



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the Year Ended

31 March 2016

Dunedin Canmore Housing Limited

(Co-operative and Community Benefit Society No. 1823R(S))

(Scottish Housing Regulator Registration No. 116)

(Scottish Charity No. SC034572)

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st March 2016.

Principal Activities

The principal activities of Dunedin Canmore Housing are the provision and management of affordable rented accommodation. Dunedin Canmore has over 5,600 affordable homes to let in the East of Scotland.

OPERATING REVIEW

Introduction

The year 2015-16 will be remembered as one of the most significant chapters in Dunedin Canmore's history.

We officially joined the Wheatley Housing Group after consultation with our customers and a ballot, in which 84.3% of tenants who voted supported plans for the partnership.

We celebrated our 40th anniversary and, most importantly, began a new stage of our journey to improve our services and move closer to our customers.

We also worked with our sister organisations in Wheatley to develop a five-year group strategy - Investing in our Futures.

Investing in our Futures spells out Wheatley Group's vision and aims up to 2020. For Dunedin Canmore, it means we have aligned our strategy with our Group partners and now have clear and ambitious plans for the future.

We are also one of six Registered Social Landlords who have pledged to match the City of Edinburgh Council's plan to build 8,000 homes, which will bring an incredible 16,000 to the capital over the next decade. Being part of Wheatley gives our resources a vital boost and will enable us to deliver on our promise to build these much needed affordable homes.

We introduced a new way of working, putting more housing officers in our local communities, and developed new and improved services for customers.

We achieved all of that while continuing to build new, affordable homes and upgrade existing homes with improvements such as new bathrooms and kitchens.

Here are some of the highlights of our year 2015-16.

New affordable homes

Over the year we completed 80 new affordable homes across our communities. We also started work on a further 21 homes with 404 currently in development.

Dunedin Canmore tenants moved into:

- 8 homes for social rent and 12 homes for mid-market rent at Powderhall Gait in Edinburgh; and
- 60 homes for mid-market rent at our Westfield Development in Edinburgh.

Improving our homes

We invested over £3.7million in improving and servicing our homes. The work included new roofs, major tenement repairs, new heating and replacement kitchens and bathrooms.

OPERATING REVIEW (continued)

Our customers are not only enjoying their modern and comfortable homes with new amenities, the energy-efficient features also mean cheaper fuel bills. That helps us tackle fuel poverty and reduce carbon emissions.

This year we have completed:

- 304 new kitchens
- 22 bathrooms
- 111 shower upgrades
- 133 windows and doors
- 162 new boilers/gas central heating.

'EPIC' Customer service boost

We launched a transformation programme to take our customer services at Dunedin Canmore to the next level.

Staff came up with a name for the programme based on the values that would drive their journey to excellence – excellence, pride, integrity and commitment – 'EPIC'.

As part of the EPIC transformation, we introduced a new way of working with fewer layers of management. This is designed to speed up decision-making so that staff can deliver solutions for customers at the first point of contact.

We almost doubled our number of Housing Officers, increasing numbers from 14 to 24, and therefore reducing the number of homes they manage to 200 each.

New local teams made up of housing, repairs and environmental staff, have also been formed so colleagues can work closely together.

Staff were involved in a series of engagement events with their ideas being turned into improvements for customers. These have included:

- shorter waiting times for callers to Dunedin Canmore's customer service centre;
- repairs being spotted earlier in customers' homes as a result of increased visits;
- specialist advice or care support put in place for elderly and vulnerable tenants.

Tackling fuel poverty

This year we continued work on our 'Energy 2020' project which aims to fit 600 Dunedin Canmore homes with gas central heating over the next five years, saving tenants money on their energy bills. The first stage of the project has seen 200 homes installed with cavity wall and loft insulation, helping make them warmer and more energy-efficient. High efficiency gas boilers and heating systems have also been installed in 174 homes to date under the initiative.

This first stage of the 'Energy 2020' project won a top energy-efficiency award – the Regional Small Scale Project of the Year Award 2016 – at the Annual Scottish Energy Efficiency Retrofit Awards.

Other works carried out to support the 'Energy 2020' project include full gas central heating, thermostatic showers, loft/cavity wall insulation and new windows and doors.

Fuel advice slashes bills

Customers across our communities saved over £150,000 in the past year thanks to our fuel advice service. A total of 878 tenants used the service in 2015-16 and saved on their bills.

Dunedin Canmore's energy advice team, 'HEAT', gives customers free, expert advice on keeping their gas and electricity bills low.

OPERATING REVIEW (continued)

They helped people:

- reduce payments;
- move to a lower tariff;
- apply for a Warm Homes Discount payment; and
- reduce debt.

Tenant Henry Dickson, 77, saved £250 just by doing an energy price comparison with help from HEAT advisor Nadia Winnick.

Henry said: "I like to keep my home cosy but I was worried about high fuel bills. I can't believe I was able to save so much just by changing my tariff. Nadia made it very easy to swap and I'm really pleased with the savings."

Upgrade for historic building

Work began on 39-48 Earl Grey Street in Edinburgh City Centre, a pre-1919 building in need of critical repairs. Dunedin Canmore owns 24 homes in the building which is also made up of 10 privately owned flats and five shop units.

The project will see essential stonework repairs for the walls and roof refurbishment work in order to preserve the integrity of the building.

The Earl Grey Street works form one of our first major projects to be delivered under our pre-1919 Tenement Strategy. The Strategy aims to address particular challenges faced by Dunedin Canmore in managing nearly 1,000 pre-1919 tenement flats. The estimated capital investment programme of the project is in excess of £10 million.

The strategy has been developed in partnership with the City of Edinburgh Council and Dunedin Canmore's local tenants' forum who have all welcomed our commitment to preserve and enhance our tenement properties across the city.

The Scottish Government has invited Dunedin Canmore to participate in a national working group which is looking at the challenges presented by pre-1919 tenement homes across the country. Several projects, including Earl Grey Street, have been selected by the Government as case studies to further develop national policy.

Handyperson service a hit with customers

Our Handyperson service is there to help tenants who are over 60 or disabled with small jobs around the home.

It proved a big hit this year with 131 jobs carried out ranging from hanging curtains, putting up shelves and assembling flat-pack furniture.

Agnes Henry, 60, from Restalrig in Edinburgh had her new bedroom furniture put together by handyperson George Neil. She said: "The Handyperson Service is a fantastic idea. It would have been impossible for me to build my bedroom furniture and it's great that tenants have access to this service."

"Not everyone has people to help with this kind of thing and it can be expensive to pay to get the job done."

Excellent rating for Dunedin Harbour Hostel

Dunedin Harbour Hostel was awarded the highest grading of Excellent following an unannounced inspection by the Care Inspectorate in September 2015.

OPERATING REVIEW (continued)

Inspectors said people at the hostel spoke highly of their key worker and other staff working in the service. They also found lots of evidence of the positive outcomes people were achieving, many of whom are dealing with very complex issues.

The past year has seen the hostel work with 105 service users. Outcomes include:

- 36 service users accessed education, training and employment;
- 100% reported greater self-confidence;
- 36 people reported reduced substance misuse; and
- 42 residents moved into settled accommodation.

A route out of homelessness

Our initiative to help homeless people settle into a home of their own launched in 2015 and has enjoyed fantastic success.

We offer the option of a training flat to people in our homeless hostel who are looking to move into a long term tenancy. The flats provide a caring and secure environment where they can learn how to maintain a tenancy and run a home. Once they feel confident branching out on their own we are able to resettle them into a new home in our communities.

Having direct access to housing within Dunedin Canmore is a great asset which allows us to create a continuous pathway from homeless accommodation to permanent homes.

Over the last year we worked with 18 people using our supported flats with:

- 8 people accessing education, training and employment;
- 14 residents achieving greater independence;
- 100% of people maximising their income;
- 100% of people reporting greater self-confidence.

All 18 residents have moved into settled accommodation.

Jobs and training

Employability schemes funded by Dunedin Canmore and partners helped 72 people from our communities into jobs and 426 people into training and further education over the year.

As part of our drive to provide customers with more opportunities to lead better lives and move into jobs we helped people into community learning, further education, volunteering and employment through:

- Youth projects including Environmental Volunteering and Outdoor Learning 'EVOLS';
- Sport initiative 'Football works' which teaches employability and personal development through football; and
- Community based computer learning which provides access and support for digital training and includes access to accredited certification in Microsoft Office packages.

Wheatley opportunities for customers

Joining the Group has meant our customers can now benefit from the Wheatley Pledge scheme, which incentivises contractors and suppliers to do more for our communities.

Alfie McIntosh, 33, a Dunedin Canmore mid-market tenant, landed a full time job with Dunpark Letting Agency in Edinburgh through the Wheatley Pledge.

OPERATING REVIEW (continued)

He said: "Getting this job is a real boost for my family. It's fantastic my landlord can offer this kind of support."

Customers can now benefit from the Wheatley Modern Apprenticeships and our first Modern Apprentice was accepted in May 2016.

Sophie Hopkinson-Klein, 23, has been appointed Property Operations Modern Apprentice. She was previously a resident at our homeless hostel Dunedin Harbour and had been working in our Business Support team for a year.

Digital inclusion

We continued to increase the number of digital skills centres in our communities with 17 now open to the public and plans to open more over the next year.

Our 'Digital Skills for All' project provides free computer facilities and support classes in some of Edinburgh's poorest communities. Expert advice is on hand to help people log-on to job sites, create a CV, get online shopping discounts, pay their rent and access online benefit forms and accounts. Over one thousand participants from our communities have used our 'Digital Skills for All' classes with 95 undertaking training, learning and employment activities with 30 gaining employment.

The centres are a partnership between Cre8te Opportunities Ltd, Port of Leith Housing Association and Hillcrest Housing Association.

Welfare services

We have increased the range of wraparound services designed to support people affected by welfare reform – from money advice, welfare rights, energy advice and support with income maximisation and financial literacy.

We also offer a range of other activities such as healthy eating advice, cooking lessons, health and safety awareness, tackling fuel poverty and employability.

In the past year a total of 1,600 customers have used the services.

Improving performance

We continued to make significant strides in improving our business performance on many of the key indicators which we report to the Scottish Housing Regulator.

Some of the key performance results for 2015/16 at Dunedin Canmore include:

- the percentage of customers who sustained their tenancies for more than a year rose by 1.54% from 91.03% to 92.57%;
- complaints resolved within SPSO timescales increased from 71.24% to 77.25%;
- average length of time taken to re-let properties fell by 3 days from 29.42 days to 26.42 days; and
- rent arrears reduced by 1.26% from 6.07% to 4.81%.

We will work hard to improve customer engagement satisfaction levels over the next year.

A significant amount of work was done to ensure our performance reporting was consistent with the rest of the Group. This will help business leads to drive improvements across all our services over the coming year.

OPERATING REVIEW (continued)

Independent auditors

The directors appointed RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) to act as auditors of the financial statements for the year ended 31 March 2016. In accordance with Section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditors is to be proposed at the forthcoming Annual General Meeting.

FINANCIAL REVIEW

Income

The Association's turnover for the year ended 31 March 2016 totalled £30,181k (2015: £30,913k). Rental and service charge income (net of void losses) accounted for 79% or £23,777k (2015: 79 %, or £24,581k) of this with the remainder including:

- £3,420k of grant accounted for as income in relation to capital investment and the new build programme (2015: £903k);
- £2,984k of other revenue to support the delivery of sheltered accommodation and the Association's wider role in its communities (2015: £5,429k).

Expenditure

Total revenue expenditure in the year was £20,220k (2015: £22,243k), comprising the following main items:

- Letting activity management costs of £4,383k (2015: £3,860k);
- Service costs of £1,812k (2015: £1,828k);
- Planned repair and reactive maintenance costs of £2,548k and £3,431k respectively (2015: £3,289k and £2,680k);
- Total depreciation costs of £6,201k (2015: £5,401k); and
- Costs associated with our wider role in supporting communities of £1,173k (2015: £1,280k).

The operating surplus generated by the Association in the year totalled £6,622k after taking account of a loss on the revaluation of investment properties of £3,339k (2015: a gain of £270k).

The Association had a net asset position at the year-end of £114.6m (2015: £98.4m).

Cashflows

The cash flow statement of the Association is shown on page 19. The Association generated £11.5m from operating activities, a decrease of £535k from the prior year. Cash and cash equivalents in the year reduced by £1.4m (2015: decreased by £1.4m).

Liquidity

The Association's net current assets as at 31 March 2016 totalled £5,762k, a reduction of £9,903k in the year linked to the repayment of the intercompany loan debtor with another Group undertaking and utilisation of the new Group borrowing arrangements. The Association joined the Wheatley RSL Borrower Group arrangements with effect from 1 April 2016, with loans now administered from that date by the Group funding entity Wheatley Funding No.1 Limited. Loan creditors due after more than one year have therefore decreased before taking account of the FRS 102 fair value adjustment from £165m to £155m.

Capital structure and treasury

The Association's activities are funded on the basis of a Business Plan which is updated annually. The main element of our long-term funding is the syndicated funds in Wheatley Funding No. 1 Limited, as detailed in note 19. The Association has access to an intra-group facility of £155.0m

FINANCIAL REVIEW (continued)

which is secured on its housing stock. Interest rate risk is managed at a group level by Wheatley Funding No. 1 Limited.

Investment in tenants' homes

During the year we invested £3,753k in improving tenant's homes. At the year-end our completed housing stock was valued at £230,232k

New Build

During the financial year we completed 80 new build properties across two developments, at a cost of £8,111k. The Business Plan includes a further projected spend of £73m on the new build programme in Dunedin Canmore Housing over the next five years.

By order of the Board



Thomas Mitchell, Chair

31 August 2016

8 New Mart Road
Edinburgh
EH14 1RL

DUNEDIN CANMORE BOARD, COMMITTEE STRUCTURE AND RELATED MATTERS

As at 31 March 2016 Dunedin Canmore's Rules allowed for the appointment of up to 15 Board members. They are elected at the annual general meeting from the general membership of the Association and retire by rotation every three years. Any general member of the Association is entitled to stand for membership of the Board.

At 31 March 2016 there were 9 members (2015: 11 members) of the Dunedin Canmore Housing Board:

The members of the Board during the year are listed below:

Name	First Joined Board	Re-elected/ re-appointed	Left Board	Committees/Group Directorships
Jill Anderson	28 August 2014	23 September 2014		Audit Committee (Chair from 28 January 2016)
John Fletcher	1 April 2005	17 September 2015	31 March 2016	Audit Committee (Chair until 28 January 2016))
Surbhi Gosain	26 March 2015	17 September 2015		
Jane Green	28 August 2014	23 September 2014		
Terence Kirby	20 September 2012	12 September 2013		
Susan Laing	29 January 2015	17 September 2015		
Thomas Mitchell (Chair)	18 December 2008	17 September 2015		Audit Committee Director of Dunedin Canmore Foundation
Mary Mulligan (Vice Chair)	20 September 2012	12 September 2013		Director of Dunedin Canmore Foundation
Sheila Scobie	26 March 2015	17 September 2015		
Yvonne Summers	22 February 2007	23 September 2014	17 September 2015	
Dennis Trueland	28 August 2014	23 September 2014		Audit Committee

**DUNEDIN CANMORE BOARD, COMMITTEE STRUCTURE AND RELATED MATTERS
(continued)**

The Chair of Dunedin Canmore Housing attends the combined Dunedin Canmore Housing and Dunedin Canmore Enterprise Audit Committee meetings, but does not form part of the Committee or the quorum of the meeting.

The combined Dunedin Canmore Housing and Dunedin Canmore Enterprise audit committee is responsible for helping the Boards to discharge their responsibilities around financial policy and performance, internal controls and risk management.

Political and charitable donations

No political or charitable donations were made by Dunedin Canmore in the year.

Creditor payment policy

DCH agrees payment terms with its suppliers when it enters into contracts. The average creditor payment period for the year was within 30 days.

Reserves Policy

Under the Statement of Recommended (Accounting) Practice ("SORP") 2014 and Financial Reporting Standard ("FRS") 102, the Association may operate with up to three principal reserves; a revenue reserve, a revaluation reserve and a pension reserve.

Revenue reserve

Revenue reserves include historic grant received in respect of the following:

- new build housing properties
- specific projects for which subsidy has been received, such as investment in the energy efficiency of our homes

These grants have been invested for the specific purposes prescribed in the related grant conditions, with this activity typically resulting in an increase in the value of housing properties in the Association's Statement of Financial Position. The Association has no ability to realise new cash from this element of reserves, since selling the related assets which were constructed or improved with the grant funds would trigger clawback conditions and require repayment of grant to the Scottish Government or other grant providers. Furthermore, it is not the Association's policy to sell social housing assets; on the contrary, continuing to own and support these while providing excellent services to customers is core to the Association's charitable purpose.

The revenue reserve may include revaluation gains on investment properties, such as any mid-market rent homes which are owned by the Association. Under FRS 102, gains or losses on investment properties must be taken to profit and loss, and therefore form part of the general revenue reserve. These gains are not available to be realised in cash, since selling the Association's interest in any mid-market rent properties would trigger grant clawback and would run counter to the Association's core charitable objective of supporting the provision of a range of affordable housing solutions to be provided for its customers.

The residual amount of revenue reserves, not represented by grant or gains on investment properties, may be invested by the Association in line with its 30-year business plan financial projections. Such investment is subject to the Association maintaining a viable financial profile over the life of its business plan, as well as approval by the Wheatley Group Board. In approving the Association's business plan annually, the Wheatley Group Board will take into account projected compliance with

**DUNEDIN CANMORE BOARD, COMMITTEE STRUCTURE AND RELATED MATTERS
(continued)**

the loan covenants which apply to the Wheatley RSL Borrower Group, as well as the impact of sensitivity analysis and other risk factors which may apply.

Revaluation reserve

The revaluation reserve represents, to the extent applicable, the increase in valuation which has occurred over and above the cost of additions to the Association's property (other than investment property). This reserve is therefore also not realisable, on the basis that to do so would involve selling social housing assets and would therefore undermine the Association's core charitable purpose.

Pension reserve

The pension reserve is not a cash reserve available for investment. It represents the amount by which the actuarial valuation of the Association's share of defined benefit pension assets exceeds or is less than its notional pension liabilities. Under FRS 102, the reserve contained within the Statement of Financial Position assumes there is no cessation/exit from the Scottish Housing Associations Pension Scheme in relation to past service liabilities, even though the scheme is closed to new joiners. Fully withdrawing from the scheme would involve liabilities being revalued onto an "exit" basis, with a significant additional premium attached to compensate the pension fund for the risk of reduced membership and inability to seek future contributions from the related members.

Disclosure of information to auditors

The Board members who held office at the date of approval of these statements confirm that, so far as they are each aware, there is no relevant audit information of which the Association's auditors are unaware; and each Board member has taken all the steps that he/she ought to have taken as a Board member to make himself/herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

STATEMENT OF BOARD'S RESPONSIBILITIES FOR A REGISTERED SOCIAL LANDLORD THAT IS A CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETY

The Board is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Society Act 2014 and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the RSL and of the surplus or deficit for that period. In preparing these financial statements, the board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 RSL will continue in business.

The board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the RSL and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014 and has a general responsibility for taking reasonable steps to safeguard the assets of the RSL and to prevent and detect fraud and other irregularities.

The board is responsible for the maintenance and integrity of the Association's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Thomas Mitchell, Chair

31 August 2016

8 New Mart Road
Edinburgh
EH14 1RL

DIRECTORS' STATEMENT ON INTERNAL CONTROLS

The directors acknowledge their responsibility for ensuring that the company has in place systems of control that are appropriate to its business environment. These controls are designed to give reasonable assurance with respect to:

- The reliability of financial information within the Association, or for publication;
- The maintenance of proper accounting records;
- The safeguarding of assets against unauthorised use or disposition.

The systems of internal financial control, which are under regular review, are designed to manage rather than to eliminate risk. They can only provide reasonable and not absolute assurance against material misstatement or loss.

The key procedures which have been established are as follows:

- Detailed standing orders covering Board structure, election, membership and meetings;
- Financial regulations and procedures with clear authorisation limits;
- Regular Board meetings, focusing on areas of concern, reviewing management reports;
- Audit and Compliance reporting focussing on areas of concern and reviewing management reports;
- Regular review of cashflow and loan portfolio performance;
- Regular review of tendering process, rent accounting, arrears control and treasury management;
- Segregation of duties of those involved in finance;
- Identification and monitoring of key risks by the management committee; and
- Monitoring the operation of the internal financial control system by considering regular reports from management, internal and external auditors and ensuring appropriate corrective action is taken to address any weaknesses.

The directors confirm that they have reviewed the effectiveness of the systems of internal control. No weaknesses have been found which would have resulted in material losses, contingencies or uncertainties which require to be disclosed in the financial statements.

By order of the Board



Thomas Mitchell, Chair

31 August 2016

8 New Mart Road
Edinburgh
EH14 1RL

REPORT BY THE AUDITORS TO THE MEMBERS OF DUNEDIN CANMORE HOUSING ASSOCIATION ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the Financial Statements, we have reviewed your statement on page 13 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council through enquiry of certain members of the Management Committee and Officers of the Association and examination of relevant documents. 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 reason given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on page 13 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

RSM UK Audit LLP

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

1 September 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DUNEDIN CANMORE HOUSING LIMITED

We have audited the financial statements of Dunedin Canmore Housing Limited for the year ended 31 March 2016 on pages 17 to 45. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the 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 12, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – December 2014 .

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DUNEDIN CANMORE HOUSING LIMITED (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 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.

RSM UK Audit LLP

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP)

Statutory Auditor

Chartered Accountants

First Floor, Quay 2

139 Fountainbridge

Edinburgh, EH3 9QG

1 September 2016

**STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 MARCH 2016**

	Notes	Total 2016 £'000	Total 2015 restated £'000
Turnover	3	30,181	30,913
Operating expenditure	3	(20,220)	(22,243)
(Loss)/Gain on investment activities	3	(3,339)	270
Operating surplus		6,622	8,940
Gain/(loss) on disposal of fixed assets	8	155	(439)
Finance income	9	173	654
Finance charges	10	(7,440)	(7,859)
Movement in fair value of financial instruments		6,901	(7,280)
Reversal of previous decrease in valuation of housing properties	13	8,727	7,451
Surplus for the year		15,138	1,467
Actuarial gain in respect of pension schemes		1,052	2,281
Total comprehensive income for the year		16,190	3,748

**STATEMENT OF CHANGES IN RESERVES
 FOR THE YEAR ENDED 31 MARCH 2016**

	2016 £'000	2015 £'000 Restated
Balance at 1 April	98,420	94,672
Surplus for the year	15,138	1,467
Actuarial gain in respect of pension schemes	1,052	2,281
Balance at 31 March	114,610	98,420

All amounts relate to continuing operations. Comparative figures have been restated to reflect the adoption of the Housing SORP 2014 and FRS 102.

The notes on pages 20 to 45 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2016

		2016	2015
	<i>Notes</i>	£'000	restated £'000
Fixed assets			
Social housing properties	13	233,394	234,069
Other tangible fixed assets	14	7,413	7,695
Investment properties	15	44,600	36,272
		<u>285,407</u>	<u>278,036</u>
Current assets			
Stock	16	105	40
Trade and other debtors	17	2,773	13,142
Cash and cash equivalents		9,149	10,529
		<u>12,027</u>	<u>23,711</u>
Creditors: amounts falling due within one year	18	(6,265)	(8,046)
		<u>5,762</u>	<u>15,665</u>
Net current assets		<u>5,762</u>	<u>15,665</u>
Total assets less current liabilities		291,169	293,701
Creditors: amounts falling due after more than one year	19	(174,583)	(191,913)
		<u>116,586</u>	<u>101,788</u>
Provisions for liabilities			
Pension liability	21	(1,976)	(3,368)
Total net assets		<u>114,610</u>	<u>98,420</u>
Reserves			
Share capital	20	-	-
Revenue reserve excluding pension reserve		116,586	101,788
Pension reserve	21	(1,976)	(3,368)
Revenue reserve including pension reserve		114,610	98,420
Total reserves		<u>114,610</u>	<u>98,420</u>

Comparative figures have been restated to reflect the adoption of the Housing SORP 2014 and FRS 102. The date of transition is 1 April 2014.

These financial statements were approved by the Board on 18 August 2016 and were signed on its behalf on 31 August 2016 by:



Thomas Mitchell
Chair



Mary Mulligan
Vice Chair



Roy Walker
Secretary

The notes on pages 20 to 45 form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016

	<i>Notes</i>	2016 £'000	2015 restated £'000
Net cash generated from operating activities	24	<u>11,521</u>	<u>12,056</u>
Cash flow from investing activities			
Improvement of properties – housing stock	13	(3,753)	(3,168)
New build	13	(4,981)	(8,183)
Purchase of other fixed assets	14	(142)	(458)
Improvement of properties – investment	15	(99)	-
Proceeds from disposal of properties	8	946	5,850
Grants received	19	1,147	(470)
Finance income	9	173	654
		<u>(6,709)</u>	<u>(5,775)</u>
Cash flow from financing activities			
Finance charges		(5,792)	(7,730)
Repayment of intercompany loan by Dunedin Canmore Enterprise Ltd		9,500	-
Repayment of bank loan		<u>(9,900)</u>	<u>-</u>
		<u>(6,192)</u>	<u>(7,730)</u>
Net change in cash and cash equivalents		<u>(1,380)</u>	<u>(1,449)</u>
Cash and cash equivalents at beginning of the year		10,529	11,978
Cash and cash equivalents at end of the year		9,149	10,529
Cash and cash equivalents at 31 March			
Cash		9,149	10,529
Bank overdraft		<u>-</u>	<u>-</u>
		<u>9,149</u>	<u>10,529</u>

The notes on pages 20 to 45 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

1. Legal status

Dunedin Canmore Housing Limited ("DCH" or "the Association") is a wholly owned subsidiary of The Wheatley Housing Group ("WHG" or "the Group"). DCH is registered under the Co-operative and Community Benefit Societies Act 2014 No.1823R(S) and is a registered Scottish charity No.SC034572. DCH is registered as a housing association with the Scottish Housing Regulator under the Housing (Scotland) Act 2014. The principle activity of the Association is the provision of social housing. Dunedin Canmore Housing is a Public Benefit Entity. The registered office is 8 New Mart Road, Edinburgh, EH14 1RL.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The financial statements of the Association are prepared in accordance with applicable accounting standards and in accordance with the accounting requirements included with the Determination of Accounting Requirements 2014, and under the historical cost accounting rules, modified to include the revaluation of properties held for letting and commercial properties. The financial statements have also been prepared, for the first time, in accordance with the Statement of Recommended Practice for social housing providers 2014 ("Housing SORP 2014"), issued by the National Housing Federation and under FRS 102.

The financial statements have been prepared on a going concern basis after consideration of the future prospects for the Group and the preparation of long terms financial forecasts and plans which include an assessment of the availability of funding, the certainty of cash flow from the rental of social housing stock.

Related party disclosures

The Association is a wholly-owned subsidiary of Wheatley Housing Group Limited and is included within the consolidated financial statements of Wheatley Housing Group Limited which are publicly available. Consequently, the Association has taken advantage of the exemption, under the terms of FRS 102, from disclosing related-party transactions with wholly owned entities that are part of the Wheatley Housing Group.

Turnover

Turnover, which is stated net of value added tax, represents income receivable from lettings and service charges, fees receivable, revenue grants and other income.

Grant income

Where a grant is paid as a contribution towards revenue expenditure, it is included in turnover. Where grant is received from government and other bodies as a contribution towards the capital cost of housing schemes, it is recognised as income using the performance model in accordance with the Statement of Recommended Practice for social housing providers 2014 ("Housing SORP 2014"). Prior to satisfying the performance conditions, capital grant is held as deferred income on the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

2. Accounting policies (continued)

Bad and doubtful debts

Provision is made against rent arrears of current and former tenants as well as other miscellaneous debts to the extent that they are considered potentially irrecoverable. Debts are classed as uncollectable after an assessment of the legislative options available to recover and consideration of specific circumstances.

Supported housing and shared ownership

Expenditure on housing accommodation, supported housing and shared ownership is allocated on the basis of the number of units for each type of accommodation, except for staffing and running costs for which the level of expenditure is directly attributable.

Financial Instruments

The Association has elected to apply FRS 102 Section 11 and Section 12 in accounting for financial instruments. FRS 102 requires some financial instruments to be carried at fair value. Housing loans are classed as either basic or complex financial instruments. Loans that are classed as basic under the requirements of FRS 102, are measured at amortised cost. The fair value of complex financial instruments are provided by an independent professional advisor and are determined using valuation techniques that use primarily observable inputs such as short term rates, futures, swap rates, implied volatilities and market credit spreads for similar credit worthiness instruments

In the case of payment arrangements that exist with customers, these are deemed to constitute financing transactions and are measured at the present value of the future payments discounted at a market rate of interest applicable to similar debt instruments. Changes in fair values of financial instruments are taken to the Statement of Comprehensive Income.

Deposits and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Liquid resources are current asset investments that are disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at or close to their carrying values.

Critical accounting estimates and areas of judgement

Preparation of the financial statements requires management to make critical judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included below.

Discount rates have been used in the valuation of housing properties and in the assessment of the fair value of financial instruments. The rates used are subject to change and are influenced by wider economic factors over time.

Pensions

The Association previously participated in the Pensions Trust Scottish Housing Association Pension Scheme ("SHAPS") Defined Benefit Pension Scheme. The scheme is now closed, with members transferring to the SHAPS Defined Contribution Scheme on 1 April 2014. Retirement benefits to employees are funded by contributions from all participating employers and employees in the Scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

2. Accounting policies (continued)

In accordance with FRS 102, the Association's share of the scheme assets and liabilities have been separately identified and are included in the Statement of Financial Position and measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The Association's share of the deficit is recognised in full and the movement is split between operating costs, finance items and in the Statement of Comprehensive Income as actuarial gain or loss on pension schemes.

Since the closure of the SHAPs Defined Benefit Pension Scheme, new members are enrolled in a defined contribution scheme administered by Friends Life.

Fixed assets – housing properties

In accordance with the Housing SORP 2014, the Association operates a full component accounting policy in relation to the capitalisation and depreciation of its completed housing stock.

• **Valuation of Social Housing Stock**

Social housing properties are valued annually on an Existing Use Value for Social Housing (EUVS-H) basis by an independent professional adviser qualified by the Royal Institution of Chartered Surveyors to undertake valuation. The cost of properties is their purchase price together with the cost of capitalised improvement works and repairs that results in an enhancement of the economic benefits of the asset. Included in the cost of capitalised improvement works are the direct costs of staff engaged in the investment programme.

• **Depreciation and Impairment**

Housing properties are split between land, structure and major components which require periodic replacement. Replacement or refurbishment of such major components is capitalised and depreciated over the estimated useful life which has been set taking into account professional advice, the Group's asset management strategy and the requirement of the Scottish Housing Quality Standard. 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.

Major components are treated as separable assets and depreciated over their expected useful economic lives or the lives of the structure to which they relate, if shorter, at the following annual rates:

	Economic Life
Land	n/a
Structure & roofs	75 yrs
Bathroom	24 yrs
Shower	12 yrs
External environment	20 yrs
External wall finishes	35 yrs
Heating system boiler	15 yrs
Internal works & common areas	20 yrs
Kitchen	15 yrs
Mechanical, Electrical & Plumbing	30 yrs
Windows and doors	30 yrs

Housing assets are depreciated in the month of acquisition, or in the case of a larger project, from the month of completion.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

2. Accounting policies (continued)

Where there is evidence of impairment, the fixed assets are written down to the recoverable amount and any write down would be charged to operating surplus.

• **New Build**

Housing properties in the course of construction are held at cost and are not depreciated. They are transferred to completed properties when ready for letting or sale.

The Association's policy is to capitalise the following:

- Cost of acquiring land and buildings;
- Interest costs directly attributable;
- Development expenditure including direct development staff costs; and
- Other directly attributable internal and external costs.

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.

Non-housing properties

Housing for Mid Market Rent properties are valued on an open market value subject to tenancies basis at the date of the Statement of Financial Position by an independent professional advisor qualified by the Royal Institution of Chartered Surveyors to undertake valuation and are held as investment properties and not subject to depreciation. Where it is considered that there has been any impairment in value this is provided for accordingly. The cost of properties is their purchase price together with capitalised improvement works.

Mid Market Rent properties owned by the Association are currently leased to and managed by Dunedin Canmore Enterprise Limited on arms' length commercial terms.

Commercial properties are held as investment properties and not subject to depreciation. They are held at existing use value and are subject to revaluation by an independent professional advisor qualified by the Royal Institute of Chartered Surveyors to undertake valuation. Commercial properties are revalued at least every five years.

Housing Association Grant and other capital grants

Housing Association Grant (HAG) is received from central government agencies and local authorities and is utilised to reduce the capital costs of housing properties.

HAG is recognised as income in the Statement of Comprehensive Income when new build properties are completed or the capital work carried out under the performance model. HAG due or received is held as deferred income until the performance conditions are satisfied; at that point it is recognised as income in the Statement of Comprehensive Income within turnover. Grant received in respect of revenue expenditure is recognised as income in the same period to which it relates.

Properties are disposed of under the appropriate legislation and guidance. Any grant that is repayable is accounted for as a liability on disposal of the property. Grant which is repayable but cannot be repaid from the proceeds of sale is abated and the grant removed from the financial statements. Where a disposal is deemed to have taken place for accounting purposes, but the repayment conditions have not been met in relation to the grant funding, the potential future obligation to repay disclosed as a contingent liability.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

2. Accounting policies (continued)

Shared Ownership

Shared ownership properties are split between fixed assets and current assets. The allocation is determined by the percentage of the property to be sold under a first tranche disposal which is recorded as a current asset under Stock. The balance is recorded as social housing stock within fixed assets. Proceeds from a first tranche disposal are recorded as turnover, and costs through operating expenditure in the Statement of Comprehensive Income. Subsequent disposals are treated as a disposal of a fixed asset and are recorded through gain/loss on disposal of fixed assets.

Other tangible fixed assets

For other tangible fixed assets, depreciation is charged on a straight-line basis over the expected useful economic lives of fixed assets to write off the cost, less estimated residual values over the following expected lives. Assets are depreciated in the month of acquisition, or in the case of a larger project, from the month of completion, at the following rates:

	Economic Life
Furniture, fittings and office equipment (cost)	5 - 10yrs
Computer equipment (cost)	3 - 5 yrs
Solar panels (cost)	25 yrs

Provisions

The association only provides for liabilities at the date of the Statement of Financial Position where there is a legal or constructive obligation incurred which will probably result in an outflow of resources.

Taxation

As a charity, DCH is exempt from corporation tax on its charitable activities by virtue of Section 505(1) Income & Corporation Taxes Act 1988 and from capital gains tax by virtue of Section 145 Capital Gains Tax Act 1979.

Value Added Tax

The Association is registered for VAT. A large portion of its income, including rental receipts, is exempt for VAT purposes, giving rise to a partial exemption calculation. Expenditure with recoverable VAT is shown net of VAT and expenditure with irrecoverable VAT is shown inclusive of VAT.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

3. Particulars of turnover, operating costs and operating surplus

	Turnover	2016 Operating Costs	(Loss)/Gain on investment activities	Operating Surplus/ (deficit)	2015 Operating Surplus/ (deficit) restated
	£'000	£'000	£'000	£'000	£'000
Affordable letting activities (note 4)	27,197	(18,186)	-	9,011	8,689
Other activities (note 5)	2,984	(2,034)	-	950	(19)
(Loss)/Gain on investment activities (note 15)	-	-	(3,339)	(3,339)	270
Total	30,181	(20,220)	(3,339)	6,622	8,940
Total for previous reporting period (restated)	30,913	(22,243)	270	8,940	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

4. Particulars of turnover, operating costs and operating surplus from social letting activities

	2016				Total £'000	Total restated £'000
	General Needs £'000	Supported Housing £'000	Shared Ownership £'000	Hostel £'000		
Rent receivable net of service charges	21,516	-	-	572	22,088	22,884
Service charges	1,275	344	114	193	1,926	1,942
Gross income from rents and service charges	22,791	344	114	765	24,014	24,826
Less rent losses from voids	(170)	(2)	-	(65)	(237)	(245)
Net income from rents and service charges	22,621	342	114	700	23,777	24,581
Grants released from deferred income	2,267	-	-	3	2,270	343
Revenue grants from Scottish Ministers	559	143	-	448	1,150	560
Other revenue grants	-	-	-	-	-	-
Total turnover from affordable letting activities	25,447	485	114	1,151	27,197	25,484
Management and maintenance administration costs	3,606	70	114	593	4,383	3,860
Service costs	1,275	344	-	193	1,812	1,828
Planned and cyclical maintenance including major repairs costs	2,267	61	-	220	2,548	3,289
Reactive maintenance costs	3,348	8	-	75	3,431	2,680
Bad debts – rents and service charges	235	-	-	-	235	188
Depreciation of affordable let properties	5,777	-	-	-	5,777	4,950
Operating costs for affordable letting activities	16,508	483	114	1,081	18,186	16,795
Operating surplus for affordable letting activities	8,939	2	-	70	9,011	8,689
Operating surplus for affordable letting activities for the previous reporting period (restated)	8,526	49	11	103	8,689	

The disclosure of turnover, operating costs and operating surplus from affordable letting activities has been restated to reflect the requirements of the Housing SORP 2014. Comparative figures have been restated on the same basis.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

5. Particulars of turnover, operating costs and operating surplus from other activities

			2016	2015		
	Grants From Scottish Ministers £'000	Other Revenue £'000	Total Turnover £'000	Total Operating Costs £'000	Operating Surplus /(Deficit) £'000	Operating Surplus /(Deficit) restated £'000
Wider role activities to support the community	295	259	554	(1,173)	(619)	(832)
Investment property activities	-	1	1	-	1	1,132
Factoring	-	51	51	(58)	(7)	(24)
Other agency/management services	-	2,145	2,145	-	2,145	-
Other income	-	233	233	(41)	192	156
Depreciation – Non Social Housing	-	-	-	(424)	(424)	(451)
Organisation Restructuring	-	-	-	(338)	(338)	-
Total from other activities	295	2,689	2,984	(2,034)	950	(19)
Total from other activities for the previous reporting period (restated)	1,306	4,123	5,429	(5,448)	(19)	

The disclosure of turnover, operating costs and operating surplus from other activities has been restated to reflect the requirements of the Housing SORP 2014. Comparative figures have been restated on the same basis.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

6. Board members' emoluments

Board members received £85 (2015: £121) by way of reimbursement of expenses. No remuneration is paid to board members in respect of their duties in the Association.

7. Officers' and employees' emoluments

Dunedin Canmore Housing Association does not employ any staff. Dunedin Canmore Enterprise provides staff and services to Dunedin Canmore Housing in respect of development, financial management, housing management and maintenance. This includes Officers of the Association. Officers emoluments are disclosed in the financial statements of Dunedin Canmore Enterprise as the employer. In the year DCE recharged £5,363k to DCH in respect of staff (2015: £4,904k).

8. Gain/(loss) on disposal of fixed assets

This represents net income from the disposal of fixed assets.

	2016	2015
	£'000	£'000
Proceeds from disposal of properties	946	5,850
Value of properties disposed	(791)	(6,289)
Surplus/(deficit) on sale of fixed assets	<u>155</u>	<u>(439)</u>

9. Finance income

	2016	2015
	£'000	£'000
Interest on intra group loans	131	525
Interest on bank deposits	42	129
Total	<u>173</u>	<u>654</u>

10. Finance charges

	2016	2015
	£'000	£'000
Interest on bank borrowings	1,252	7,540
Interest on intra group loans	5,908	-
Net change in pension liability (note 22)	107	242
Other financing costs	173	77
Total	<u>7,440</u>	<u>7,859</u>

Other financing costs include commitment and non-utilisation fees.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

11. Auditors' remuneration

	2016	2015
	£'000	£'000
The remuneration of the auditors (excluding VAT) is as follows:		
Audit of these financial statements	20	15
Other services	3	3

12. Financial commitments

Capital commitments

All capital commitments of the Association were as follows:

	2016	2015
	£'000	£'000
Expenditure contracted for, but not provided in the financial statements	9,719	1,608
Expenditure authorised by the Board, but not contracted	2,788	-
	<u>12,507</u>	<u>1,608</u>

Operating leases

At 31 March 2016 the Association had no commitments under non-cancellable operating leases.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

13. Tangible fixed assets

Social Housing Properties

	General Needs £'000	Shared Ownership £'000	Housing Under Construction £'000	Total £'000
Valuation				
At 1 April 2015 (restated)	212,160	14,517	7,392	234,069
Additions	3,753	-	4,981	8,734
Disposals	(1,274)	(146)	(61)	(1,481)
Transfers	1,018	21	(1,039)	-
Transfers to investment properties (Note 15)	(3,536)	(4)	(8,111)	(11,651)
Revaluation	3,381	342	-	3,723
At 31 March 2016	215,502	14,730	3,162	233,394
Accumulated Depreciation				
At 1 April 2015 (restated)	-	-	-	-
Charge for year	6,038	-	-	6,038
Disposals	(773)	-	-	(773)
Transfer to investment properties (Note 15)	(261)	-	-	(261)
Revaluation	(5,004)	-	-	(5,004)
At 31 March 2016	-	-	-	-
Net Book Value				
At 31 March 2016	215,502	14,730	3,162	233,394
At 1 April 2015 (restated)	212,160	14,517	7,392	234,069
Net Book Value – Historic Cost				
At 31 March 2016	301,615	22,047	3,179	326,841
At 1 April 2015 (restated)	313,069	22,176	7,392	342,637

Additions to housing properties includes capitalised major repair costs to existing properties of £3.8m (2015: £3.1m). All land and housing properties are freehold.

Social housing properties have been valued by Jones Lang LaSalle Limited, an independent professional adviser qualified by the Royal Institution of Chartered Surveyors (RICS) to undertake valuations. This valuation was prepared in accordance with the appraisal and valuation manual of the RICS at 31 March 2016 on an Existing Use Valuation for Social Housing (EUV-SH). A discount rate of between 5.75% - 6.5% (2015: 5.75-6.5%) was used. The valuation assumes a rental income increase of inflation +0.50% on retained stock for the next 3 years, in line with the Association's 30 year Business Plan (2016-17). The capital investment made in housing properties

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

13. Tangible fixed assets (continued)

each year may not translate directly into an increase in the value of the assets by virtue of the nature of the EUV-SH valuation methodology.

During 2015-16 the Association disposed of 3 properties to tenants under RTB entitlements. These properties were valued at £314k during the year (2015: £726k).

The number of units of social housing accommodation owned and managed (excluding unlettable voids) by the Association at 31 March 2016 is shown below:

	2016	2015
Social Housing		
General needs	4,661	4,665
Shared Ownership	354	355
Supported Housing	203	203
Total Units	5,218	5,223

14. Tangible fixed assets

Other tangible fixed assets

	Office and Other Premises £'000	Other Fixed Assets £'000	Total £'000
Cost			
At 1 April 2015	7,728	2,942	10,670
Additions	-	142	142
Disposals	-	(372)	(372)
At 31 March 2016	7,728	2,712	10,440
Accumulated Depreciation			
At 1 April 2015	975	2,000	2,975
Charge for year	97	327	424
Disposals	-	(372)	(372)
At 31 March 2016	1,072	1,955	3,027
Net Book Value			
At 31 March 2016	6,656	757	7,413
At 31 March 2015	6,753	942	7,695

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

15. Investments

Investment Properties

	Properties held for market rent £'000	Commercial Properties £'000	Total £'000
Valuation			
At 1 April 2015 (restated)	35,922	350	36,272
Additions	99	-	99
Disposals	(83)	-	(83)
Transfers from Social Housing Properties (Note 13)	11,651	-	11,651
Revaluation taken to operating surplus	(3,339)	-	(3,339)
At 31 March 2016	44,250	350	44,600
Net Book Value			
At 31 March 2016	44,250	350	44,600
At 31 March 2015 (restated)	35,922	350	36,272

Properties totalling £8,111k were transferred from housing under construction during the year, with a further £3,536k of housing transferred from general needs social housing. Market rent properties were valued at market value subject to tenancy (MV-T) by an independent professional adviser, Jones Lang LaSalle, on 31 March 2016.

The number of properties held for market rent by the Association at 31 March 2016 was:

	2016	2015
Mid Market Rent Properties		
Total Units	422	350

Commercial properties were valued by an independent professional adviser, Jones Lang LaSalle, on 31 March 2015 in accordance with the appraisal and valuation manual of the RICS. Commercial properties are subject to valuation at least every five years. No further revision was considered appropriate in the year 2015/16.

Investments - other

Group undertakings

	2016 £	2015 £
Shares in Dunedin Canmore Enterprise Limited	-	12

Following the partnership with the Wheatley Housing Group, the Association disposed of its 12 £1 nominal value shares in Dunedin Canmore Enterprise Limited to The Wheatley Housing Group Limited.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

16. Stock

	2016	2015
	£'000	£'000
Shared ownership properties to be sold	105	40

17. Debtors

	2016	2015 restated
	£'000	£'000
Due in more than one year:		
Due from other group companies	-	10,063
Due within one year:		
Arrears of rent and service charges	851	700
Adjustment to discount arrears balances with payment plans to NPV	4	(30)
Less: provision for bad and doubtful debts	(270)	(176)
	585	494
Prepayments and accrued income	656	760
Other debtors	240	1,099
Due from other group companies	1,292	726
Total	2,773	13,142

18. Creditors: amounts falling due within one year

	2016	2015 restated
	£'000	£'000
Trade creditors	1,136	1,822
Accruals	2,181	2,199
Deferred income (note 19)	942	2,444
Rent and service charges received in advance	453	406
Salaries, wages, other taxation and social security	-	94
Housing loans (note 19)	-	100
Other creditors	307	161
Due to other group companies	1,246	820
Total	6,265	8,046

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

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

	2016	2015
	£'000	restated £'000
Housing loans	155,000	164,900
Fair value adjustment on housing loans	17,451	24,881
Deferred income	2,132	2,132
Total	174,583	191,913

Bank lending facility

All loans are repayable by instalments and are secured by way of standard securities or other charges on certain of the Association's properties.

As at 31 March 2016, £126.5m (2015: £131.5m) of the loans were at fixed rates for a period of one year or more. The weighted average rate of interest was 4.38% (2015: 4.49%). The loans are currently at rates between 1.88% and 6.39% (2015: 1.25% and 5.74%).

The Association's activities expose it to interest rate risk. The Association uses interest rate derivatives to manage these exposures, and has a number of interest rate swaps in place. The financial instruments are not used for speculative purposes.

The Association has loans of £53.6m (2015: £58.6m) under cancellable fixed rate arrangements. These loans are classified as complex financial instruments under FRS 102 and are carried at fair value. The fair value of these arrangements has been provided by JC Rathbone Associates Limited an independent professional advisor and has been determined using valuation techniques that utilise primarily observable inputs such as short term rates, futures, swap rates, implied volatilities and market credit spreads for similar credit worthiness instruments. The fair value has been determined in the following manner:

- a) element attributable to changes in credit risk: discounted cash flows of a floating rate liability referenced to Libor 3m plus the original margin using the credit spread observable at the reporting date;
- b) attributable to changes in interest rate risk, as the liabilities are at fixed rate with cancellability by the lender: modelling the embedded derivatives and determining fair value at the reporting date using interest rate curves and volatility to project and discount future cash flows.

The total fair value on housing loans results in an increase in the loan creditor of £17,451k (2015: £24,881k). The fair value adjustment attributable to changes in credit risk resulted in a gain of £3,007k (2015: gain of £1,869k) which has been taken to the Statement of Comprehensive Income. The adjustment attributable to interest rate risk was a gain of £3,860k (2015: loss of £9,548k) also taken to the Statement of Comprehensive Income. Loans under these arrangements of £5.0m (2015: nil) were re-paid during the year resulting in a gain of £563k (2015: nil).

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

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

Borrowings are repayable as follows	2016	2015
	£'000	£'000
In less than one year	-	100
In more than one year but less than five years	-	11,100
In more than five years	155,000	153,800
	155,000	165,000

The deferred income balance is made up as follows:

	Housing Association Grant £'000	Other £'000	Total Deferred Income £'000
Deferred income as at 31 March 2015	3,894	682	4,576
Additional income received	966	181	1,147
Released to the Statement of Comprehensive Income	(2,270)	(362)	(2,632)
Deferred income as at 31 March 2016	2,590	501	3,091

This is expected to be released to the Statement of Comprehensive Income in the following years:

	2016	2015
	£'000	£'000
Deferred income to be released to the Statement of Comprehensive Income:		
In less than one year	942	2,444
In more than one year but less than five years	2,149	2,132
In more than five years	-	-
	3,091	4,576

20. Financial Instruments

	2016	2015
	£'000	£'000
Financial assets:		
Measured at amortised cost:		
Trade debtors and accrued income	1,279	998
Equity instruments measured at cost less impairment	-	-
Instruments measured at fair value through income and expenditure	-	-
Total	1,279	998

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

20. Financial Instruments (continued)

	2016	2015
Financial liabilities:	£'000	£'000
Measured at amortised cost:		
Trade creditors and accruals	3,317	4,021
Bank loans	101,375	106,375
Measured at fair value through income and expenditure:		
Non-derivatives that are not part of a trading portfolio	71,076	83,506
Other financial liabilities	-	-
 Total	 175,768	 193,902

21. Share capital

	2016	2015
	£	£
Shares of £1 each issued and fully paid		
At 1 April	79	58
Issued during year	12	28
Surrendered during year	(11)	(7)
 At 31 March	 80	 79

Each member of the Association holds one share of £1 in the Association. Share capital is non-equity and does not carry any rights to dividend payments. When a shareholder ceases to be a member, that share is cancelled and the amount paid thereon becomes the property of the Association. Each member has a right to vote at members' meetings.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

22. Pensions

Pensions Trust Scottish Housing Association Pension Scheme

As the employer of staff seconded to Dunedin Canmore Housing, its fellow Group company, Dunedin Canmore Enterprise Limited ("DCE") participates in the Pensions Trust Scottish Housing Association Pension Scheme ("SHAPS") Defined Contribution scheme. Information disclosed in relation to the staff pension arrangements relates to the pension scheme assets and liabilities for staff working into Dunedin Canmore Housing Limited. Previously, Dunedin Canmore operated the SHAPS Defined Benefit scheme. All employees were transferred to the Defined Contribution scheme on 1 April 2014. SHAPS is a multi-employer scheme and is funded and contracted out of the State Pension Scheme.

The Trustee commissions an actuarial valuation of the Scheme every three years, with the last formal valuation of the Scheme being carried out at 30 September 2012. An actuarial valuation is currently being undertaken at 30 September 2015.

The scheme is a multi-employer arrangement where the assets are co-mingled for investment purposes, benefits are paid from the total scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the scheme rather than by reference to individual employer experience. FRS 102 requires the disclosure of the Association's share of the assets and liabilities of the scheme within the financial statements and an evaluation of the scheme assets and liabilities has been carried out by an independent actuary as at 31 March 2016.

Following consideration of the results of the last valuation at 30 September 2012, it was agreed that the shortfall of £304m would be dealt with by the payment of additional contributions of 5.4% of pensionable salaries per annum with effect from 1st April 2014. Past service deficit contributions will increase each 1st April at a rate of 3%.

As a result of Pension Scheme legislation 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 employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any "orphan" liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total 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.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

22. Pensions (continued)

Pensions Trust Scottish Housing Association Pension Scheme - Defined Benefit

The assumptions that have the most significant effect on the results of the valuation of the defined benefit pension arrangements, are those relating to the rate of return on investments and the rates of increases in salaries and pensions. The principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	31 March 2016	31 March 2015
Discount rate	3.8%	3.4%
Future salary increases	*2.5%	**2.5%
Inflation	2.1%	2.0%

*Salary increases are assumed to be 2% p.a. until 31 March 2019, 2.5% p.a. thereafter.

** Salary increases are assumed to be 2% p.a. until 31 March 2016, 1.8% p.a. until 31 March 2018, 2.5% p.a. thereafter.

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the statement of financial position date are based on standard mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.1 years (male) (2015: 22.1 years), 23.6 years (female) (2015: 23.6years)
- Future retiree upon reaching 65: 24.8 years (male) (2015: 24.8 years), 26.2 years (female) (2015: 26.2 years)

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

22. Pensions (continued)

Movements in present value of defined benefit obligation

	2016 £'000	2015 £'000
Opening defined benefit obligation	13,837	14,186
Current service cost	-	-
Interest cost	464	605
Contributions by members	-	-
Actuarial (gains)	(994)	(702)
Estimated benefits paid	(388)	(252)
Closing defined benefit obligation	<u>12,919</u>	<u>13,837</u>

Movements in fair value of plan assets

	2016 £'000	2015 £'000
Opening fair value of plan assets	10,469	8,345
Expected return on plan assets (excluding net interest on the defined benefit liability)	58	1,579
Interest income	357	362
Contributions by the employer	463	451
Contributions by the members	-	-
Estimated benefits paid	(388)	(252)
Administration costs	(16)	(16)
Closing fair value of plan assets	<u>10,943</u>	<u>10,469</u>
Net liability	<u><u>(1,976)</u></u>	<u><u>(3,368)</u></u>

Expense recognised in Statement of Comprehensive Income

	2016 £'000	2015 £'000
Current service cost	-	-
Administration costs	16	16
Interest on defined benefit pension plan obligation	107	242
Expected return on defined benefit pension plan asset	-	-
Actuarial gains/(losses)	1,052	2,281
	<u>1,175</u>	<u>2,539</u>

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

22. Pensions (continued)

The expense is recognised in the following line items in the Statement of Comprehensive Income

	2016 £'000	2015 £'000 restated
Operating expenses	(20,220)	(22,243)
Finance costs	(7,440)	(7,859)

The total amount recognised in the Statement of Comprehensive Income in respect of actuarial gains and losses is £1,052k gain (2015: £2,281k gain).

The fair value of the Scheme assets and the return on those assets were as follows:

	2016 £'000	2015 £'000 restated
Equities	4,049	3,769
Corporate bonds	3,502	3,769
Property	547	523
Alternatives	2,626	2,303
Cash and other	219	105
	<u>10,943</u>	<u>10,469</u>
Actual return on plan assets	58	1,579

Defined Contribution pension arrangements

Expense recognised in Statement of Comprehensive Income

	SHAPS 2016 £'000	Friends Life 2016 £'000
Current service cost	177	58
	<u>177</u>	<u>58</u>

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

23. Related party transactions

Members of the Management Board are related parties of the Association as defined by FRS 102.

The Association retains a register of members' interests. No Board members have interests or hold offices in any organisations where the Association has entered into transactions during the year, with the exception of the re-imburement of expenses incurred in relation to the performance of their responsibilities as a Board member (note 6). No tenant or factored homeowners are members of the Management Board.

24. Cash Flow Analysis

Cash flow from operating activities	2016	2015
	£'000	£'000
Surplus for the year	15,138	1,048
<u>Adjustments for non-cash items:</u>		
Depreciation of tangible fixed assets	6,205	5,401
Increase in stock	(65)	(5)
Decrease/(increase) in trade and other debtors	340	(1,293)
(Decrease)/increase in trade and other creditors	(1,825)	1,193
Pension costs less contribution payments	(446)	(435)
<u>Adjustments for investing or financing activities:</u>		
Gain on disposal of tangible fixed assets	(155)	439
Government grants utilised in the year	(2,649)	(1,475)
Interest payable	7,440	7,859
Interest received	(173)	(654)
Movement in fair value of financial instruments	(6,901)	7,699
Gain on investment activities	3,339	(270)
Reversal of previous decrease in the valuation of housing properties	(8,727)	(7,451)
Net cash inflow from operating activities	11,521	12,056

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

25. Prior year adjustments

Adjustments following the adoption of FRS 102:

1) Recognition of grant income

Previously capital grant received was netted off against the cost of housing properties. In line with the Housing SORP 2014 and FRS 102, grant received by the Association is now recognised as income in accordance with the performance model. Grant received in advance of the satisfaction of any performance conditions is held within creditors as deferred income. On the Statement of Financial Position, this has resulted in an increase in the carrying value of housing under construction within housing properties, deferred income balances in creditors and the transfer of grant received from revaluation reserves into revenue reserves. On the statement of consolidated income, the application of the housing valuation on the revised carrying value excluding grant requires a reversal of previous decreases in the valuation to be credited to the surplus for the year. In addition, grant income for completed new build properties is included in turnover for the year and the changes to the accounting for grants increases the annual depreciation charge.

2) Financial instruments

FRS 102 requires some financial instruments to be carried at fair value. Housing loans with a cancellable fixed rate arrangement are classed as complex financial instruments under FRS 102 and have been restated at fair value. The fair value adjustment has been provided by an independent professional advisor JC Rathbone Associates Ltd. In determining the fair value of these arrangements, elements attributable to both credit risk and interest rate risk have been assessed. The carrying value of the liability has been restated to reflect the assessment of fair value and movements in the period are taken to the Statement of Comprehensive Income.

3) Investment property

Properties held for mid-market and commercial rent were previously held in other tangible fixed assets respectively. These have been reclassified as investment properties, since they predominantly have the characteristics of market rather than social rented properties. For mid-market rental properties, this includes being let on short assured tenancies and a requirement for prospective tenants to be in employment when assessing tenancy applications. These properties are therefore not depreciated but subject to annual revaluation with any gain or loss taken through profit and loss in the Statement of Comprehensive Income. This increases the value of investment properties and reduces the amount of depreciation charged to operating costs.

4) Fair value of debt with a payment plan.

In line with the Housing SORP 2014, all debt balances with a payment plan in place at the year-end have been measured at the present value of the future payments discounted at a market rate of interest applicable to similar debt instruments.

5) Holiday pay accrual

In order to fully comply with requirements of the Housing SORP 2014, a review was undertaken to identify any potential holiday pay entitlement liability at the year-end. An adjustment is included in operating costs.

6) Pension costs

The Association participates in the multi-employer defined benefit Scottish Housing Association Pension Scheme. In prior years, the cost of the scheme was accounted for on a defined contribution basis as it was not deemed possible at that time to separately identify the underlying assets and liabilities of individual participating employers.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

25. Prior year adjustments (continued)

Under FRS 102, the past service deficit liability is included in the Statement of Financial Position and therefore the Association elected to obtain a valuation to enable full FRS 102 implementation and disclosures in relation to the scheme. This has resulted in the recognition of a pension liability in the Statement of Financial Position, and adjustments to operating expenditure and finance costs.

Adjustments for change in accounting policy

7) Capitalisation of void improvements

The Association undertakes a programme of maintenance and improvements to social housing properties on completion of a tenancy. The work undertaken means that properties being re-let are of a higher standard and the lost rent minimised. This increases the rentals earned over the lifetime of the property and links directly to the EUV – SH valuation methodology used to revalue social housing annually.

8) Allocation of Group recharges

Group recharges for central resources are apportioned across cost lines in proportion to the direct costs incurred. The disclosure for the year ended 31 March 2015 has been updated to reflect this policy. This has resulted in £2,582k of costs reallocated from the "Management and maintenance administration costs" line in Note 4 to the following: £923k to "Planned and cyclical maintenance including major repairs costs" (Note 4); £860k to "Reactive maintenance costs" (Note 4) and £799k to Note 5 Particulars of turnover, operating costs and operating surplus from other activities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

25. Prior year adjustments (continued)

	Number	Reported in 2015 financial statements	Impact of restatement FRS 102	Impact of restatement policy change	Restated 2015 figures
		£'000	£'000	£'000	£'000
<i>Statement of Financial Position</i>					
Social housing properties	1,7	129,470	104,185	414	234,069
Other tangible fixed assets	3	47,402	(39,707)	-	7,695
Investment properties	3	-	36,272	-	36,272
Trade and other debtors	4	12,609	533	-	13,142
Creditors: amounts falling due within one year	1,5	(6,233)	(1,813)	-	(8,046)
Creditors: amounts falling due after more than one year	1,2	(164,900)	(27,013)	-	(191,913)
Pension liability	6	-	(3,368)	-	(3,368)
Total net assets			69,089	414	
Revenue reserve excluding pension reserve	1,2,5,6,7	18,695	82,679	414	101,788
Pension reserve	6	-	(3,368)	-	(3,368)
Revaluation reserve	1,3	10,222	(10,222)	-	-
Total reserves			69,089	414	
<i>Statement of Comprehensive Income</i>					
Turnover	1	29,438	1,475	-	30,913
Operating expenditure	1,5,6,7	(21,698)	(959)	414	(22,243)
Gain on investment activities	3	-	270	-	270
Gain on disposal of fixed assets	-	(253)	(186)	-	(439)
Finance charges	6	(7,617)	(242)	-	(7,859)
Movement in fair value of financial instruments	2,4	-	(7,699)	-	(7,699)
Reversal of previous decrease in valuation of housing properties	1,7	-	7,451	-	7,451
			110	414	
Surplus for the year		524	110	414	1,048

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

26. Ultimate parent organisation

The Association is a subsidiary undertaking of Wheatley Housing Group Limited, a company limited by guarantee and registered in Scotland.

The only group into which the results of the association are consolidated is Wheatley Housing Group Limited. The consolidated financial statements of Wheatley Housing Group Limited may be obtained from the registered office at Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL.

SUPPLEMENTARY INFORMATION

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