. The contracts are in the survey stage and completions will follow in 2011/12.

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The total number of elements required for completion this year of all types was 3,541. ACHA delivered 3,016 elements equating to 85% of the targeted objective. Owing to the mix of elements replaced differing against the planned targets expenditure was down 27% against budget forecast overall. The under spend will be carried forward into future years to ensure delivery with the SHQS.

The department has organised an expanded Stock Condition Survey that effectively gives 100% coverage of our stock. The draft survey has indicated that Scottish Housing Quality Standard compliance was 34% at 31st March 2011 against the agreed transfer target of 30%.

The department is responsible for the planned maintenance of private water supplies, sewage systems septic tanks, in sheltered complexes water treatment systems, lifts, community alarm systems and fire alarm systems. In addition, the department is responsible for ensuring that gas safety maintenance and certification takes place as required under our statutory obligations and maintenance of solid fuel heating systems.

The planned maintenance programme also includes the maintenance of common closes and stair wells in our stock.

The department's regeneration or new stock development activity has been significant this year as evidenced by the following analysis:

Regeneration	Outturn	Planned	%
Site Starts	-	24	-%
Completions	59	59	100%

ACHA has secured tender approvals for two sites and is awaiting confirmation of the grant allocation from the Scottish Government to award the contracts as follows:

Site	Units
Ardenslate, Dunoon	24
Park Square Campbeltown Phase 2	32
Total	56

The department has implemented the garage strategy which is expected to result in long term savings in respect of void rentals and maintenance costs.

The department has also implemented the play area strategy to support the play areas owned by ACHA.

The department has implemented the Road and Footpath Strategy to improve the condition of unadopted roads, footpaths, hard standings and car parks in the areas owner by ACHA.

The department has supported ACHA's planned delivery of disposal of small uneconomic pieces of land in and around our estate in accordance with the established policy resulting in small capital receipts and reduced future maintenance costs.

The department has also been key to the development of ACHA's planned future regeneration programme and significant work has been undertaken in evaluating and feasibility assessing sites for development to be included in future bids for housing association grant.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

Finance and IT

The department provides a range of financial and accounting services to ACHA as well as ensuring a high level of IT support.

The department ensured that business plan support grant for the year of £9 million was drawn down during the year in accordance with the grant offer from Scottish Ministers.

ACHA actively monitors its cash flow position across all its bank accounts on a weekly basis to ensure that it always has sufficient funds to meet its short term obligations. Surplus funds are invested in money market deposits with our bankers, Lloyds Banking Group's Treasury Department and Royal Bank of Scotland plc in accordance with our established treasury management strategy.

The department revised its Brixx business planning model. ACHA did not breach any financial or non financial covenants with its lender during the year.

Although ACHA had entered into forward fixes, post transfer, the static base rate level of 0.5% throughout the year and the active treasury management policy together with lower than forecast expenditure has meant that interest costs for the year are much lower than originally forecast.

The department settled 12,727 invoices during the year which was 1,757 or 12.2% less than the previous year. The number of errors on invoices processed reduced by 45% in the year. The department continued to improve its creditor payment times from 35 days to an average of 29 days which was just outside its target of 28 days.

The department has seen its rent payment methods increase during the year with web based payments being launched and increased usage flowing from that. During the year the Association increased the number of payments received by standing order by almost 11%, direct debit by almost 14% and credit and debit card payments by almost 16%.

Right to Buy applications during the year were consistent with prior years but actual sales were substantially less than projected at transfer with only 35 properties being sold against pre-transfer projections of 80. This has little impact in terms of operating finances due to the nature of the right to buy agreement entered into at transfer. The reduced numbers of right to buy sales are likely to assist ACHA in future years as they will improve asset cover ratios for future planned borrowings.

The Association's tenant contents insurance policy take up dropped from 17.46% to 17.11% during the year.

The Association was key to the management of significant general insurance property claims to the Association following the December 2010 cold snap which affected much of the region.

The department received a desk top security valuation for the housing stock which identifies that there is sufficient security at market value to support projected future borrowing.

ACHA complied with lending covenants during the financial period.

ACHA continues to actively pursue non-payment of rent and other charges from both current and former tenants as well as owners.

The IT section of the department has ensured that ACHA systems are able to cope with future developments in operating software. During the year the IT function tendered for and awarded an EU compliant contract for the provision of new IT services. This encompassed both Wide Area Network and Local Area Network solutions increasing available band width against previous arrangements. The Association also procured Microsoft Lync 2010 technology enabling unified communications voice, data and video transmission over the network together with presence information.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

The arrangements include new mail archiving systems using Mimosa, the installation of Microsoft Sharepoint and the migration of IT applications to virtual server environments hosted by the service provider. The arrangements also provide for the installation of Clarity call management software for the Customer Contact Centre.

During the year the IT department has also supported the use of mass electronic mailing technology and the implementation of online survey technology to assist consultation with tenants. The department is seeking to improve services to tenants using text messaging technology, extranet and intranet solutions for staff and electronic mail invoice settlement solutions for suppliers and contractors.

Financial Review

Income & Expenditure

Income

The Association's general needs rental income at £14.27 million for the year was higher than forecast due to the impact of lower than expected right to buy sales. The Association's garage rents and other income was as forecast for the year. Sheltered housing service charges were marginally higher than forecast due to turnover in tenancies.

Bad debts at the year-end in comparison with prior years were consistent, however they were again significantly higher than forecast. This is because provision was made to write off former tenant rent arrears in full and current arrears and sundry debtors in accordance with established accounting policies.

Rent lost from voids was higher than forecast but lower than the prior year. Void management strategies introduced are reducing void periods and associated costs.

Grant income of £9 million was received during the year relating to business support grant; this was 100% of the monies due. In addition the Association received £766k in Housing Association Grant for new stock development relating to its development sites in the financial year. The Association's expected outturn on related asset improvement resulted in the Early Action Fund Related Assets grant monies draw down being £1.99 million as forecast.

The Association also received £190k in grant for aids and adaptations to properties and £157k of wider role funding to support the welfare rights officer FISH project development. The Association's other income generated was significantly improved on the recovery of costs such as for insurance claims, fire raising, vandalism and malicious damage.

Overall income was approximately as forecast at the start of the year.

Expenditure

Management costs were lower than forecast overall. These were well managed during the period according to budget forecasts with savings arising from staffing underspend. The management cost per unit for 2010/11 is £997 against the prior year figure of £958 per unit. Reactive maintenance costs have reduced with costs falling from £3.45 million last year to £3.15 million in 2010/11. The reactive repairs average repair cost per unit was £617 this year against the previous year which was £679 per unit.

The Association's cyclical and planned maintenance spend for the year was slightly lower than forecast. The major repairs spend for the period was significantly lower than forecast in financial terms. This underspend has been carried forward in to future years.

The Association's regeneration activities were as forecast delivering new units during the year.

Total expenditure for the year was therefore substantially lower than planned for the year.

The operating deficit was lower than had been forecast but was still a substantial operating deficit at £1,376k.

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For the year ended 31 March 2011

The Association made some modest gains on sale from right to buy sales at £297k owing to the nature of the transfer agreement loss of income calculations. These were lower than had been expected as a result of the much lower than planned right to buy sales occurring.

Bank interest earned at £14k was as expected. The much lower spend levels against the major works programme and the effect of a static base rate at 0.5% and its effect on LIBOR rates during the year meant that the Association's interest costs, at £1,062k, were lower than forecast.

The Association had fixed debt of £17.7 million during the year with all additional debt of £7.3 million being LIBOR linked. The office loan was created as fixed rate debt of £750k. As a result the Association's borrowing of £17.7 million at year end was 71% fixed.

The deficit for the year was £905k.

Balance Sheet

The Association again increased its tangible fixed assets as a result of the regeneration works being undertaken to develop new stock. This year saw an increase in that development coming on stream with more than £4.53 million worth of housing assets being developed. The cumulative value of grant received to support housing development increased to £10.7 million. The Association continues to operate on the basis that its transferred stock is valued at nil cost in its balance sheet.

The Association considered in some detail whether impairment had occurred during the year and was of the view that a detailed review was not required primarily on the basis of the valuation of its stock for security purposes based on existing use valuation for social housing.

In terms of current assets the Association has debtors of £2.25 million which has reduced year on year by £1.25 million. This was due to a significant reduction in grants receivable in the year.

The cash balance of the Association was substantial at the year-end at £3.76 million as loans had been drawn in the last quarter in expectation of meeting planned expenditure which did not occur owing to contractor issues.

Current liabilities are slightly less than the previous year. The Association however has experienced a reduction in trade creditors of £0.74 million. Accruals and deferred income has increased by £359k. Total assets now substantially exceed current liabilities at £8.66 million.

Long term borrowing has increased from £20.02 million to £24.98 million during the year. The net deficit has increased year on year by £1.98 million prior to pension adjustments to £16.32 million. There is a positive adjustment as a result of reflecting the FRS17 Pensions deficit which was unexpected.

The Association is required to consider in some detail the going concern statement and has assessed that with a committed funding facility supporting its 30 year business plan it is a going concern.

Accumulated deficits are now £17.60 million including the pension reserve.

The Future

ACHA continues to drive forward its objective outlined in the transfer business plan and has produced a revised business plan for the period 2011/12 onwards.

ACHA has implemented the 2011/12 rent increase in line with the transfer agreement commitments at RPI + 1%, (5.8%). This will be the final year of the transfer rent guarantee.

ACHA continues to develop its policies and procedures for operational management based on best practice guidance in the social housing sector and the wider corporate sector where appropriate.

ACHA is involved in determining the way forward in respect of meeting the growing housing waiting list in Argyll and Bute. ACHA is seeking new ways of working with all of its partners to our mutual advantage. This is

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

For the year ended 31 March 2011

particularly the case with Argyll and Bute Council where we have negotiated a variety of grants and council tax second home resources for bridging finance for the Campbeltown and Dunoon developments of 56 homes.

ACHA continues to meet business planning commitments in respect of delivering new and improved services to tenants in particular the development of a new Customer Service Centre, increased tenant consultation, financial inclusion and fuel poverty projects and expanded methods of rent payment.

ACHA is developing new approaches to funding support and use of our combined resources to deliver strategic outcomes for us and our partners. The Association is committed to continuing to develop where it can using its own land resources and being innovative with funding solutions to enable participation in the annual development programme.

ACHA's factoring service for former Argyll and Bute Council house owners who have purchased their homes under the right to buy is seeking to engage with owners about the short and long term property maintenance and repair issues.

ACHA aims to make significant inroads into the major repairs investment programme during 2011/12 through the framework agreements entered into with key contractors and suppliers with by far its biggest year of planned delivery.

ACHA continues to drive forward the completion of the transfer business plan commitments in respect of service reviews scheduled for completion, e.g. the EU tendering of IT services to develop Information and Communication Technology for the future needs of ACHA, its tenants, its stakeholders and partners. The Association is well placed with its new independent IT environment to develop new approaches to engagement with current and future tenants and to improve the operating efficiency of services via IT networks. The use of new IT applications will further enable greater flexibility for staff in their working practices and in particular reducing the geographical impact of operating in a rural and island environment.

There are challenges ahead for ACHA over the next financial year in many areas; the greatest challenge presently is the increased challenge of funding the development of new housing stock. In a wider sense the impact of central government spending reviews, the consequences of international capital market impacts on macroeconomic fiscal and monetary policy and its effect on public funding is yet to be determined. The impact of this on reserved matters such as housing benefit and proposed reforms is a concern, in respect of devolved matters the impact on housing association grant is the one which is most keenly watched at present. The wider effects of European debt concerns and future fiscal stability are likely to continue to present challenging times for our funding partners and borrowing in terms of both price and availability is likely to remain uncertain.

The Association is required to fully comply with the updated SORP 2010 and in particular the component accounting concept during 2011/12 and is working towards delivering this during the financial year. The impact of component accounting on ACHA's business plan is significant in terms of accounting treatment of operating surpluses and deficits. In ACHA's case this means that operating deficits will be converted into operating surpluses. This has a corporation tax impact and in order to mitigate the effects of that change the Board of Management has determined that ACHA will require to convert to a charity during this coming financial year 2011/12. As a result of becoming charitable it will be necessary to establish a subsidiary company to enable non charitable activities such as factoring and commercial lettings which are essential to ACHA to continue to be carried out. This will be determined by members during the year.

ACHA considers that we continue to develop a strong future based on a combination of the capability, motivation, drive and commitment of its staff to deliver an efficient and effective but above all first class service for our tenants and the communities in which they live and we are a part.

This Operating and Financial Review statement has been prepared in accordance with the Accounting Standards Board's 2006 reporting statement requirements.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT'S STATEMENT ON INTERNAL FINANCIAL CONTROLS

For the year ended 31 March 2011

The Board of Management acknowledge their ultimate responsibility for ensuring that the Association 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 the Association or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets (against unauthorised use or disposition).

It is the Board of Management's responsibility to establish and maintain systems of internal financial control. The Board of Management can only provide reasonable assurance and not absolute assurance against material financial miss-statement or loss. Key elements of controls 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 the Association's assets. Core policies have been established and others are being further developed as the Association becomes more established;
- experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared regularly which allow the Board of Management and staff to monitor the key business risks and financial objectives, and progress towards 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 variances from budgets are investigated as appropriate;
- the Association's performance against the stock transfer business plan is reviewed regularly.
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Board of Management members and Co-optees;
- the Board of Management reviews reports from their Senior Management Team, staff and from the internal and external auditors, and from specialised consultants to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Association;
- formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports;
- an Internal Audit Needs Assessment has been developed by the Association in accordance with established audit practice and internal audit has been in operation this year.

The Board of Management has reviewed the system of internal financial control in the Association for the year ended 31 March 2011 and until the below date. To the best of its knowledge 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.

These arrangements comply with the requirements contained in the Scottish Housing Regulator's and the Scottish Federation of Housing Association's publication, "Raising Standards in Housing".

By order of the Board of Management

Norman Beaton
Chairman

Date 11 August 2011

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

Independent Auditor's Report to the Members of

Argyll Community Housing Association Limited

Corporate Governance

In addition to the audit of the financial statements, we have reviewed the Board of Management's statement on page 22 on the Association's compliance with the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing". The objective of our review is to draw attention to non-compliance with those paragraphs of the publication not otherwise disclosed.

Basis of Opinion

We carried out our review having regard to the Bulletin 2006/5 issued by the Auditing Practices Board. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non-compliance.

Opinion

In our opinion the statement on internal financial control on page 22 has provided the disclosures required by the section on Internal Financial Controls within SFHA's document "Raising Standards in Housing" and is consistent with the information which came to our attention as a result of our audit work on the financial statements.

Baker Tilly UK Audit LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date 16 August 2011

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

Independent Auditor's Report to the Members of

Argyll Community Housing Association Limited

We have audited the financial statements of Argyll Community Housing Association for the year ended 31 March 2011 on pages 26 to 50. 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 Association'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 Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association'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 6, 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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2011 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, Schedule 7 of the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

Independent Auditor's Report to the Members of

Argyll Community Housing Association Limited

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 Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we require for our audit.

Baker Tilly UK Audit LLP
Statutory Auditor
First Floor, Quay 2,
139 Fountainbridge,
Edinburgh
EH3 9QG

Date: 16 August 2011

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2011

	<i>Note</i>	2011 £000	2010 £000
Turnover	2	27,129	26,502
Operating costs	2	<u>(28,504)</u>	<u>(28,797)</u>
Operating Deficit	8	(1,375)	(2,295)
Surplus on disposal of housing fixed assets	12	297	173
Exceptional items	29	1,221	-
Interest receivable	9	14	28
Interest payable	10	<u>(1,062)</u>	<u>(709)</u>
Deficit on ordinary activities before Taxation		(905)	(2,803)
Taxation on ordinary activities	11	<u>-</u>	<u>-</u>
Deficit charged against balance brought forward	19	<u>(905)</u>	<u>(2,803)</u>

All figures relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

	<i>Note</i>	2011 £000	2010 £000
Deficit for the year		(905)	(2,803)
Actuarial gain/(loss) on pension scheme	29	<u>1,880</u>	<u>(3,763)</u>
Total recognised surplus/ (deficit) for the year	19	<u>975</u>	<u>(6,566)</u>

The exceptional item of £1,221k is the past service costs identified in the FRS17 results schedule for the Strathclyde pension fund.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

BALANCE SHEET

As at 31 March 2011

	<i>Note</i>	2011 £000	2010 £000
Tangible fixed assets			
Housing properties – gross cost less depreciation	<i>12</i>	18,478	14,110
Less Housing Association Grant	<i>12</i>	(10,464)	(9,792)
Less Other Grant	<i>12</i>	(259)	821
Other Fixed Assets	<i>13</i>	992	-
		<u>8,747</u>	<u>5,139</u>
Current assets			
Stock and work in progress	<i>14</i>	23	24
Debtors	<i>15</i>	2,251	3,508
Cash at bank and in hand	<i>16</i>	3,760	3,390
		<u>6,034</u>	<u>6,922</u>
Creditors: amounts falling due within one year	<i>17</i>	<u>(6,123)</u>	<u>(6,383)</u>
Net current (liabilities) / assets		<u>(89)</u>	<u>539</u>
Total assets less current liabilities		8,658	5,678
Creditors amounts falling due after one year	<i>17</i>	(24,984)	(20,018)
Provisions for liabilities and charges: Deferred tax	<i>11</i>	<u>-</u>	<u>-</u>
Net liabilities before pension deficit		(16,326)	(14,340)
Pension deficit	<i>29</i>	(1,275)	(4,236)
Net deficiency after pension deficit		<u><u>(17,601)</u></u>	<u><u>(18,576)</u></u>
Capital and reserves			
Share capital	<i>18</i>	-	-
Revenue reserves	<i>19</i>	(16,326)	(14,340)
Pension reserve	<i>21</i>	(1,275)	(4,236)
Deficiency in shareholders' funds	<i>19</i>	<u><u>(17,601)</u></u>	<u><u>(18,576)</u></u>

These financial statements were approved by the Board of Management on2011 and authorised for issue and signed on their behalf by:

Chairman of the Board of Management

Norman Beaton

Board member

Bill McIntyre

Secretary

Roderick McCuish

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT

For the year ended 31 March 2011

	<i>Notes</i>	2011		2010	
		£000	£000	£000	£000
Cash inflow/(outflow) from operating activities	23		121		(2,533)
Returns on investments and servicing of finance					
Interest received	9	14		28	
Interest paid	10	<u>(1,050)</u>		<u>(650)</u>	
Net cash inflow / (outflow) from returns on investments and servicing of finance			(1,036)		(622)
Corporation tax repayment			-		1
Capital expenditure and financial investment					
Acquisition and construction of properties	12	(4,528)		(8,442)	
Purchase of other fixed assets	13	(381)		(829)	
Capital grants received	12	931		4,863	
Sales of housing properties		<u>297</u>		<u>173</u>	
Net cash (outflow) from capital expenditure and investing activities			<u>(3,681)</u>		<u>(4,235)</u>
Net cash (outflow) before use of liquid resources and financing			(4,596)		(7,389)
Financing					
Loan advances received		5,000		8,050	
Loan advances repaid		<u>(32)</u>		<u>-</u>	
Net cash inflow from financing	24		4,968		8,050
Increase in cash in the year	24		<u>372</u>		<u>661</u>

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered by the Financial Services Authority.

1 Accounting policies

Going Concern

During the year the Association made a deficit of £905k prior to the adjustment of the pension reserve giving a net surplus of £975k. At the balance sheet date the Association had a deficiency of assets of £17.60 million. The going concern basis of accounting is considered appropriate because the Association has an agreed banking facility of £60 million under the business plan to meet future requirements with projected peak debt occurring in 2014 and repaying by 2031 amounting to approximately £50 million at this time. The Association's loan asset security ratio requirement is 105%. The most recent security valuation values the Association's housing assets at £58.9 million based on Existing Use Valuation – Social Housing by year 30, the Association therefore has more than sufficient assets to support the current peak borrowing and for its future needs at this time based on the asset covenant.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. They comply with the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007 and with the Statement of Recommended Practice (SORP), Accounting by Registered Social Landlords 2008.

Turnover

Turnover represents rental and service charge income receivable from tenants and owner occupiers, fees and revenue based grants receivable from local authorities and The Scottish Government's Housing Regeneration Directorate relating to housing and fees from the provision of management services. Tenant service charges are levied on a basis intended to cover appropriate service costs each year. Income is recognised only when it is earned.

Cash Flow Statement

The cash flow statement represents the cash transactions of the Association for the period from 1 of April 2010 to 31 March 2011. Cash and cash equivalents comprise cash on hand and in deposit and are subject to an insignificant risk of change in value.

Housing properties, housing association grant and depreciation

(a) Housing properties are stated at cost, all property was acquired at nil value under the stock transfer agreement. The Association's policy is to capitalise the following:

- cost of acquiring land and buildings;
- development expenditure including direct development staff costs; and
- interest charged on the development loans raised to finance the scheme.

Expenditure on schemes which are subsequently aborted will be written off in the year in which it is recognised that the schemes will not be developed to completion.

(b) Improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancement can occur if the improvements result in:-

- an increase in net rental income; or
- a reduction in future maintenance costs; or
- a significant extension of the life of the property.

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

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

- (c) Land is not depreciated. Depreciation will be charged so as to write down the value of housing properties on a straight line basis over their remaining estimated useful economic lives. In determining the remaining useful lives for the housing stock, the Association has taken account of views provided by both internal and external professional sources. It is the Association's view (based on knowledge of the stock, its condition, and the future programme of component renewal) that the stock has a very long remaining life. This life for use in the accounts will be 50 years from the date of practical completion.

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. Any grants received that cannot be repaid from the proceeds of sale are abated and the grant removed from the financial statements.

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of other fixed assets on a straight line basis over their expected useful lives as follows:

Computer hardware	3 years
Computer software	3 years
Furniture and fittings	3 years
Offices	50 years

Pensions

The Association participates in two pension schemes as follows;

1. Strathclyde Pension Fund (SPF) which is a defined benefit scheme as defined by the Local Government Pension Scheme (Scotland) regulations 1998. Contributions are charged to the Income and Expenditure account so as to spread the cost of pensions over the employees' working lives within the Association.

The SPF made an actuarial gain for the year ended 31st March 2011 of £1,880k. The Association has taken account of this gain in the Pension Reserve Account. The Association has therefore adjusted the Pension Reserve (Note 19) by transferring an amount of £2,961k to the Income and Expenditure account from this reserve.

2. Scottish Federation of Housing Associations pension scheme which changed its designation during the year to the Scottish Housing Association's Pension Scheme (SHAPS) is a multi-employer defined benefit scheme managed by the Pension Trust. It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. 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 the Association 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 in the scheme taken as a whole.

Taxation

The charge or credit for taxation is based on the surplus or deficit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

VAT

The Association was registered for VAT on 24 March 2010. A large proportion of the Association's income, namely rents, is exempt for VAT purposes and therefore gives rise to the partial exemption calculation. All expenditure is shown inclusive of VAT however because of partial exemption the Association has recovered £7k during the period.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

Loans and grants

Loans are advanced by private or public lenders under the terms of individual mortgage deeds in respect of each development or under a global facility secured on existing developments. Grants from the Scottish Government's Housing Regeneration Directorate or local authorities are payable to subsidise the capital cost of housing developments. Grants from Scottish Government's Housing Regeneration Directorate take the form of Housing Association Grant (HAG) funding. Advances are generally available only in respect of those developments which have been given approval by the Scottish Government's Housing Regeneration Directorate. Under certain circumstances HAG is repayable.

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.

Operating leases

Operating lease rentals are charged to the Income and Expenditure account on a straight line basis over the period of the lease.

Stock

Stock and work in progress is stated at the lower of cost and net realisable value.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

2. Particulars of turnover, operating costs and operating deficit

	Turnover	Operating Costs	Operating Deficit to 31 March 2011	Operating Deficit to 31 March 2010
	£000	£000	£000	£000
Social Lettings (<i>Note 3</i>)	23,755	24,798	(1,043)	(2,079)
Other Activities (<i>Note 4</i>)	3,374	3,706	(332)	(216)
	<hr/> 27,129	<hr/> 28,504	<hr/> (1,375)	<hr/> (2,295)
Total for year to 31 March 2010	<hr/> <hr/> 26,502	<hr/> <hr/> 28,797	<hr/> <hr/> (2,295)	

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

3. Particulars of turnover, operating costs and operating surplus or deficit from social letting activities

	General Needs Housing	Supported Housing	Total	Total For Previous Period of Account
	£000	£000	£000	£000
Rents receivable net of service charges	14,274	500	14,774	14,374
Rent from garages	25	-	25	49
Rent from travelling people sites	60	-	60	58
Service charges	8	157	165	84
Gross income from rents and service charges	14,367	657	15,024	14,565
Less voids	(300)	(9)	(309)	(353)
Net income from rents and service charges	14,067	648	14,715	14,212
Grants from the Scottish Ministers	9,000	-	9,000	9,000
Other revenue grants	40	-	40	44
Total turnover from social letting activities	23,107	648	23,755	23,256
Management and maintenance administration costs	4,754	345	5,099	4,876
Planned and cyclical maintenance including major repairs costs	16,276	-	16,276	16,804
Reactive maintenance costs	3,154	-	3,154	3,455
Bad debts – rents and service charges	109	-	109	125
Depreciation of social housing	160	-	160	75
Operating costs for social letting activities	24,453	345	24,798	25,335
Operating (deficit)/surplus for social lettings	(1,346)	303	(1,043)	(2,079)
Operating (deficit)/surplus for social lettings for previous period of account	(2,363)	284	(2,079)	

Average weekly rents at the end of the period were £58.34 (2010 £58.25)

£1,734k of major repairs have been capitalised during the year (2010 £1,854k). All other major repairs amounting to £16,276k have been expensed to the Income and Expenditure account (2010 £16,804k).

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

4. Particulars of turnover, operating costs and operating surplus/(deficit) from other activities

	Grants from Scottish Ministers	Other Revenue Grants	Supporting People Income	Other Income	Total Turnover	Operating Costs Bad Debts	Other Operating Costs	Operating Surplus / (Deficit)	Operating Surplus / (Deficit) for previous period of account £000
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Wider role activities undertaken to support the community, other than the provision, construction, improvement and management of housing	157	-	-	-	157	-	(230)	(73)	6
Related Assets	1,999	-	-	-	1,999	-	(1,999)	-	-
Aids and Adaptations	190	-	-	-	190	-	(309)	(119)	67
Tenant and Owner Recharges	-	-	-	397	397	(210)	(362)	(175)	(228)
Contents Insurance	-	-	-	69	69	-	(59)	10	12
Agency/management services for registered social landlords	-	-	-	-	-	-	-	-	-
Other agency/management services	-	-	-	-	-	-	-	-	-
Developments for sale to registered social landlords	-	-	-	-	-	-	-	-	-
Developments and improvements for sale to non-registered social landlords	-	-	-	-	-	-	-	-	-
Other activities (Insurance claim monies received and other miscellaneous income)	-	42	-	520	562	-	(537)	25	(73)
Total from other activities	2,346	42	-	986	3,374	(210)	(3,496)	(332)	(216)
Total from other activities for previous period of account	2,730	-	-	516	3,246	(256)	(3,206)	(216)	

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

5. Housing stock

	Units under development		Units under management	
	2011	2010	2011	2010
Housing accommodation for letting:				
General Needs	59	59	4,908	4,886
Sheltered housing	-	-	207	205
	<u>59</u>	<u>59</u>	<u>5,115</u>	<u>5,091</u>

6. Remuneration of members of Board of Management and Directors

No members of the Board of Management received any remuneration from the Association.

Directors are defined to include the Chief Executive and any other person reporting directly to the Chief Executive or the Board whose total annual emoluments including pension contributions exceed £60,000 per year.

	2011	2010
	£000	£000
Total emoluments payable to directors and benefits in kind	295	295
Pension contributions	48	48
	<u>343</u>	<u>343</u>
 Emoluments payable to the highest paid director (excluding pension contributions)	 <u>78</u>	 <u>78</u>

The Chief Executive is a member of the Scottish Housing Associations defined contribution pension scheme as disclosed in note 28. No enhanced or special terms apply to memberships. The Association's contributions to the Chief Executive's pension in the year amounted to £12,593 (2010: £12,593).

The Association's directors' emoluments (including pension contributions) fell within the following band distributions:

	2011	2010
More than £60,000 but not more than £70,000	4	4
More than £70,000 but not more than £80,000	-	-
More than £80,000 but not more than £90,000	1	1

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

7. Staff numbers and costs

The full time equivalent number of persons employed and seconded to the Association (excluding board members) in the year, analysed by category, was as follows:

	Number of employees	
	2011	2010
Housing & Neighbourhood Services	118	131
Finance & IT	17	15
Human Resources & Corporate Services	11	11
Investment & Regeneration	22	17
	168	174

The aggregate payroll costs of these persons were as follows:

	2011	2010
	£000	£000
Wages and salaries	4,202	4,123
Social security costs	326	318
Other pension costs	560	546
	5,088	4,987

In the year there was £20k of development staff costs that were capitalised (2010 - £103k)

8. Operating deficit on ordinary activities

	2011	2010
	£000	£000
<i>Operating deficit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit (including expenses and excluding VAT for the year)	15	18
Other services from bodies related to Baker Tilly UK Audit LLP	4	4
Operating lease rentals:		
Buildings	267	314
Other	61	69
Depreciation	370	175

9. Interest receivable

	2011	2010
	£000	£000
Bank interest receivable	14	28
	14	28

10. Interest payable

	2011	2010
	£000	£000
On bank loans	1,050	650
Interest on pension fund (<i>Note 29</i>)	12	59
	1,062	709

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

11. Taxation

Analysis of charge in year	2011	2010
	£000	£000
<i>UK corporation tax</i>		
Current tax on surplus for the year	-	-
Adjustment in respect of previous years	-	-
Total current tax	-	-
(Decrease)/Increase in deferred tax liability	-	-
Tax (credit)/charge on deficit/surplus on ordinary activities	<u>-</u>	<u>-</u>

Factors affecting the tax charge for the current year

The current tax charge for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2011	2010
	£000	£000
<i>Current tax reconciliation</i>		
(Deficit) on ordinary activities before tax	<u>(905)</u>	<u>(2,803)</u>
Current tax at 21% (2010: 21%)	(190)	(589)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	37	14
Income not taxable	(289)	(38)
Depreciation for year in excess of capital allowances	2	(1)
Capitalised interest	-	36
Chargeable gains	62	-
Losses	366	578
Other timing differences	12	-
Total current tax charge (see above)	<u>-</u>	<u>-</u>

Deferred taxation

The movement in the deferred taxation account during the year was:

	2011	2010
	£000	£000
Balance brought forward	-	-
Income & expenditure account movement arising during the year	-	-
Balance carried forward	<u>-</u>	<u>-</u>

The balance of the deferred taxation account consist of the tax effect of timing differences in respect of:

	2011	2011	2010	2010
	Potential	Provided	Potential	Provided
	£000	£000	£000	£000
(Deficiency)/Excess of taxation allowances over depreciation of fixed assets	(6)	-	(5)	-
Other timing differences	(12)	-	-	-
Losses	(3,378)	-	(3,011)	-
Deferred Tax Asset/(Liability)	<u>(3,396)</u>	<u>-</u>	<u>(3,016)</u>	<u>-</u>

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

12. Tangible fixed assets - housing properties

	Housing properties held for letting £000	Housing properties in course of construction £000	Total 2011 £000	Total 2010 £000
<i>Cost</i>				
At start of year	7,971	6,234	14,205	5,763
Additions during year	1,788	2,740	4,528	8,442
Transfers	8,396	(8,396)	-	-
At end of year	<u>18,155</u>	<u>578</u>	<u>18,733</u>	<u>14,205</u>
<i>Depreciation</i>				
At start of year	(95)	-	(95)	(20)
Charge during year	(160)	-	(160)	(75)
At end of year	<u>(255)</u>	<u>-</u>	<u>(255)</u>	<u>(95)</u>
<i>Housing association grant</i>				
At start of year	(4,159)	(5,539)	(9,698)	(4,929)
Additions during year	-	(766)	(766)	(4,769)
Transfers	(5,733)	5,733	-	-
At end of year	<u>(9,892)</u>	<u>(572)</u>	<u>(10,464)</u>	<u>(9,698)</u>
<i>Other grant</i>				
At start of year	(45)	(49)	(94)	-
Additions during year	(16)	(149)	(165)	(94)
Transfers	(198)	198	-	-
At end of year	<u>(259)</u>	<u>-</u>	<u>(259)</u>	<u>(94)</u>
Net book value				
At end of year	<u>7,749</u>	<u>6</u>	<u>7,755</u>	<u>4,318</u>
At end of year 2010	<u>3,672</u>	<u>646</u>	<u>4,318</u>	

All properties were transferred to the Association at nil value as part of the Large Scale Voluntary Stock Transfer on 21 November 2006.

During the year 35 properties have been sold under Right to Buy resulting in a gain on sale of £297k. The disposals in the year are nil as the stock was transferred at nil value.

Security has been granted to lenders in respect of housing properties. No interest was capitalised on housing properties at 31 March 2011 (2010 £Nil).

In the year there was £20k of development staff costs that were capitalised (2010 - £103k) and £1,734k of major repairs have been capitalised.

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

13. Tangible fixed assets - other

	Computer hardware & software £000	Oban office £000	Furniture £000	Total non housing £000
<i>Cost</i>				
At start of year	379	737	14	1,130
Additions during year	381	-	-	381
At end of year	<u>760</u>	<u>737</u>	<u>14</u>	<u>1,511</u>
<i>Depreciation</i>				
At start of year	289	15	5	309
Provided during year	191	15	4	210
At end of year	<u>480</u>	<u>30</u>	<u>9</u>	<u>519</u>
<i>Net book value</i>				
<i>At 31 March 2011</i>	<u>280</u>	<u>707</u>	<u>5</u>	<u>992</u>
<i>At 31 March 2010</i>	<u>90</u>	<u>722</u>	<u>9</u>	<u>821</u>

14. Stocks and work in progress

	2011 £000	2010 £000
Maintenance Stock	<u>23</u>	<u>24</u>

15. Debtors

	2011 £000	2010 £000
Rental debtors	604	467
Less bad debt provision	<u>(403)</u>	<u>(299)</u>
	201	168
Prepayments and accrued income	825	476
Housing Association Grant receivable	450	1,034
Other debtors	1,436	2,298
Less bad debt provision	<u>(661)</u>	<u>(468)</u>
	<u>2,251</u>	<u>3,508</u>

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

The above figure for rental debtors is made up as follows:

	Debtor £000	Provided £000	2011 Net Debtor £000
Due from current tenants	260	(59)	201
Due from former tenants	344	(344)	-
	<u>604</u>	<u>(403)</u>	<u>201</u>

Bad debts of £4,218 were written off during the period (2010: £93,357). Bad debts provided for in the year were £104k (2010 £121k)

16. Cash at bank and in hand

	2011 £000	2010 £000
Bank	3,758	3,388
Cash	2	2
	<u>3,760</u>	<u>3,390</u>

17. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Loans (secured)	34	32
Trade creditors	2,388	3,133
Housing Association Grant in advance	30	21
Other creditors	257	130
Accruals and deferred income	3,414	3,067
	<u>6,123</u>	<u>6,383</u>

Creditors: amounts falling due after one year

	2011 £000	2010 £000
Loan (secured)	<u>24,984</u>	<u>20,018</u>

The overall weighted average cost of funds for current borrowing is 4.54%. An office development loan of £718k is repayable by 11 March 2025 and is repayable on an amortising basis. The repayment profile is shown below. The remainder of loans drawn, amounting to £17,000k, are repayable by bullet repayment in 2036. Loans are secured by a specific charge against the Association's properties with the office loan secured against the office development.

Due within one year	33,741
Due between 1 and 2 years	36,151
Due between 2 and 5 years	121,746
Over 5 years	526,344
	<u>717,982</u>

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

Fixed Rate Hedging

	Value (£000's)	Term (years)	Rate
Tranche 1 commencing 31 March 2008	2,000	15	5.55%
Tranche 2 commencing 31 March 2009	10,000	20	5.24%
Tranche 3 commencing 31 March 2010	5,000	10	5.63%
Office Loan commencing 11 March 2010	718	15	5.96%
Total	<u>17,718</u>		

Rates quoted are all inclusive of the rate, margin and capitalisation charges.

18. Share capital

	2011	2010
	£	£
Shares of £1 each fully paid		
At 1 April 2010	292	211
Issued in year	14	101
Cancelled in year	(23)	(20)
At 31 March 2011	<u>283</u>	<u>292</u>

Shares issued were in respect of new members of the Association.

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions on winding up. When a shareholder ceases to be a member the person's share is cancelled and the amount thereon becomes the property of the Association. Each member has a right to vote in accordance with the Association's rules at Members meetings.

19. Reconciliation of movements in shareholders' funds

	Revenue	Pension	Share	Total
	Reserve	reserve	Capital	shareholders
	£000	£000	£000	funds
				£000
Balance at 1 April 2010	(14,340)	(4,236)	-	(18,576)
Accumulated (deficit)/surplus for year	(905)	-	-	(905)
Actuarial gain on pension scheme	1,880	-		1,880
Transfer from pension reserve	(2,961)	2,961	-	-
Balance at 31 March 2011	<u>(16,326)</u>	<u>(1,275)</u>	-	<u>(17,601)</u>

ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

20. Designated reserves

No transfer to designated reserves was made in the year.

21. Pension reserve

		2011	2010
		£000	£000
At 1 April 2010		(4,236)	(480)
Transfer from revenue reserves		<u>2,961</u>	<u>(3,756)</u>
Reserve at 31 March 2011	<i>Note 29</i>	<u><u>(1,275)</u></u>	<u><u>(4,236)</u></u>

22. Commitments

(a) Capital commitments authorised and contracted for at 31 March 2011 amounted to:

Within one year

Investment programme £1,359k

Related Assets £1,040k

Within two to five years

Investment programme £21k

Related Assets £28k

The investment programme is financed by a combination of operating cash flow, business plan support grant and private finance and the related assets are funded by Early Action Fund grants.

(b) Annual commitments under non-cancellable operating leases are as follows:

	2011		2010	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	170	-	260	-
Within two to five years inclusive	-	-	30	3
Over five years	-	-	-	-

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23. Reconciliation of operating deficit to net cash inflow from operating activities

	2011	2010
	£000	£000
Operating deficit	(1,375)	(2,295)
Adjustments:		
Depreciation on non-housing fixed assets	210	100
Depreciation on housing fixed assets	160	75
Movement in working capital:		
Non cash movement in pension fund	128	(67)
Decrease in stock	1	7
(Increase) in debtors	1,257	(164)
Decrease/(Increase) in creditors	<u>(260)</u>	<u>(189)</u>
Cash inflow / (outflow) from operating activities	<u>121</u>	<u>(2,533)</u>

24. Analysis of changes in net debt

	At 31 March	Cash flows	At 31 March
	2010		2011
	£000	£000	£000
Cash in hand, at bank	3,390	372	3,762
Debt due within one year	(32)	(2)	(34)
Debt due in more than one year	(20,018)	(4,966)	(24,984)
Total	<u>(16,660)</u>	<u>(4,596)</u>	<u>(21,256)</u>

25. Reconciliation of net cash flow to movement in net debt

	2011	2010
	£000	£000
Increase/(Decrease) in cash in the period	372	661
Cash (inflow) from debt financing	(5,000)	(8,050)
Cash (outflow) from debt financing	<u>32</u>	<u>-</u>
Change in debt resulting from cash flows	(4,596)	(7,389)
Net debt at beginning of period	<u>(16,660)</u>	<u>(9,271)</u>
Net debt at end of period	<u>(21,256)</u>	<u>(16,660)</u>

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For the year ended 31 March 2011

26. Group structure

The Association is a registered social landlord, incorporated in Scotland and has no subsidiaries.

27. Contingent liabilities

Argyll Community Housing Association Limited has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Association's Pension Scheme based on the financial position of the Scheme as at 30 September 2010. As of this date the estimated employer debt for Argyll Community Housing Association Limited was £441k.

28. Scottish Housing Association's Pension Scheme

ACHA participates in the Scottish Housing Associations' Pension Scheme. The best estimate of total employer and employee contributions for 2011/12 is £96k.

The Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is 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,

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.

ACHA has 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 1st April 2009

During the accounting period ACHA paid contributions at the rate of 20% of pensionable salaries. Member contributions were made at the rate of 9.6%.

As at the balance sheet date there were 9 active members of the Scheme employed by ACHA. The annual pensionable payroll in respect of these members was £429k.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. SFHA is a multi-employer scheme where the scheme 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 Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2009 by a professionally qualified actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date

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was £295 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £160 million, equivalent to a past service funding level of 64.8%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed a decrease in the assets of the Scheme to £335 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £162 million, equivalent to a past service funding level of 67.4%.

ACHA 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:

2009 Valuation Assumptions	% p.a.
Investment return pre-retirement	7.4
Investment return post retirement - Non-pensioners	4.6
Investment return post retirement - Pensioners	4.8
Rate of salary increases	4.5
Rate of pension increases	
- Pension accrued pre 6 April 2005 in excess of GMP	2.9
- Pension accrued post 6 April 2005 (for leavers before 1 October 1993 pension increases are 5.0%)	2.2
Rate of price inflation	3.0

Mortality Tables	
Non-pensioners	SAPS (SIPA) All Pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement
Pensioners	SAPS (SIPA) All Pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement

Contribution Rates for Future Service (payable from 1 April 2011)	%
Final salary 1/60ths	19.2
Career average revalued earnings 1/60ths	17.1
Career average revalued earnings 1/70ths	14.9
Career average revalued earnings 1/80ths	13.2
Career average revalued earnings 1/120ths	9.4
Additional rate for deficit contributions *	10.4

(* Expressed in nominal pound terms (for each employer) increasing each 1 April in line with the rate of salary increases assumption. Earnings as at 30 September 2009 are used as the reference point for calculating the additional contributions.)

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 buyout 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

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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. 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.

29. Strathclyde Pension Scheme

The majority of the Association's employees belong to the Strathclyde Pension Fund which is part of the Local Government Pension Scheme (LGPS). As at 31 March 2011 the number of active members was 115, with 17 deferred pensioners and 12 pensioners. The total pensionable payroll at the balance sheet date was £2,756,000. This is a defined benefit scheme which provides benefits based on the final pensionable salary, the assets of which are held in a separate trustee administered fund. The best estimate of total employer and employee contributions for 2011/12 is £529k

As noted in note 1 Argyll and Bute Council have guaranteed to accept liability for any unfunded costs which may arise with regard to Argyll Community Housing Association Limited relating to its membership of the Local Government Pension Scheme (LGPS) administered by Glasgow City Council should it cease to exist, withdraw from the LGPS or otherwise become unable to continue covering any unfunded liabilities with regard to the Local Government Pension Scheme (Scotland) Regulations 1998, as amended, or the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, if applicable, the assumptions and other data that have the most significant effect on the determination of the contribution levels of the scheme are as follows:

Assumptions as at	31 March 2011 % p.a.	31 March 2010 % p.a.	31 March 2009 % p.a.
Price increases	2.8%	3.8%	3.1%
Salary scale increases per annum	5.1%	5.3%	4.6%
Expected Return on Assets	6.9%	7.2%	6.5%
Discount rate	5.5%	5.5%	6.9%

Under the transitional requirements of FRS 17 Retirement Benefits, the Association is required to disclose further information on its share of assets and liabilities of the LGPS on an FRS 17 market value basis at the end of the financial year.

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The Association's share of assets in the scheme and expected rate of return were:

	Long Term return at 31 March 2011	Assets at 31 March 2011 £000	Long Term return at 31 March 2010	Assets at 31 March 2010 £000	Long Term return at 31 March 2009	Assets at 31 March 2009 £000
Equities	7.5%	8,575	7.8%	7,564	7.0%	4,894
Bonds	4.9%	1,448	5.0%	1,277	5.4%	1,073
Property	5.5%	668	5.8%	688	4.9%	536
Cash	4.6%	445	4.8%	295	4.0%	201
Total	6.9%	11,136	7.2%	9,824	6.5%	6,704

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Net Pension assets as at			
Estimated employer assets	11,136	9,824	6,704
Present value of scheme liabilities	12,411	14,060	7,184
Present value of unfunded liabilities	-	-	-
Total value of liabilities	12,411	14,060	7,184
Pension (deficit) / surplus	(1,275)	(4,236)	(480)
Less provision against pension asset not realisable	-	-	-
Net pension (liability) / surplus	(1,275)	(4,236)	(480)

Analysis of the amount charged to operating profit/loss

	Period to 31 March 2011 £000	Period to 31 March 2011 % of Payroll	Period to 31 March 2010 £000	Period to 31 March 2010 % of Payroll
Service cost	621	22.1%	315	11.2%
Past service costs	(1,221)	(43.5%)	96	3.4%
Total operating charge	(600)	(21.4%)	411	14.6%

Analysis of the amount received/(charged) as interest

	Period to 31 March 2011 £000	Period to 31 March 2011 % of Payroll	Period to 31 March 2010 £000	Period to 31 March 2010 % of Payroll
Expected return on employer assets	726	25.8%	452	16.1%
Interest on pension scheme liabilities	(738)	(26.3%)	(511)	(18.2%)
Net Return	(12)	(0.5%)	(59)	(2.1%)
Net revenue account cost	(588)	(20.9%)	470	16.7%

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Analysis of the amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	Period to 31 March 2011 £000	Period to 31 March 2010 £000	Period to 31 March 2009 £000	Period to 31 March 2008 £000
Actual return less expected return on pension scheme assets	(68)	(2,157)	(2,349)	(786)
Experience gains and losses arising on the scheme liabilities	-	-	273	1
Changes in financial assumptions underlying the present value of the scheme liabilities	1,948	(1,606)	763	2,027
Actuarial gain (loss)	1,880	(3,763)	(1,313)	1,242
Release / (provision) for pension asset not realisable	-	-	667	(667)
	<u>1,880</u>	<u>(3,763)</u>	<u>(646)</u>	<u>575</u>

Movement in deficit during the period

	Period to 31 March 2011 £000	Period to 31 March 2010 £000
(Deficit)/Surplus at beginning of year	(4,236)	(480)
Current service cost	(621)	(315)
Employer contributions	493	477
Past service costs	1,221	(96)
Net return on assets	(12)	(59)
Actuarial gain/(loss)	1,880	(3,763)
(Deficit) at end of the year	<u>(1,275)</u>	<u>(4,236)</u>

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For the year ended 31 March 2011

History of experience - gains and losses

	Period to 31 March 2011 £000	Period to 31 March 2010 £000	Period to 31 March 2009 £000	Period to 31 March 2008 £000
Difference between the expected and actual return on assets	(68)	2,157	(2,349)	(786)
Value of assets	11,136	9,824	6,704	7,869
Percentage of assets	0.6%	22.0%	35.0%	10.0%
Experience losses on liabilities	-	-	273	1
Present value of liabilities	12,411	14,060	7,184	7,202
Percentage of the present value of liabilities	-	-	3.8%	-
Actuarial gains recognised in STRGL	1,880	(3,763)	(1,313)	1,242
Present value of liabilities	12,411	14,060	7,184	7,202
Percentage of the present value of liabilities	15.2%	26.8%	18.3%	17.2%

30. Related party disclosures

Thirteen members of the Board of Management were also tenants during the year.

Five members of the Board of Management were Argyll and Bute Council Councillors during the year.

All transactions with local authorities were made at arm's length, on normal commercial terms and no Board members used their position to their advantage.

The tenancy agreements and rents charged for those members of the Board of Management were on standard terms applicable to any other tenant of the Association.

Members rent arrears were treated in a similar manner to that of other tenants in arrears with the Association.

The Association has entered premise leases with Argyll and Bute Council and has contractual arrangements for the provision of information technology support services, print services and environmental services provision.

The Association also has arrangements for the provision of the property management module of Academy Housing integrated management system to Argyll and Bute Council. The Association also lets houses to Argyll and Bute Council under a special letting agreement relating to homelessness.

The Association paid £976k to the Council for services relating to service level agreements, premises leases, IT service charges, environmental and other services received during the period.

The Association paid to the Council £990k during the period in respect of Right to Buy sales for the financial period 2009/10.

During the period the Association received from the Council £9k for the provision of service under the Academy Property management module; and £7,829k in housing benefit payments, Homelessness leases £72k, Strategic Housing Investment Fund grant £125k.

At the period end there was a creditor of £1,070k outstanding in respect of Right to Buy receipts for the financial period 2010/11 and creditors totalling £24k outstanding to the Council.