



EILDON HOUSING ASSOCIATION LIMITED



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

APPROVED BY THE BOARD 16 MAY 2011

Industrial and Provident Society No 1757 R(S) 1965
Scottish Charity No SCO15026
The Scottish Housing Regulator No HEP107
Website www.eildon.org.uk

Contents

| | Page |
|---|-------------|
| Board, Executive Officers and Appointees | 2-3 |
| Operating and Financial Review and Board of Management Report | 4-16 |
| Report of the Auditors | 17-18 |
| Income and Expenditure Account | 19 |
| Balance Sheet | 20 |
| Cash Flow Statement | 21 |
| Notes to Cash Flow Statement | 22 |
| Notes to the Financial Statements | 23-40 |

Board, Executive Officers and Appointees

Board Members

| Name | EHA Parent | EEL Subsidiary |
|--|------------------------------------|----------------|
| Mrs H J Cuckow, FRICS, FCI Arb | Chairman - Independent Member | Director |
| Professor D L Brydon, BSc PhD, CChem, FRSC | Vice Chairman - Independent Member | |
| Mr T W Burrows, BA(Hons), MBA, RIAS (Ret), RTP I (Ret) | Independent Member | Chairman |
| Mr M Clark | Tenant Member | |
| Mr H S Coyle BA(Hons), PG Dip Housing, FCIH | Independent Member | |
| Mrs C E Lang, DCE, DPSE | Independent Member | Director |
| Mr R Long, B Arch(Hons) | Independent Member | Director |
| Mr K Purslow | Independent Member | |
| Mr R A Stewart, MBE | Independent Member - (R – Sep 11) | |
| Mrs J Malcolm, BA(Hons), MA | Independent Member | |
| Mrs M S Turnbull, MBE | Independent Member | |
| Mrs D MacDonald | Tenant Member | |
| Mr Robin Lewis-Thomas | Tenant Member - (A – Sep 11) | |
| Ewen Swinton | Independent Member - (A – Sep 11) | |
| Mr W Wilkie, MBE, BSc, MRICS | Independent Member | Director |
| Mr I Jarvie, MBE | | Director |
| Dr J Pace | | Director |

(A) = Appointed in the year.

(R) = Resigned in the year.

Executive Officers

| Name | EHA Parent | EEL Subsidiary |
|--|------------|----------------|
| Mr N J Istephan BA (Hons), MPhil Secretary and Chief Executive (Appointed 09 Apr 10) | ✓ | ✓ |
| Mr A A Brown, ACMA, CGMA Assistant Secretary and Director of Finance & Corporate Services | ✓ | |
| Mr L K Cox BSc, MRICS, MCI OB Director of Technical Services | ✓ | |
| Ms E J Shand, BA LLB, MCIH Director of Housing and Care Services | ✓ | |

Registered Particulars

| Registered Office | Registered No's |
|--|--|
| Eildon Housing Association Ltd - EHA Eildon Enterprise Ltd - EEL The Weaving Shed Dunsdale Road Selkirk TD7 5EB | EHA – Parent Industrial and Provident Society - 1757 R(S) 1965 Scottish Charity - SCO15026 The Scottish Housing Regulator - HEP107 |
| | EEL – Subsidiary Company Registration Number – 273461 (Scotland) |

Appointed Banker, Solicitor and Auditors

| | EHA Parent | EEL Subsidiary |
|---|------------|----------------|
| Banker Bank of Scotland 3 Channel Street Galashiels, TD1 1BE | ✓ | ✓ |
| Solicitor Pike & Chapman 36 Bank Street Galashiels, TD1 1ER | ✓ | ✓ |
| Auditor (External) Baker Tilly UK Audit LLP Chartered Accountants First Floor, Quay 2 139 Fountainbridge Edinburgh EH3 9QG | ✓ | ✓ |
| Auditor (Internal) Findlay & Co. Chartered Accountants 11 Dudhope Terrace Dundee DD3 6TS | ✓ | |

OPERATING AND FINANCIAL REVIEW AND BOARD OF MANAGEMENT REPORT

A - CONTEXT - STRUCTURE, ACTIVITIES, GOVERNANCE AND MANAGEMENT

1. STRUCTURE

Eildon Housing Association is registered under the Industrial and Provident Societies Act 1965 and is a Scottish Charity with a Board of Management (hereinafter referred to as the Board) as governing body. It is the parent to a subsidiary Eildon Enterprise Limited. The legal relationship between these companies is that the Board of Eildon Housing Association make up the majority of the Eildon Enterprise Board (five out of seven).

Eildon Enterprise Limited is incorporated as a company limited by guarantee and as per the articles is treated as a subsidiary of the Housing Association. Consolidation has been carried out using the full consolidation method.

The Eildon Trust also exists. The Trustees hold the positions of Chairman, Vice Chairman, Secretary and Assistant Secretary of Eildon Housing Association. The Eildon Trust has not been included in the consolidated financial statements as it is not material to the group financial statements.

During the year the subsidiary Eildon Tweed Valley Housing Association, which was incorporated under the Industrial and Provident Society and dormant, was dissolved. This decision, taken by the Eildon Tweed Valley Committee, was ratified by the parent Board.

2. PRINCIPAL ACTIVITIES

Parent – Eildon Housing Association

The principal activities of Eildon Housing Association are:

- Management and maintenance of its housing property.
- Development of housing projects, at affordable rents, for people in need and low cost home ownership initiatives.
- The provision of care and support services for vulnerable client groups.
- The provision of corporate, administrative, IT and financial services for all members of the Eildon Group.

Subsidiary – Eildon Enterprise Limited

Eildon Enterprise Limited's principal activities are:

- Operating the Care and Repair programme contract as Agents for Scottish Borders Council.
- Involvement in wider action activity and working with Key New Ways Partners.
- Provision of consultancy services to other organisations and private developers.
- Provision of houses at intermediate rents.

3. STATEMENT OF THE BOARD'S RESPONSIBILITIES

Housing Association legislation requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of the affairs and the income and expenditure of the Association for the year ended on that date. In preparing those financial statements the Board are 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.
- Prepare them on a 'going concern' basis unless it is inappropriate to presume that the Association will continue in business.

3. STATEMENT OF THE BOARD'S RESPONSIBILITIES (cont)

The Board is also responsible for:

- Keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Association and the Group.
- Ensuring that the financial statements comply with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Section 24 (1) of the Housing Scotland Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.
- Maintaining a satisfactory system of control over accounting records and transactions, and for safeguarding all assets of the Association and, hence, take reasonable steps to prevent and detect fraud and other irregularities.

4. COMPLIANCE AND THE STATUS OF THIS REPORT

Accounting for the Association's financial affairs is governed by the Statement of Recommended Accounting Practice (SORP), Accounting by Registered Social Housing Providers (2010).

Under the SORP the Association is not required to publish a Board Report that includes a full Operating and Financial Review (OFR) as it has fewer than 5,000 houses in management. However, the exemption means that as a registered Scottish Charity the Association must publish an Annual Report as outlined in the SORP, entitled Accounting and Reporting for Charities. Given the differences in accounting methods dictated by the two SORP's, the Annual Report can only be followed where it is relevant and practicable.

5. STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the Board is aware, there is no relevant audit information of which the Association's auditors are unaware, and each member of the Board has taken all the steps that they ought to have taken, as a member of that body, in order to make themselves aware of any relevant audit information and to establish that auditors are aware of this information.

6. CORPORATE RULES AND THE REGULATOR

The governing document of the Association is the Rules, which are based on the 2009 SFHA standard set of Charitable Rules and adapted through time by properly constituted meetings of the members of the Association. The Rules are the equivalent of a company's Articles and Memorandum of Association. A copy of the Rules can be obtained on request to the Registered Office.

As part of its monitoring process the Association's regulating body, The Scottish Housing Regulator, monitors the activities of the Association, to ensure that they are in line with the Rules. The Association has never been found to be in breach of its Rules.

7. MEMBERSHIP OF THE ASSOCIATION

Paragraphs 6 to 13 in the Rules lay out, in detail, the criteria for being a member of the Association.

The Board may, at their discretion, admit to membership any individual persons (including the nominees of unincorporated bodies), Societies, Companies and Local Authorities (being bodies incorporated). There are two categories of Membership, Tenant and Independent Members. No one can be a member in more than one category at any one time. Every member on the register holds one share in the Association.

Shares cost £1 but do not entitle the holder to any interest, dividend or bonus. In the event of the withdrawal, death or expulsion of the member, the £1 becomes the property of the Association.

There are currently no Body Corporate Members. There are 140 Tenant Members and 54 Independent Members.

8. MEMBERSHIP OF THE BOARD

Paragraphs 37 to 44 in the Rules lay out, in detail, the recruitment and appointment of the Board of the Association. The pertinent points are:

- There has to be a minimum of 7 Board Members and a maximum of 15.
- There are two constituencies of Board Members, Tenant (maximum of 3) and Independent (maximum of 12).
- Only Shareholders over the age of 18 of the Association can become Board Members.
- Board Members are voted on at General Meetings but only by those members who are part of the relevant constituency e.g. Tenant Members vote for Tenant Board Members.

Each year, one third of each constituency of Board Members must retire and stand for re-election if they wish to remain on the Board.

The present Board Members and the Executive Officers of the Association are set out in page 2.

There are currently 3 Tenant Members and 11 Independent Board Members. The Independent Board Members are drawn from a wide background bringing together professional, commercial and local experience. Board Members are unpaid.

The Executive Officers are the Chief Executive and the other members of the Executive Team and are all employed by the Association. The Executive Officers hold no interest in the Association's shares and act as executives within the authority delegated by the Board. Executive Officers are employed on the same terms as other staff, however their notice period is three months.

9. BOARD TRAINING

Prior to formally joining the Board, prospective members are invited to attend meetings to familiarise themselves with the way in which business is conducted. Following appointment to the Board, there is an opportunity to participate in an initial induction training programme for new members, carried out by Executive Officers, which includes the following:

- What is a Housing Association?
- The Role of a Board Member.
- Eildon's 5 Year Strategic Plan.
- Key Issues for Eildon.
- Site Visits.
- Board Members are encouraged to take the Governance Standards Initiative qualification for Board members.

The process is ongoing whereby internal and external training sessions are delivered by senior staff and invited guest speakers as part of an annual schedule of meetings and events.

10. DELEGATION, MEETINGS AND PERFORMANCE MONITORING

Through their election by the Shareholders at a General Meeting, the Board are delegated via Standing Orders (updated June 2009) to:

- Appoint a Chairman.
- Appoint Sub-Committees and Working Groups.
- Formulate and implement policies and strategies.
- Delegate to the Executive Officers.
- Make decisions based on the information received from the Executive Officers.

The Board gives delegated authority to the Audit and Risk Sub-Committee who meet to monitor all audit, risk and compliance issues of the Association and the impact that these issues have on each other. Internal Audit Reports and Care Commission Reports, which provide an independent view on the organisation's efficiency, effectiveness and performance, are received by this Sub-Committee.

Delegated Authority has also been given to the Remunerations Sub-committee on the remuneration of staff, the pension provision, the appraisal of the CEO and the Boards appraisal.

The Board has the authority to set up single task Working Parties to address specific issues that are usually time limited and make specific recommendations back to the Board for consideration. These Working Parties have the ability to second specialists to assist them or, with Board approval, recruit consultants to assist them in a particular piece of work.

The Standing Orders also detail the level of delegated powers that can be given to the Executive Officers.

The Board meets 8 times annually, the Audit & Risk Sub-Committee 4 times and the Remunerations Sub-committee at least once. At these meetings the Executive Officers present papers from which decisions are made by the Board. The Executive Officers also present performance papers, such as Management Accounts, Key Performance Indicators and other relevant papers relating to performance issues.

The Board account for their actions and decisions in the year by presenting to the members the Annual Financial Statements and the Annual Report at the AGM.

11. STRATEGIC MANAGEMENT

The Board are responsible for agreeing the Strategic Objectives of the organisation, the policies required to achieve those objectives and the monitoring mechanisms required to ensure targets and programmes are being met.

Each year the Board Members and Executive Officers have a two day event to look at the Strategic Objectives of the organisation and to consider what events and objectives are likely to affect our overall business performance and activities. This year the Board concentrated on environmental factors that involved reviewing the:

- Current Strategy and Objectives.
- The new Housing Regulation system.
- The implications of the proposed Housing Charter.
- The pension provision to the staff.
- The Property Management Strategy.
- Welfare Benefit Changes.

From this exercise the new five year strategy evolved which was then quantified and stress tested and presented to the Regulator.

12. ACCOUNTING POLICIES

The group's principal accounting policies are set out in pages 23 to 25 of the financial statements. The policies that are most critical to the financial results relate to accounting for housing properties and include capitalisation of costs; deduction of capital grant from the cost of assets; housing property depreciation and the treatment of shared ownership properties.

Following the updating of the SORP in 2010, the Association has implemented component accounting in the financial statements. As a result of the changes brought about by the SORP 2010 and the detailed guidance of the Technical Notes, the Association has adopted a new accounting policy, which has resulted in a prior period adjustment. Major components (Note 1) of our housing properties are identified and depreciated over specific economic life spans. Their replacement is then capitalised in fixed assets as they occur. The resulting prior period adjustment is shown in the relevant notes to the financial statements and detailed in Note 2.

Apart from the above there are no changes to the policies used in last year's Annual Financial Statements.

13. GOING CONCERN

The Annual Financial Statements are prepared under the going concern basis. The use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the Association to continue as a going concern. See section C, Statement of Going Concern.

14. CREDIT PAYMENT POLICY

The Group's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The average payment period is within thirty days (2011; 30 days).

15. EMPLOYEE INVOLVEMENT AND HEALTH AND SAFETY

The Association takes seriously its responsibilities to employees and, as a policy, provides employees with information on matters of concern to them. It is also the policy of the Association to consult, where practical, employees or their representatives so that their views may be taken into account in making decisions likely to affect their interests.

During the year 2010-11 a sub-committee of the Health and Safety Working Group worked with a consultant to develop a Health & Environmental Management System (HEMS). HEMS brings a more structured approach to the management of health & safety which clearly establishes roles & responsibilities and defines the areas of significant risk that are controlled by safe systems of work and procedures.

An Intranet site has been developed to manage HEMS documentation and information.

16. DISABLED EMPLOYEES

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

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

17. BOARD AND EXECUTIVE OFFICERS' INSURANCE

The Group has purchased and maintains insurance to cover its Board and Executive Officers against liabilities in relation to their duties on behalf of the Association and its subsidiaries, as authorised by the Association's Rules.

18. AGM

The annual general meeting will be held on Wednesday 12 September 2012, at the Weaving Shed, Dunsdale Road, Selkirk.

B – YEAR'S BUSINESS AND PERFORMANCE REVIEW

1. CORPORATE VALUES

- **Caring** - We care about what we do, the people we work with and the customers we serve.
- **Committed** - We all work together to provide affordable, high quality homes, care and support services.
- **Connected** - We are part of the communities we serve and believe we can make a real difference.
- **Creative** - We are ready to meet the challenges of the future with enthusiasm and new ideas.

2. OBJECTIVES & STRATEGY

The Group's five year strategy is reviewed and approved by the Board each year, the Strategic Objectives in the update for 2012/13 to 2016/17 are the following, the Eildon Group will:-

- Ensure the highest standards of governance and partnership working are adhered to, including compliance with our regulatory frameworks.
- Ensure it operates within a sound financial framework, protecting our long term viability whilst prudently utilising the inherent financial strength of the organisation in order to meet existing commitments and potential new opportunities.
- Ensure the delivery of high quality, responsive and affordable housing and support services.
- Ensure the delivery of high quality, responsive and affordable care services.
- Ensure the delivery of high quality new homes and property asset management services.
- Further develop its organisational capacity by reviewing existing practices and investing in the human and technical infrastructure of the organisation.

3. RISKS AND UNCERTAINTIES

Like all businesses, the Association faces a wide variety of business related risks. During the year based on previous experience the Risk Management Guidelines were revised. The main changes being the tightening up of the timing of the action plans to implement or improve controls and an improved linking system between the operational risks and the strategic objectives. Neither of these changes changed the identification of either the strategic or operational risks from previous years. In both exercises there were no residual risks that were severe, those that were Inherent Serve and Residual Major can be summarised thus:-

| Business Area | Summarised Risks | Summarised Action to Mitigate Risks |
|---------------------------------------|--|--|
| Strategic | Component Replacement planning, lack of clarity for the sector going forward, activities of other organisations and customer aspirations. Welfare benefit reform and the pension liability | Property Management Strategy Pay & Conditions Review Customer Profiling Proactive Internal Communication External communication & lobbying |
| Corporate Services | Inter systems dependency, confidential issues, resource planning, skills gap to meet ever changing needs and inappropriate staff conditions | Use of external expertise Audit tracking system and project planning Staff training and policies & procedures Staff consultation process External scrutiny and auditing |
| Finance | Unsustainable losses, unexpected interest rises, external & internal fraud and inability to react to changing environment | Financial planning system Financial reporting system Internal control system Treasury Management and Hedging Agreed change plan External scrutiny and auditing |
| Housing and Care & Support | Arrears, voids and anti social complaints increase, tenancy sustainment issues, lack of revenue to meet support needs and inability to compete on care tenders | Preventative monitoring & profiling Needs identification, use of the financial inclusion teams and a multi agency approach. Training and clear procedures. Tenancy Support intervention and pre tenancy work Flexible service delivery |
| Housing Development | Cost of Development becomes unaffordable, funding regime is uncertain and agency contracts problematic | Financial planning system Programme Management Review Assess other funding models Project Management Treasury Management Engagement with the regulator |

4. FINANCE

The Association made a surplus of £918k during the year, transferred £1,253k to the retained reserves and the Net Assets base rose to £13.9m.

The Group made a surplus of £906k during the year, transferred £1,241k to the retained reserves and the Net Assets base rose to £13.9m.

The financial performance over the past five years (with the first three years adjusted for component accounting) is analysed in Table 1, on page 13. On page 14 Table 2 shows the same years but as they were or would have been if component accounting hadn't been introduced.

Rent loss from voids

The target for the year was to keep voids below 1.08% of rental income receivable, and the actual is 0.79%.

Rent loss from bad debts

The target for the year was to keep bad debts below 0.95% of rental income receivable, and the actual is 0.60%.

Overall rent collection

Net arrears (arrears less prepayments) at 31 March 2012 have increased by £7k since 31 March 2011. However, when combined with the positive variances from the above, produces a rent collected in the year of 98.98% which is slightly higher than the target of 97.39%. Outstanding net arrears at the year end represents 1.3% of the total rent roll (2011 – 1.6%).

5. HOUSING PROPERTIES

At 31 March 2012, the Association owned 2,121 housing units. The properties are carried at the historic cost of £139m (2011 - £132m) which nets off to £30m (2011 - £29m) after depreciation and capital grants. Housing units are funded by Social Housing Grant, loans and working capital.

During the year, a valuation for 299 units was carried out for the purpose of securing loan finance. When this professional valuation is extrapolated across the whole stock, a value in use of £54m is indicated (market value £197m). A similar valuation over 44 units in 2010, gave an extrapolated value in use of £58m (market value £275m).

6. CAPITAL STRUCTURE AND TREASURY POLICY

The Association borrowed no additional monies during the year. The £2m that remained from a £3m facility organised in 2009/10 from Santander was not drawn down in the reporting year and is available to be used for developing social housing in 2012/13. By the year end, the borrowings amounted to £22.1m.

The Association borrows from banks and building societies in accordance with the Treasury Policy approved by the Board. MURJA Structured Finance & Risk Management is used to ensure that all the products in the market are considered and to assist in the tortuous administration process of securing loans. In this way Eildon manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held.

The Association, as a matter of policy, does not enter into transactions of a speculative nature and fixes rates of interest through embedded rates within loans and swaps using an ISDA MTM instrument. At 31 March 2012, the mix of variable and fixed ratio was 39%:61% which is out of kilter with the Treasury Management policy due to taking the opportunity of low fixed rates in 2008/09. Once the £2m available loan facility is drawn, this will readjust the ratio to 44%:56%.

7. CASH FLOWS

Cash inflows and outflows during the year are shown in the Consolidated Cash Flow Statement (page 21).

The cash inflow from operating activities increased this year to £3,127k (2011 - £2,610k), a net £922k (2011 - £4,019k) was spent acquiring assets. There was an outflow from repaying loans of £559k (2011 - drawn of £2,417k). The cost of financing was £992k (2011 - £924k) and the Net debt moved from £21,475k in 2011, to £20,262k.

8. GENERAL RESERVES POLICY

The Board has reviewed the reserves of the Association. This review encompassed the nature of the income and expenditure streams, the need to match variable income with fixed commitments, and the nature of the reserves.

The reserves, of nearly £14m, are made up of two different types:

- Designated Reserves, which represent a commitment to expenditure in the future.
- The Revenue Reserves, which represent the amount of the Net Asset Base which is not encumbered by either future commitments or the likelihood of an adverse event.

The Board are satisfied that the levels of all the various reserves are commensurate with the purposes for which they exist.

Details of the actual reserves and the associated amounts are in Notes 1, 21, 22.

9. DONATIONS

The Group donated £1k (2011 - £1k) to the Lintel Trust and made no political donations.

10. DEVELOPMENT AND SALE OF PROPERTIES

During the reporting year the Association spent £3.6m (2011 - £8.0m), of which £3.2m (2011 - £3.5m) is funded by grants received from the Housing Investment Division East of the Scottish Government. At the reporting date there are no Shared Equity units remaining unsold.

The Association sold 1 Shared Ownership property in the year, thereby allowing the tenants to achieve their aspiration of becoming home owners. A fully rented property that became vacant was also sold. This was in line with the Association's strategy of disposing of properties that cannot be brought up to the SQHS standard and become vacant.

In the year ending 31 March 2013, it is expected that the Association will spend £8.2m on the development of new properties funded by £2.5m HAG. This represents 83 units coming into management 32 starting on site and the purchase of land to accommodate a further 97 units.

11. ASSET MANAGEMENT (PROPERTY MAINTENANCE)

The Association seeks to maintain its properties to the highest standard. To this end it carries out repairs in three distinct time frames:

- Routine Maintenance, which is carried out within days of notification, expenditure in the year was £604k (2011 - £606k).
- A programme of Planned Repairs carried out in the medium term to deal with the gradual and predictable deterioration of building attributes. Expenditure in the year was £576k (2011 - £406k).
- A long-term programme of major repairs for the replacement components which have come to the end of their economic lives. Direct expenditure in the year was £961k (2011 - £579k) and it was capitalised along with a 30% overhead charge.

Times for reactive maintenance met were 92.96% (2011 – 97.6%) and customer satisfaction returns gave a 97.82% expression of satisfaction (2011 – 96.7%).

The Board is confident that the necessary funds will be available in the future to cover the Association's commitments under the Scottish Housing Quality Standards.

12. CUSTOMER SERVICES

Housing

During the year the Association sought tenants views by directly writing to them on three matters:

- Arrangements and charges on snow clearing and the provision of grit bins;
- Rent and services uplifts for 2012/13; and
- Revised points system for the rent policy.

Of the three the change to the points system was the least straight forward and an additional consultation was conducted in the form of local meetings, individuals visits and telephone conversations. There were 814 responses to the request for feedback being 40% of the total possible returns.

The Association's Rent Policy is a points system based on the size, type and facilities of the accommodation which ensures that the rent structure is easy to administer and covers the wide variations within the properties. This policy follows the generally accepted practice/principles of the Housing Movement. Through time, driven by the building regulations the variations within the properties has increased and is going to increase further in the near future. As such it was time to reflect these characteristic changes in the rent setting. The new characteristics are:

- Flats with their own individual access
- Shower areas with a shower in addition to a bathroom
- An additional W.C.
- A separate dining room
- Driveway parking
- Lifts
- The lack of external drying facilities
- Sunspaces
- Homes covered by the 2010 building regulations
- Homes covered by the 2013 building regulations
- Homes covered by the 2016 building regulations

Work continues in keeping the period of time taken to re-let or let new properties as low as possible to ensure that we maximise our effectiveness in housing people in need and reduce our costs. The average time taken to re-let properties this year has increased to 28 days (2011 – 24 days).

Tenant involvement plays an important part in formulating and agreeing the Association's aims and objectives. Eildon Tenants' Organisation (ETO), the representative body for all our tenants is recognised by our Board and The Scottish Housing Regulator. Through our Tenant Participation Officer, local groups of tenants are encouraged to become Registered Tenant Organisations.

Tenant's general views are obtained through regular internal surveys carried out to gain feedback on the services they receive and the houses they live in. Overall, the results from our surveys show very high levels of tenant satisfaction and where there are criticisms we identify them and draw up an action plan to improve our service for all of our customers.

Every 3 years, an independent Tenant Satisfaction Survey is carried out, the most recent being in year 2010/11.

All tenants receive a regular newsletter, called Eildon News. This gives them details of the activities carried out by the Association that are of most relevance to them.

The introduction of the Scottish Social Housing Charter (effective from 1st April 2012) replaces the performance standards set out in the guidance that the Scottish Ministers issued under section 79 of the Housing (Scotland) Act 2001. During the coming year the Association will consult with the tenants over the pertinent parts of the Charter.

Care and Support

During the year the Care Inspectorate undertook inspections of our care services. The outcomes of these inspections were mixed. In most cases the Inspection reports were very favourable and where recommendations have been made, these have been adopted. In one case the report was poor and an improvement plan has been implemented. The Regulator has been informed of this Notifiable Event.

13. WIDER & AGENCY SERVICES

During the year the Group has provided:

- IT and Finance services to Rural Stirling HA.
- Modernisation services to Scottish Borders HA.
- Procurement Services to the Borders Housing Network and Berwickshire HA.

As agents for the Scottish Borders Council, the Group has run:

- A comprehensive Care and Repair service.
- A Peer Mentoring Project which ceased in the year.

14. STAFF PERFORMANCE MANAGEMENT

High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the Chief Executive Officer. Service delivery is underpinned by staff performance and continues to be a high priority.

In the past year the following education achievements have been made:

- One member of staff achieved Registered Care Manager status.
- Two members of staff completed the second year in an MSC in Housing and Regeneration.
- A number of Care staff achieved Scottish Vocational Qualifications.

This year specific training sessions were run on:

- Best Practice in Dementia Care, Parkinson's and Dementia Awareness,
- Energy assistance support for households at risk of fuel poverty,
- Customer Care for Difficult Customers.

The regular rolling programme of staff training was also carried out, in line with Health and Safety requirements for all locations, in topics such as; Disability Equality, Infection Control, Adult Support and Protection and, Moving and Handling People.

The usual monthly Lunch and Learn sessions took place and this year the subjects covered included Social Media, Welfare Reform and Inequalities in Health as well as some internal topics.

In the main, staff are consulted through the medium of the Staff Association, although, for specific issues questionnaires are used.

A review of Pay & Benefits in the Association was also undertaken in 2011/12, which involved evaluating all posts within the company, creating new grades structures, benchmarking salaries, and introducing a new contribution management system (which will be reflected in pay awards from 2012/13). During 2012/13 with full staff involvement the performance management system will be fully developed and rolled out.

The staff attendance target is 97% and actual attendance for the year is 94.7% (2011 94.7%). If extreme long term sickness periods are discounted the attendance figure rises to 98.1%.

Table 1 – Group Highlights – Five Year Historical Summary - Post-Component Accounting

| For the Year Ended 31 March | 2012 | 2011* | 2010* | 2009* | 2008* |
|--|---------------|---------------|---------------|---------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income & Expenditure Account | | | | | |
| Total Turnover | 10,102 | 10,998 | 9,690 | 9,633 | 8,411 |
| Social Lettings Income | 7,177 | 6,583 | 6,180 | 5,735 | 5,293 |
| Operating Surplus | 1,871 | 1,810 | 1,450 | 1,105 | 1,572 |
| Surplus for the year after tax | 906 | 971 | 750 | 657 | 1,060 |
| Balance Sheet | | | | | |
| Net Housing Properties | 30,402 | 29,623 | 25,120 | 22,752 | 21,554 |
| Other Fixed Assets | 5,017 | 5,103 | 5,386 | 4,725 | 1,724 |
| Fixed Assets | 35,419 | 34,726 | 30,506 | 27,477 | 23,278 |
| Net Current Assets | 174 | 412 | 1,211 | 2,011 | 1,068 |
| Total Assets | 35,593 | 35,138 | 31,717 | 29,488 | 24,346 |
| Long Term Liabilities | 21,668 | 22,118 | 19,668 | 18,190 | 13,705 |
| Net Assets | 13,925 | 13,020 | 12,049 | 11,298 | 10,641 |
| Reserves | | | | | |
| Designated Reserves | 1,592 | 1,577 | 1,527 | 1,516 | 1,492 |
| Risk Reserves | - | 350 | 700 | 1,050 | 1,050 |
| Accumulated Surplus | 12,333 | 11,093 | 9,822 | 8,732 | 8,099 |
| | 13,925 | 13,020 | 12,049 | 11,298 | 10,641 |
| Housing Stock (units) | 2,121 | 2,122 | 1,987 | 1,955 | 1,914 |
| Statistics | | | | | |
| Surplus for year as % of turnover | 8.9% | 8.8% | 7.7% | 6.8% | 12.6% |
| Surplus for year as % of Social Lettings income | 12.6% | 14.8% | 12.1% | 11.5% | 20.0% |
| Rent loss from Voids and Bad Debts in the year | 0.8% | 0.9% | 0.9% | 1.0% | 1.7% |
| Rent Collected in terms of rent collectable in the year | 99.0% | 99.1% | 99.0% | 98.4% | 98.5% |
| Liquidity (current assets/current liabilities) | 1.1/1 | 1.2/1 | 1.4/1 | 2.2/1 | 1.7/1 |
| Gearing (total loans as % of capital grants plus reserves) | 19.2% | 19.9% | 18.9% | 19.2% | 15.3% |

* These years contain the bookkeeping entries that would have occurred if component accounting had been implemented. However it must be recognised that if component accounting had been live in these years the business decisions taken may have been different and, subsequently, the results.

Table 2 – Group Highlights – Five Year Historical Summary – Pre-Component Accounting

| For the Year Ended 31 March | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income & Expenditure Account | | | | | |
| Total Turnover | 10,102 | 10,998 | 9,690 | 9,633 | 8,411 |
| Social Lettings Income | 7,177 | 6,583 | 6,180 | 5,735 | 5,293 |
| Operating Surplus | 999 | 1,402 | 1,073 | 1,254 | 771 |
| Surplus for the year after tax | 93 | 563 | 390 | 812 | 256 |
| Balance Sheet | | | | | |
| Net Housing Properties | 29,265 | 29,383 | 25,299 | 23,292 | 21,939 |
| Other Fixed Assets | 5,017 | 5,103 | 5,386 | 4,725 | 1,724 |
| Fixed Assets | 34,283 | 34,486 | 30,685 | 28,017 | 23,663 |
| Net Current Assets | 274 | 428 | 1,211 | 2,011 | 1,068 |
| Total Assets | 34,557 | 34,914 | 31,896 | 30,028 | 24,731 |
| Long Term Liabilities | 21,668 | 22,118 | 19,668 | 18,190 | 13,705 |
| Net Assets | 12,889 | 12,796 | 12,228 | 11,838 | 11,026 |
| Reserves | | | | | |
| Designated Reserves | 10,130 | 10,204 | 9,404 | 8,764 | 8,099 |
| Risk Reserves | - | 350 | 700 | 1,050 | 1,050 |
| Accumulated Surplus | 2,759 | 2,242 | 2,124 | 2,024 | 1,877 |
| | 12,889 | 12,796 | 12,228 | 11,838 | 11,026 |
| Housing Stock (units) | 2,121 | 2,122 | 1,987 | 1,955 | 1,914 |
| Statistics | | | | | |
| Surplus for year as % of turnover | 0.9% | 5.2% | 4.0% | 8.4% | 3.0% |
| Surplus for year as % of Social Lettings income | 1.3% | 8.6% | 6.3% | 14.2% | 4.8% |
| Rent loss from Voids and Bad Debts in the year | 0.8% | 0.9% | 0.9% | 1.0% | 1.7% |
| Rent Collected in terms of rent collectable in the year | 99.0% | 99.1% | 99.0% | 98.4% | 98.5% |
| Liquidity (current assets/current liabilities) | 1.1/1 | 1.2/1 | 1.4/1 | 2.2/1 | 1.7/1 |
| Gearing (total loans as % of capital grants plus reserves) | 19.2% | 19.9% | 18.9% | 19.2% | 15.3% |

C - STATEMENT OF GOING CONCERN

Through the Executive Officers the Board has reviewed and discussed the various aspects of the Association as a Going Concern and its liquidity. The review covered the following items:

- The Annual Budget including Cashflow to 31 March 2013
- The 5 Year Viability Plan including Cashflow to 31 March 2017 that is scrutinised by the Regulator
- The 60 Year Plan including Cashflow to 2071

Based on these documents and the following facts:

- There is no sign of impairment of the housing stock through increased voids,
- 71% of the turnover is rent related,
- 13% of the turnover is Care or Support Income from the Local Authority,
- 9% of the turnover is Grants from the Scottish Ministers,
- There is a development programme backed by the Scottish Government,
- The Association does not trade abroad,
- The loan portfolio is more than 61% fixed mostly at very favourable rates,
- The Association has, at the 31 March 2012, 677 unencumbered properties,
- The Association has at the 31 March 2012 loan facility that has £2m undrawn,
- The Reserves of the Association are over £13m.

The Board has no reason to believe that the Association will not still be a Going Concern well beyond 12 months from the signing date of these Annual Financial Statements.

D - STATEMENT OF INTERNAL FINANCIAL CONTROLS

The Board acknowledges its 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:

- Reliability of financial information used within the Group or for publication.
- Maintenance of proper accounting records.
- Safeguarding of assets against unauthorised use or disposition.

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

- The Association's range of internal control activities comply with requirements contained in the Scottish Housing Regulator's Guidance and the SFHA's publication, "Raising Standards in Housing".
- 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.
- Experienced and suitably qualified staff to take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance.
- Forecasts and budgets are prepared which allow the Board and Management 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.
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees.
- The Board reviews reports from Management, from the internal auditors and from the external auditors 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.

The Board has reviewed the effectiveness of the system of internal financial controls that exist in the Association for the year ended 31 March 2012 and until the date of signing of the financial statements. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in the financial statements or in the auditors' report on the financial statements.

E - AUDITOR

Baker Tilly UK Audit LLP has indicated its willingness to continue in office. A resolution proposing their re-appointment for 2012/13 will be submitted at the Annual General Meeting.

By order of the Board



 Mr N J Istephan
 Secretary

20/06/12

 Date

REPORT OF THE AUDITORS TO THE MEMBERS OF EILDON HOUSING ASSOCIATION LIMITED

Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the Board of Management's statement on page 16 concerning the Association's compliance with the information required by the section on Internal Financial Control within SFHA's publication 'Raising Standards in Housing'.

Basis of Opinion

We carried out our review having regard to the Bulletin 2006/5 issued by the Auditing Standards 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 statements on Internal Financial Control on page 16 has provided the disclosures required by the section on Internal Control within the SFHA's publication "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

BAKER TILLY UK AUDIT LLP
Statutory Auditor
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date *27 June* 2012

REPORT OF THE AUDITORS TO THE MEMBERS OF EILDON HOUSING ASSOCIATION LIMITED

We have audited the group and parent association financial statements of Eildon Housing Association Limited for the year ended 31 March 2012 (the "financial statements") on pages 19 to 40. 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 pages 4 to 5, 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 Group's and Association's affairs as at 31 March 2012 and of the income and expenditure of the Group and the income and expenditure of the Association for the year then ended;
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulations 1969, Schedule 7 to the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

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

BAKER TILLY UK AUDIT LLP

Statutory Auditor

139 Fountainbridge

Edinburgh

EH3 9QG

Date..... *27 June* 2012

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | GROUP | | ASSOCIATION | |
|--------------------------------------|-------|---------------|-----------------------------|---------------|-----------------------------|
| | | 2012 £'000 | (Restated) 2011 £'000 | 2012 £'000 | (Restated) 2011 £'000 |
| Turnover | 3 | 10,102 | 10,998 | 10,106 | 10,933 |
| Less: Operating Costs | 3 | <u>8,231</u> | <u>9,188</u> | <u>8,223</u> | <u>9,136</u> |
| Operating Surplus | | 1,871 | 1,810 | 1,883 | 1,797 |
| (Loss)/Gain on Sale of Fixed Assets | 7/16 | (2) | 61 | (2) | 61 |
| Interest Receivable and Other Income | 8 | 2 | 2 | 2 | 2 |
| Interest Payable and Similar Charges | 9 | <u>(965)</u> | <u>(899)</u> | <u>(965)</u> | <u>(899)</u> |
| Surplus for Year before tax | | 906 | 974 | 918 | 961 |
| Corporation tax | 10 | — | 3 | — | — |
| Surplus for Year | 21 | <u>906</u> | <u>971</u> | <u>918</u> | <u>961</u> |

There is no difference between the surplus on ordinary activities for the year and the retained surplus for the year stated in Note 21 and their historical cost equivalents.

Contained in the above Group Income and Expenditure are the following results for the Borders Construction Industry Forum (BCIF) which was discontinued in the previous year. BCIF is an activity that was run by Eildon Enterprises Ltd.

| | 2012 £'000 | 2011 £'000 |
|-------------------------|---------------|---------------|
| TURNOVER | - | 142,517 |
| Cost of sales | <u>-</u> | <u>44,318</u> |
| GROSS PROFIT | - | 98,199 |
| Administrative expenses | <u>-</u> | <u>94,834</u> |
| OPERATING PROFIT | <u>-</u> | <u>3,365</u> |

The Notes on pages 23 to 40 form part of these financial statements.

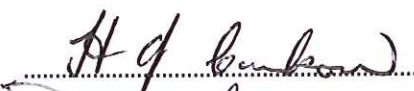


Statement of Total Recognised Gains and Losses

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Surplus for the year | 906 | 971 |
| Prior Period Adjustment (Note 2) | <u>224</u> | <u>-</u> |
| Total Gains and Losses Recognised since Last Financial Statements | <u>1,130</u> | <u>971</u> |

BALANCE SHEET AS AT 31 MARCH 2012

| | Notes | GROUP | | ASSOCIATION | |
|--|-------|-----------------|--------------------|-----------------|--------------------|
| | | 2012 | (Restated) 2011 | 2012 | (Restated) 2011 |
| | | £'000 | £'000 | £'000 | £'000 |
| Tangible Fixed Assets | | | | | |
| Housing Properties – Depreciated Cost | | 131,532 | 127,594 | 131,532 | 127,594 |
| Less Social Housing Grants | | <u>101,130</u> | <u>97,971</u> | <u>101,130</u> | <u>97,971</u> |
| | 13 | <u>30,402</u> | <u>29,623</u> | <u>30,402</u> | <u>29,623</u> |
| Other Fixed Assets | 14 | <u>5,017</u> | <u>5,103</u> | <u>5,017</u> | <u>5,103</u> |
| Fixed Asset Investment | | | | | |
| Shared Equity Loan | 15 | 2,242 | 1,994 | 2,242 | 1,994 |
| Shared Equity Grant | 15 | <u>(2,242)</u> | <u>(1,994)</u> | <u>(2,242)</u> | <u>(1,994)</u> |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | <u>35,419</u> | <u>34,726</u> | <u>35,419</u> | <u>34,726</u> |
| Current Assets | | | | | |
| WIP Shared Equity | 17 | - | 311 | - | 311 |
| Debtors | 18 | 467 | 1,021 | 484 | 1,063 |
| Cash at bank and in hand | | <u>1,843</u> | <u>1,188</u> | <u>1,640</u> | <u>993</u> |
| | | <u>2,310</u> | <u>2,520</u> | <u>2,124</u> | <u>2,367</u> |
| Creditors: amounts falling due within one year | 19 | <u>(2,136)</u> | <u>(2,108)</u> | <u>(1,994)</u> | <u>(2,014)</u> |
| Net Current Assets | | <u>174</u> | <u>412</u> | <u>130</u> | <u>353</u> |
| Total Assets less Current Liabilities | | 35,593 | 35,138 | 35,549 | 35,079 |
| Creditors: amounts falling due more than one year | 20 | <u>(21,668)</u> | <u>(22,118)</u> | <u>(21,668)</u> | <u>(22,118)</u> |
| Net Assets | | <u>13,925</u> | <u>13,020</u> | <u>13,881</u> | <u>12,961</u> |
| Capital and Reserves | | | | | |
| Share Capital | 26 | 0 | 0 | 0 | 0 |
| Designated Reserves | 22 | 1,592 | 10,204 | 1,592 | 10,204 |
| Risk Reserves | 22 | - | 350 | - | 350 |
| Revenue Reserves | 21 | <u>12,333</u> | <u>2,465</u> | <u>12,289</u> | <u>2,409</u> |
| | | <u>13,925</u> | <u>13,020</u> | <u>13,881</u> | <u>12,961</u> |

The financial statements on pages 19 to 40 were approved by the Board of Management and authorised for issue and were signed on its behalf by:

| | | |
|----------------------|---|-----------------|
| Mrs H Cuckow |  | (Chairman) |
| Professor D L Brydon |  | (Vice Chairman) |
| Mr N J Istephan |  | (Secretary) |
| | 20/06/12 | (Date) |

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | GROUP | | ASSOCIATION | |
|--|-------|----------------|-----------------------------|----------------|-----------------------------|
| | | 2012 £'000 | (Restated) 2011 £'000 | 2012 £'000 | (Restated) 2011 £'000 |
| Net Cash In Flow from Operating Activities | A | <u>3,127</u> | <u>2,610</u> | <u>3,118</u> | <u>2,694</u> |
| Returns on Investment and Servicing of Finance | | | | | |
| Interest Received | | 2 | 2 | 2 | 2 |
| Interest Paid | | <u>(994)</u> | <u>(926)</u> | <u>(994)</u> | <u>(926)</u> |
| Net Cash Outflow from Returns of Investment and Servicing of Finance | | <u>(992)</u> | <u>(924)</u> | <u>(992)</u> | <u>(924)</u> |
| Taxation | | - | (2) | - | - |
| Capital Expenditure | | | | | |
| Acquisition and construction of properties | | <u>(4,697)</u> | <u>(8,927)</u> | <u>(4,697)</u> | <u>(8,927)</u> |
| Purchase of other fixed assets | | <u>(97)</u> | <u>(160)</u> | <u>(97)</u> | <u>(160)</u> |
| Capital grants received | | 3,807 | 4,990 | 3,807 | 4,990 |
| Sale of properties | | 57 | 128 | 57 | 128 |
| Sale of other fixed assets | | - | - | - | - |
| Capital grants repaid | | <u>8</u> | <u>(50)</u> | <u>8</u> | <u>(50)</u> |
| Net Cash Inflow/(Outflow) from Capital Expenditure | | <u>(922)</u> | <u>(4,019)</u> | <u>(922)</u> | <u>(4,019)</u> |
| Net Cash Inflow/(Outflow) before use of liquid resources and financing | | 1,213 | (2,335) | 1,204 | (2,249) |
| Financing | | | | | |
| Loans Finance Received | | - | 3,000 | - | 3,000 |
| Loans repaid | | <u>(559)</u> | <u>(583)</u> | <u>(559)</u> | <u>(583)</u> |
| Shares Issued/(Redeemed) | | <u>(0)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Cash (Outflow)/Inflow from financing | | <u>(559)</u> | <u>2,417</u> | <u>(559)</u> | <u>2,417</u> |
| Increase in Cash in the Period | B | <u>654</u> | <u>82</u> | <u>645</u> | <u>168</u> |

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

A Reconciliation of Operating surplus to Net Cash Inflow from Operating Activities

| | GROUP | | ASSOCIATION | |
|---|--------------|--------------------|--------------|--------------------|
| | 2012 | (Restated) 2011 | 2012 | (Restated) 2011 |
| Operating Surplus for the Year | 1,871 | 1,810 | 1,883 | 1,797 |
| Depreciation | 1,143 | 1,068 | 1,143 | 1,067 |
| Decrease/(Increase) in Debtors | 24 | (8) | 50 | (85) |
| Increase/(Decrease) in Creditors | 89 | (260) | 42 | (86) |
| Net Cash Inflow from Operating Activities | <u>3,127</u> | <u>2,610</u> | <u>3,118</u> | <u>2,694</u> |

B Reconciliation of Net Cashflow to Movement in Net Debt

| | GROUP | | ASSOCIATION | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Increase/(Decrease) in cash in year | 654 | 82 | 645 | 168 |
| Cash Outflow from financing | - | (3,000) | - | (3,000) |
| Cash Outflow to financing | 559 | 558 | 559 | 558 |
| Change in net debt | 1,213 | (2,360) | 1,204 | (2,274) |
| Net debt at 1 April | <u>(21,475)</u> | <u>(19,115)</u> | <u>(21,669)</u> | <u>(19,395)</u> |
| Net debt at 31 March | <u>(20,262)</u> | <u>(21,475)</u> | <u>(20,465)</u> | <u>(21,669)</u> |

C Analysis of Changes in Net Debt

| | GROUP | | ASSOCIATION | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Cash in hand and at bank | 1,843 | 1,188 | 1,640 | 995 |
| Debts due within 1 year | (559) | (569) | (559) | (570) |
| Debts due after 1 year | <u>(21,546)</u> | <u>(22,094)</u> | <u>(21,546)</u> | <u>(22,094)</u> |
| Total | <u>(20,262)</u> | <u>(21,475)</u> | <u>(20,465)</u> | <u>(21,669)</u> |

EHA - NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

1. Principal Accounting Policies 2012

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting by Registered Social Landlords (2010), the Registered Social Landlords Accounting Requirements (Scotland) Order 2007 and with applicable Accounting Standards. A summary of the more important Accounting Policies is set out below:

Basis of Accounting

The financial statements are prepared on the historical cost basis of accounting.

Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and The Scottish Housing Regulator and Shared Equity Sales. Tenant service charges are levied on a basis intended to cover appropriate service costs each year.

Income from the sales of Shared Equity properties is recognised at the point of legal completion of the sale.

Liquid Resources

Liquid resources include cash at bank and short term deposits.

Private Finance

Private Finance loans are advanced by Private Lenders and Local Authorities under the terms of individual mortgage deeds in respect of each property. Advances are available only in respect of those developments which have been given approval for Social Housing Grant (SHG) by The Scottish Housing Regulator.

Tangible Fixed Assets - Housing Properties (Note 13)

Housing properties for let are stated at cost. The cost of Shared Ownership properties is shown net of the income from the sales of first tranches. The development costs of housing properties funded with traditional SHG or under earlier funding arrangements include the following:

- Cost of Acquiring Land and Buildings.
- Development Expenditure.
- Interest and Other Costs Charged on the Mortgage Loans Raised to Finance the Scheme.

Development expenditure includes development administration costs incurred directly in relation to construction or acquisition of the property up to the value of the revenue grant received. Costs in excess of this grant are included in the operational costs of the Association.

Development expenditure on completed properties also includes accruals for retentions, fees and other appropriate costs.

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

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

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

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

The adoption of component accounting represents a change in accounting policy. Previously the major components of the Association's housing properties were deemed to be land and buildings. The major components are now deemed to be land, buildings, roofs, windows, wiring, bathrooms, heating systems, external doors, kitchens and heating boilers/electric heating systems.

Each component has a substantially different economic life and is depreciated over this individual life. Depreciation rates are shown below in the depreciation section. The new accounting policy is compliant with the SORP 2010.

Donated Land (Note 13)

Land donated by local authorities is added to the cost at the market value of the land at the time of donation. An amount equivalent to the market value is added to other grants.

EHA - NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Social Housing Grant (SHG) (Note 13)

For schemes developed under the terms of the 1988 Housing Act, SHG is paid directly to the Association as required, to meet its liabilities during the development process. SHG is repayable under certain circumstances primarily following the sale of property, but will normally be restricted to net proceeds of sale. SHG received is deducted from the cost of Housing Properties in the balance sheet. Where SHG has been received in respect of revenue expenditure, it is credited to the Income & Expenditure Account in the same period as the expenditure to which it relates. SHG relating to components which have been replaced, is shown as contingent liability until 30 years from the date of grant receipt.

Other Grants (Note 13)

Grants received from other bodies are included in the total of grants deducted from the cost of Housing Properties on the Balance Sheet.

Depreciation (Notes 13 and 14)

Housing properties are deemed to consist of several components each with different life spans and therefore different rates of depreciation. Depreciation is charged so as to write down the cost to net realisable value (net of social housing and other grants) residual value on a straight line basis over their expected useful economic lives. Freehold land is not depreciated. The life spans and rates per component are:

| Housing Property Assets (Components) | Life in Years | Rate as a % |
|--------------------------------------|---------------|-------------|
| Building | 80 | 1.25% |
| Roofs | 80 | 1.25% |
| Windows | 60 | 1.67% |
| Wiring | 60 | 1.67% |
| Bathrooms | 30 | 3.33% |
| Heating Systems | 30 | 3.33% |
| External Doors | 30 | 3.33% |
| Kitchens | 20 | 5.00% |
| Heating Boilers / Electric Heating | 20 | 5.00% |

It is expected that, from experience gained, in future years there may be a range of lifespans and rates for particular makes and types of particular components e.g. boilers.

The Association charges depreciation on its commercial property so as to write down the costs other than freehold land to their estimated residual value on a straight line basis over their expected economic lives at a rate of 2% per annum.

For the Association's registered office the basic building is written down at 2%. However for certain components the economic lives are believed to be less than 50 years and for these the following Straight Line rates are used:

| Register Office Components | Life in Years | Rate as a % |
|----------------------------|---------------|-------------|
| Building | 50 | 2.00% |
| Lift | 30 | 3.33% |
| Electrical Fittings | 20 | 5.00% |
| Boilers and Chillers | 20 | 5.00% |

Other fixed assets are depreciated over their estimated useful lives, using the following Straight Line rates:

| Other Fixed Assets | Life in Years | Rate as a % |
|------------------------|---------------|-------------|
| Furniture & Fittings | 10 | 10.00% |
| Other Equipment | 5 | 20.00% |
| Information Technology | 4 | 25.00% |
| Motor Vehicles | 4 | 25.00% |

Shared Equity Home Ownership (Notes 15 and 17)

Shared Equity transactions are grants received from HID (Scottish Government Housing and Investment Division) and passed on to an eligible beneficiary. The Scottish Government (HID) has the benefit of a fixed charge on the property entitling The Scottish Government (HID) to a share of the proceeds on the sale of the property by the beneficiary. These are classified as investments and are carried at historical cost with the linked finance cost (the grant received) being deducted from the gross amount of the Shared Equity asset.

Completed Shared Equity properties that are not sold or are work in progress are valued at the lower of cost and net realisable value. Cost comprises of cost of land and construction. Net realisable value is based on estimated sale price after allowing for all further costs

of completion and disposal.

EHA - NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Sale of Housing Properties (Notes 13 and 16)

Properties are disposed of under the appropriate legislation and guidance. Any grants received that cannot be repaid from the proceeds of sale are abated and the grants removed from the financial statements.

Pensions (Note 24)

The Association participates in the Scottish Housing Associations' Pensions Scheme run by the Pensions Trust. The regular pension cost is charged to the Income and Expenditure account and is based on the expected pension costs over the service lives of the employees. The assets of the schemes are held separately from the Association in independently administered funds.

Leasing

Rentals paid and received under operating leases are charged and credited respectively to income and expenditure on a Straight Line basis over the term of the lease.

Designated Reserves (Note 22)

Designated reserves will be transferred back in future periods to match expenditure charged to the Income and Expenditure Account.

- **Housing Services**

This fund represents the Association's commitment to provide service items including furniture and white goods funded through yearly income streams in periods in the future. In years where the expenditure is greater than the income, transfer will be made from this fund.

- **Proactive Maintenance and Replacement**

This reserve was set up to fund future liabilities in relation to, expected future cyclical repair, component replacement and the replacement of large equipment items. The reserve is no longer required as a consequence of the implementation of Component Accounting.

VAT

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

Subsidiary

Eildon Enterprise Limited is incorporated as a company limited by guarantee.

Tax (Note 10)

The Association is recognised by the Inland Revenue as a charity for taxation purposes. This results in no liability to corporation tax in the year.

The group incurs liability to pay Corporation Tax through its subsidiary Eildon Enterprise Ltd.

Shared Ownership Properties

The first tranche of the Shared Ownership properties have not been disclosed separately in current assets as the amounts are not considered material.

EHA - NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

2. Prior Period Adjustment

The principle of component accounting is to account separately for each major component of a property asset with substantially different useful economic lives, and to depreciate them over their individual useful economic life. This change in accounting policy has resulted in major works expenditure written off in prior years being capitalised, and an additional depreciation charge now being recognised.

The effect this change in accounting policy has on the 31 March 2011 financial statements is shown below. 31 March 2011 opening reserves have been increased by £184k, of which £2,260k relates to increased depreciation, and £2,059k relates to major repairs previously written off to the Income and Expenditure Account, now capitalised as components, £33k relates to decrease in Housing Association Grant and £16k relates to increase in creditor. Full details of the Prior Period Adjustment are listed below.

The effect of this change on the comparative year's figures of 2011 has been to:

| | £'000 |
|---|-------|
| Increase depreciation charge | (329) |
| Decrease major works charged against income | 737 |
| Decrease HAG now allocated to components | - |
| Increase in the surplus for the year | 408 |

In addition the effect upon the balance sheet as at 31st March 2012 has been to:

| | £'000 |
|-----------------------------------|---------|
| Increase fixed asset cost | 2,796 |
| Increase fixed asset depreciation | (2,589) |
| Decrease in HAG | 33 |
| Increase in Creditor | (16) |
| Net movement in the balance sheet | 224 |

Therefore, the overall effect of prior period adjustment is £224k.

If component accounting had not been introduced then the Operating Surplus for the year would have been £999k and the Surplus for the year after tax, £93k, resulting in Net Assets of £12,889k

EHA - NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

3. Particulars of Turnover, Operating Costs and Operating Surplus or Deficit

GROUP

| | | 2012 | | | (Restated) 2011 |
|------------------------|-------|----------------------|-----------------------------|---|---|
| | Notes | Turnover £'000 | Operating Costs £'000 | Operating Surplus/ (Deficit) £'000 | Operating Surplus/ (Deficit) £'000 |
| Social Lettings | 4 | 7,177 | 4,494 | 2,683 | 2,394 |
| Other Activities | 5 | <u>2,925</u> | <u>3,737</u> | <u>(812)</u> | <u>(584)</u> |
| Total 2012 | | <u>10,102</u> | <u>8,231</u> | <u>1,871</u> | <u>1,810</u> |
| Total 2011 As Restated | | <u>10,998</u> | <u>9,188</u> | <u>1,810</u> | |

ASSOCIATION

| | | 2012 | | | (Restated) 2011 |
|------------------------|-------|----------------------|-----------------------------|---|---|
| | Notes | Turnover £'000 | Operating Costs £'000 | Operating Surplus/ (Deficit) £'000 | Operating Surplus/ (Deficit) £'000 |
| Social Lettings | 4 | 7,177 | 4,494 | 2,683 | 2,394 |
| Other Activities | 5 | <u>2,929</u> | <u>3,729</u> | <u>(800)</u> | <u>(597)</u> |
| Total 2012 | | <u>10,106</u> | <u>8,223</u> | <u>1,883</u> | <u>1,797</u> |
| Total 2011 As Restated | | <u>10,933</u> | <u>9,136</u> | <u>1,797</u> | |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

4. Particulars of Turnover, Operating Costs and Operating Surplus or Deficit from Social Letting Activities

GROUP AND ASSOCIATION

| | | | | 2012 | (Restated) 2011 |
|--|--------------------------------------|--|---|----------------|--------------------|
| | General Needs Housing £'000 | Supported Housing Accom £'000 | Shared Ownership Housing £'000 | Total £'000 | Total £'000 |
| Rent receivable net of service charges | 6,110 | 388 | 209 | 6,707 | 6,129 |
| Service charges | 331 | 171 | 4 | 506 | 478 |
| Gross income from rents and service charges | 6,441 | 559 | 213 | 7,213 | 6,607 |
| Less voids | 51 | 6 | 0 | 57 | 60 |
| Net income from rents and service charges | 6,390 | 553 | 213 | 7,156 | 6,547 |
| Grants from the Scottish Ministers | 3 | - | - | 3 | 18 |
| Other | 16 | 1 | 1 | 18 | 18 |
| Subtotal – Non-rental income | 19 | 1 | 1 | 21 | 36 |
| Total turnover from social letting activities | 6,409 | 554 | 214 | 7,177 | 6,583 |
| Management and maintenance admin costs | 1,675 | 118 | 48 | 1,841 | 1,808 |
| Service costs | 320 | 187 | 9 | 516 | 488 |
| Planned & cyclical maintenance including major repairs | 500 | 76 | - | 576 | 406 |
| Reactive maintenance costs | 561 | 43 | - | 604 | 606 |
| Bad debts – rents and service charges | 48 | 0 | - | 48 | 351 |
| Depreciation of social housing | 823 | 71 | 15 | 909 | 531 |
| Total operating costs for social letting activities | 3,927 | 495 | 72 | 4,494 | 4,189 |
| Operating Surplus for social lettings | 2,482 | 59 | 142 | 2,683 | 2,394 |
| Comparative Figures for 2011 As Restated | 2,218 | 56 | 120 | 2,394 | |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
5. Particulars Of Turnover, Operating Costs and Operating Surplus or Deficit from Other Activities GROUP

| | Grants from Scottish Ministers £'000 | Other Revenue Grants £'000 | Supporting People Income £'000 | Other Income £'000 | Total Turnover £'000 | Other Operating Costs £'000 | Operating Surplus/(Deficit) £'000 | 2011 Total £'000 |
|---|---|-------------------------------|-----------------------------------|-----------------------|-------------------------|--------------------------------|--------------------------------------|---------------------|
| Wider role activities undertaken to support the community | 47 | 20 | - | 47 | 114 | 116 | (2) | (31) |
| Care and Repair | 264 | - | - | 20 | 284 | 297 | (13) | 1 |
| Factoring | - | - | - | 8 | 8 | 5 | 3 | 0 |
| Development and construction of property activities | 69 | - | - | 0 | 69 | 402 | (333) | (260) |
| Support activities | - | - | 352 | 649 | 1,001 | 1,282 | (281) | (211) |
| Care activities | - | - | 37 | 667 | 704 | 880 | (176) | (109) |
| Agency/management services for RSLs | - | - | - | 114 | 114 | 112 | 2 | 1 |
| Developments and improvements for sale to non RSLs | 555 | - | - | 1 | 556 | 556 | 0 | (8) |
| Other activities | - | - | - | 75 | 75 | 87 | (12) | 33 |
| Total from other activities | 935 | 20 | 389 | 1,581 | 2,925 | 3,737 | (812) | (584) |
| Total from other activities from 2011 | 2,345 | 192 | 389 | 1,489 | 4,415 | 5,000 | (584) | |

ASSOCIATION

| | Grants from Scottish Ministers £'000 | Other Revenue Grants £'000 | Supporting People Income £'000 | Other Income £'000 | Total Turnover £'000 | Other Operating Costs £'000 | Operating Surplus/(Deficit) £'000 | 2011 Total £'000 |
|---|---|-------------------------------|-----------------------------------|-----------------------|-------------------------|--------------------------------|--------------------------------------|---------------------|
| Wider role activities undertaken to support the community | 47 | 20 | - | 48 | 115 | 113 | 2 | (40) |
| Care and Repair | 264 | - | - | 23 | 287 | 292 | (5) | 0 |
| Factoring | - | - | - | 8 | 8 | 5 | 3 | 0 |
| Development and construction of property activities | 69 | - | - | 0 | 69 | 402 | (333) | (260) |
| Support activities | - | - | 352 | 649 | 1,001 | 1,282 | (281) | (212) |
| Care activities | - | - | 37 | 667 | 704 | 880 | (176) | (109) |
| Agency/management services for RSLs | - | - | - | 114 | 114 | 112 | 2 | 1 |
| Developments and improvements for sale to non RSLs | 555 | - | - | 1 | 556 | 556 | 0 | (8) |
| Other activities | - | - | - | 75 | 75 | 87 | (12) | 31 |
| Total from other activities | 935 | 20 | 389 | 1,585 | 2,929 | 3,729 | (800) | (597) |
| Total from other activities from 2011 | 2,343 | 168 | 389 | 1,449 | 4,349 | 4,946 | (597) | |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

6. Housing Stock**GROUP & ASSOCIATION**

| | 2012 (Units) | 2011 (Units) |
|---|---------------------|---------------------|
| The number of units of accommodation in management at the year end was: | | |
| General Needs | 1,889 | 1,889 |
| Shared Ownership | 90 | 91 |
| Supported Housing | <u>142</u> | <u>142</u> |
| | <u>2,121</u> | <u>2,122</u> |

7. Surplus for Year

| | GROUP | | ASSOCIATION | |
|---|---------------|-----------------------------|---------------|-----------------------------|
| | 2012 £'000 | (Restated) 2011 £'000 | 2012 £'000 | (Restated) 2011 £'000 |
| Surplus for year is stated: | | | | |
| After charging: | | | | |
| Depreciation | 1,145 | 1,068 | 1,145 | 1,068 |
| External auditors remuneration | 20 | 16 | 5 | 13 |
| Internal auditors remuneration | 11 | 10 | 11 | 10 |
| Remuneration to Baker Tilly UK Tax and Accounting Ltd | <u>4</u> | <u>4</u> | <u>4</u> | <u>4</u> |
| And crediting | | | | |
| BIG Lottery Grant for the Peer Mentoring Service | 11 | 56 | - | - |
| (Loss)/Gain on Disposal of Fixed Assets | <u>(2)</u> | <u>61</u> | <u>(2)</u> | <u>61</u> |

8. Interest Receivable and Similar Income**GROUP & ASSOCIATION**

| | 2012 £'000 | 2011 £'000 |
|-----------------------|---------------|---------------|
| Bank Deposit Interest | <u>2</u> | <u>2</u> |

9. Interest Payable and Similar Charges**GROUP & ASSOCIATION**

| | 2012 £'000 | 2011 £'000 |
|--------------------|-------------------|-------------------|
| Interest payable | 990 | 924 |
| Release of premium | <u>(25)</u> | <u>(25)</u> |
| | <u>965</u> | <u>899</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

10. Taxation

ASSOCIATION

The Association is recognised by the Inland Revenue as a charity for taxation purposes. This results in no liability to corporation tax in the year.

GROUP

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows:

| | 2012 £'000 | 2011 £'000 |
|--------------------------------------|---------------|---------------|
| Current tax | - | 3 |
| Tax on profit on ordinary activities | <u>-</u> | <u>3</u> |

In common with many other businesses of our size and nature we use a firm related to our Auditors, Baker Tilly Tax and Accounting Limited to prepare and submit returns to the tax authorities.

11. Directors' Emoluments

GROUP & ASSOCIATION

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Aggregate amount of Officers emoluments in excess of £60k | <u>261</u> | <u>256</u> |
| Aggregate amount of Officers pensions, where emoluments exceed £60k | <u>45</u> | <u>39</u> |
| Emoluments (excluding pension contributions) of Chief Executive Officer | <u>79</u> | <u>77</u> |
| Total expenses reimbursed to Directors as not chargeable to UK income tax | <u>4</u> | <u>7</u> |
| The number of Directors whose emoluments (excluding pension contribution) paid were: | | |
| £60k- £70k | No. 3 | No. 3 |
| £70k- £80k | <u>1</u> | <u>1</u> |

12. Employees

GROUP & ASSOCIATION

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Salaries | 3,420 | 3,421 |
| Social Security Costs | 234 | 247 |
| Pension Costs | 480 | 352 |
| | <u>4,134</u> | <u>4,020</u> |
| Average monthly number of employees (Full Time Equivalent) | | |
| Office based | No. 77 | No. 82 |
| Project based | <u>65</u> | <u>65</u> |
| Total | <u>142</u> | <u>147</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

13. Tangible Fixed Assets – Housing Properties

GROUP & ASSOCIATION

| | Completed Properties | | Under Construction | Total |
|---|----------------------|------------------|--------------------|----------------|
| | Held for Let | Shared Ownership | Held for Let | |
| | £'000 | £'000 | £'000 | £'000 |
| COST | | | | |
| At 1 April 2011 | 124,224 | 3,778 | 3,771 | 131,773 |
| Prior Period Adjusment (Note 2) | 2,796 | - | - | 2,796 |
| As Restated | 127,020 | 3,778 | 3,771 | 134,569 |
| Additions – new & existing stock | 105 | - | 3,568 | 3,673 |
| Additions – Component Replacement | 1,245 | - | - | 1,245 |
| Transfers | - | - | - | - |
| Disposal- existing stock | - | (13) | - | (13) |
| Disposal – Component Replacement | (252) | - | - | (252) |
| At 31 March 2012 | 128,118 | 3,765 | 7,339 | 139,222 |
| DEPRECIATION | | | | |
| At 1 April 2011 | 4,207 | 178 | 0 | 4,385 |
| Prior Period Adjusment (Note 2) | 2,589 | - | - | 2,589 |
| As Restated | 6,796 | 178 | - | 6,974 |
| Charge | 893 | 15 | - | 908 |
| Disposal- existing stock | - | (0) | - | (0) |
| Disposal – Component Replacement | (192) | - | - | (192) |
| At 31 March 2012 | 7,497 | 193 | - | 7,690 |
| Depreciated Cost 31 March 2012 | | | | |
| SHG | | | | |
| At 1 April 2011 | 87,365 | 2,663 | 2,458 | 92,486 |
| Prior Period Adjusment (Note 2) | (33) | - | - | (33) |
| As Restated | 87,332 | 2,663 | 2,458 | 92,453 |
| Received in year | 2 | - | 2,494 | 2,496 |
| Transfers | - | - | - | - |
| Repaid in year | - | (8) | - | (8) |
| At 31 March 2012 | 87,334 | 2,655 | 4,952 | 94,941 |
| OTHER GRANTS | | | | |
| At 1 April 2011 | 4,472 | 18 | 1,028 | 5,518 |
| Received in year | 10 | - | 661 | 671 |
| Transfers | - | - | - | - |
| Repaid in year | - | - | - | - |
| At 31 March 2012 | 4,482 | 18 | 1,689 | 6,189 |
| Total Grants 31 March 2012 | 91,816 | 2,673 | 6,641 | 101,130 |
| Net Book Value at 31 March 2012 | 28,805 | 899 | 698 | 30,402 |
| Net Book Value at 31 March 2011 As Restated | 28,421 | 918 | 284 | 29,623 |

Development administration costs capitalised amounted to £70k (2011 - £172k) for which Housing Association and Other Development Grants amounting to £70k (2011 - £172k) were received in the year.

During the year the amount of works to existing properties that were capitalised was £1,245k (2011 - £737k), out of total spend of £1,618k (2011 - £958k).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
14. Tangible Fixed Assets – Other Fixed Assets
GROUP & ASSOCIATION

| | Furniture & Fittings £'000 | Other Equipment £'000 | Information Technology £'000 | Motor Vehicles £'000 | Heritable Property £'000 | Let Property Furnishing £'000 | Total £'000 |
|--|----------------------------------|-----------------------------|------------------------------------|----------------------------|--------------------------------|-------------------------------------|----------------|
| Cost | | | | | | | |
| At 1 April 2011 | 227 | 11 | 704 | 94 | 5,344 | 64 | 6,444 |
| Additions | - | - | 119 | 29 | 2 | - | 150 |
| Disposals | - | - | 70 | 15 | - | - | 85 |
| At 31 March 2012 | <u>227</u> | <u>11</u> | <u>753</u> | <u>108</u> | <u>5,346</u> | <u>64</u> | <u>6,509</u> |
| Grants | | | | | | | |
| At 1 April 2011 | - | - | 4 | 62 | 170 | 48 | 284 |
| At 31 March 2012 | - | - | <u>4</u> | <u>62</u> | <u>170</u> | <u>48</u> | <u>284</u> |
| Depreciation | | | | | | | |
| At 1 April 2011 | 66 | 4 | 560 | 32 | 379 | 15 | 1,056 |
| Charge for year | 24 | 2 | 99 | 7 | 104 | 1 | 237 |
| Disposals | - | - | 70 | 15 | - | - | 85 |
| At 31 March 2012 | <u>90</u> | <u>6</u> | <u>589</u> | <u>24</u> | <u>483</u> | <u>16</u> | <u>1,208</u> |
| Net Book Value at 31 March 2012 | <u>137</u> | <u>5</u> | <u>160</u> | <u>22</u> | <u>4,693</u> | <u>0</u> | <u>5,017</u> |
| Net Book Value at 31 March 2011 | 160 | 7 | 139 | 2 | 4,795 | - | 5,103 |

The assets held under finance leases amounts to £838k (2011- £858k) and the corresponding depreciation charge is £20k (2011- £20k), contained within Heritable Property.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

15. Fixed Asset Investment

GROUP & ASSOCIATION

| | 2012 £'000 | Movement in the year | 2011 £'000 |
|---|----------------|-------------------------|----------------|
| Shared Equity Loans made to the Shared Home Owner | 2,242 | 248 | 1,994 |
| Shared Equity Grants | <u>(2,242)</u> | <u>(248)</u> | <u>(1,994)</u> |
| | <u>=</u> | <u>=</u> | <u>=</u> |

16. Gain on Disposal of Fixed Assets

GROUP & ASSOCIATION

| | Shared Ownership £'000 | Other Property £'000 | Total £'000 |
|---------------------------------------|---------------------------|-------------------------|----------------|
| Housing Properties | | | |
| Net Proceeds | 25 | 53 | 78 |
| Less: Asset Cost | 13 | 67 | 80 |
| Accumulated Depreciation | - | - | - |
| Net Gain on Sales of Housing Property | <u>12</u> | <u>(14)</u> | <u>(2)</u> |

17. Work In Progress - Shared Equity

GROUP & ASSOCIATION

| | 2012 £'000 | Movement in the year | 2011 £'000 |
|--------------------------------------|---------------|-------------------------|---------------|
| Cost of Developing Properties | - | (554) | 554 |
| Grant Received to Develop Properties | <u>-</u> | <u>243</u> | <u>(243)</u> |
| | <u>=</u> | <u>(311)</u> | <u>311</u> |

18. Debtors

| | GROUP | | ASSOCIATION | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Amounts falling due within one year: | | | | |
| Rental Debtors | 348 | 335 | 348 | 335 |
| Provision for Bad Debts | <u>(141)</u> | <u>(126)</u> | <u>(141)</u> | <u>(126)</u> |
| | 207 | 209 | 207 | 209 |
| SHG Receivable | 173 | 683 | 173 | 683 |
| Other Debtors | 64 | 101 | 55 | 94 |
| Owed by Group Undertakings | - | - | 26 | 49 |
| Prepayments and Accrued Income | <u>23</u> | <u>28</u> | <u>23</u> | <u>28</u> |
| | <u>467</u> | <u>1,021</u> | <u>484</u> | <u>1,063</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

19. Creditors – Amounts Falling Due Within One Year

| | GROUP | | ASSOCIATION | |
|-----------------------------------|---------------|-----------------------------|---------------|-----------------------------|
| | 2012 £'000 | (Restated) 2011 £'000 | 2012 £'000 | (Restated) 2011 £'000 |
| Housing Loans (Note 20) | 559 | 570 | 559 | 570 |
| Accruals and Deferred Income | 311 | 402 | 308 | 400 |
| Rent in Advance | 111 | 104 | 111 | 104 |
| Trade Creditors | 411 | 282 | 411 | 282 |
| Other Creditors | 518 | 584 | 518 | 584 |
| Other Taxes and Social Security | 102 | 95 | 85 | 73 |
| Owed to Group Undertakings | - | - | 2 | 1 |
| Care & Repair Client Bank Account | 124 | 71 | - | - |
| | <u>2,136</u> | <u>2,108</u> | <u>1,994</u> | <u>2,014</u> |

20. Creditors – Amounts Falling Due After More Than One Year

GROUP & ASSOCIATION

| | 2012 £'000 | 2011 £'000 |
|---------------------------------|---------------|---------------|
| Bank and Building Society loans | 21,353 | 17,997 |
| Local Authority and other loans | 193 | 4,097 |
| | <u>21,546</u> | <u>22,094</u> |
| Other Creditors | 122 | 24 |
| | <u>21,668</u> | <u>22,118</u> |

Other Creditors

Development Retentions due for properties currently under construction.

Loans

In 1997 the Association entered into two debenture linked loans with THFC due for repayment in December 2016 to the value of £3.9m with an effective rate of approximately 7.4%.

Other loans are secured by specific charges on the Association's properties and are repayable at varying rates of interest (average 5.8%), in instalments due as follows:

GROUP & ASSOCIATION

| | 2012 £'000 | 2011 £'000 |
|---------------------------------|---------------|---------------|
| Due within 1 year: (Note 19) | | |
| Bank and Building Society loans | 558 | 569 |
| Local Authority and other loans | 1 | 1 |
| | <u>559</u> | <u>570</u> |
| Due within 1 to 2 years: | | |
| Bank and Building Society loans | 759 | 578 |
| Local Authority and other loans | - | - |
| | <u>759</u> | <u>578</u> |
| Due within 2 to 5 years: | | |
| Bank and Building Society loans | 7,231 | 2,358 |
| Local Authority and other loans | - | - |
| | <u>7,231</u> | <u>2,358</u> |
| Due after 5 years: | | |
| Bank and Building Society loans | 13,363 | 15,061 |
| Local Authority and other loans | 193 | 4,097 |
| | <u>13,556</u> | <u>19,158</u> |
| | <u>22,105</u> | <u>22,664</u> |

Financial Instruments

Due to the nature of the Association's business, the only financial risk the Board consider relevant to the Association is credit, cash flow, interest rate and liquidity risk. The credit and cash flow risks are not considered significant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

20. Creditors – Amounts Falling Due After More Than One Year (cont)

Interest Rate Risk

The financial risk management objectives of the Association are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. The Association uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Liquidity Risk

The Association's liquidity risk is principally managed through financing the Association by means of long term borrowings.

Derivatives not included at fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Association's financial instruments that are carried in the financial statements at other than fair values:

| | 2012 | | 2011 | |
|------------------------------|----------------------|-----------------|----------------------|-----------------|
| | Carrying Amount £ | Fair Value £ | Carrying Amount £ | Fair Value £ |
| Financial liabilities | | | | |
| Long term borrowing | 6,000 | 4,736 | 6,000 | 5,295 |
| Interest rate swap | - | 1,264 | - | 705 |
| | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> |

The fair values of the fixed rate borrowing and the interest rate swap have been calculated by discounting the fixed cash flows at the prevailing interest rates at the year end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

21. Revenue Reserves

| | GROUP | | ASSOCIATION | |
|---|---------------|-----------------------------|---------------|-----------------------------|
| | 2012 £'000 | (Restated) 2011 £'000 | 2012 £'000 | (Restated) 2011 £'000 |
| Revenue Reserve | | | | |
| At 1 April 2011 previously stated | 2,241 | 1,194 | 2,185 | 1,147 |
| Prior period adjustment – Net Effect (Note 2) | 224 | - | 224 | - |
| At 1 April (Restated) | 2,465 | 1,194 | 2,409 | 1,147 |
| Surplus for the year | 906 | 971 | 918 | 962 |
| Transfer to Designated Reserves (Note 22) | 8,612 | (50) | 8,612 | (50) |
| Transfer from Ordinary Risk Reserve (Note 22) | 350 | 350 | 350 | 350 |
| At 31 March | <u>12,333</u> | <u>2,465</u> | <u>12,289</u> | <u>2,409</u> |

22. Designated and Ordinary Reserves

GROUP & ASSOCIATION

| | At 1 April 2011 £'000 | Transfer To/(From) Designated Reserves £'000 | At 31 March 2012 £'000 |
|---|--------------------------|--|------------------------------|
| Designated Reserves | | | |
| Proactive Maintenance and Replacement Housing Services | 9,627 <u>577</u> | (9,627) <u>1,015</u> | - <u>1,592</u> |
| | <u>10,204</u> | <u>(8,612)</u> | <u>1,592</u> |
| Ordinary Risk Reserves | | | |
| Acquisition Reserve | 250 | (250) | - |
| Development Risk Reserve | 75 | (75) | - |
| Interest Fluctuation Reserve | <u>25</u> | <u>(25)</u> | - |
| | <u>350</u> | <u>(350)</u> | - |
| Total | <u>10,554</u> | <u>(8,962)</u> | <u>1,592</u> |

The Housing Service reserve reflects the need to collect yearly income for future expenditure that occurs periodically. Most of this occurs over a five year cycle. However, there are certain equipment and furnishings that have replacement cycles of 10 and 20 years.

23. Commitments

GROUP & ASSOCIATION

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Capital Commitments | | |
| Capital expenditure authorised but not contracted for | <u>7,041</u> | <u>8,777</u> |
| Capital expenditure that has been contracted for but has not been provided for in the financial statements | <u>4,914</u> | <u>7,607</u> |

The amount contracted for at 31 March 2012 will be funded from grants approved by The Scottish Housing Regulator, financed from private loans or met from the Association's Reserves.

Operating Leases - None

At 31 March 2012, the Association had annual commitments under non-cancellable operating leases for Buildings which expire within <1 year of £nil (2011 - £4k).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

24. Pensions

Scottish Housing Associations' Pension Scheme

Eildon Housing Association Limited participates in the Scottish Housing Associations' Pension Scheme ('the Scheme').

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.

The Association has elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 1 April 2011 and the final salary with a 1/60th accrual rate, benefit structure for new entrants from 1 April 2011.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period, Eildon Housing Association Ltd paid contributions at the rate of 9.6% of pensionable salaries. Member contributions were 9.6% plus deficit.

As at the balance sheet date, there were 96 active members of the Scheme employed by the Association. The annual pensionable payroll in respect of these members was £2,292k. The Association continues to offer membership of the Scheme to its employees

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Scottish Housing Associations' Pension Scheme 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 was £295m. The valuation revealed a shortfall of assets compared with the value of liabilities of £160m, 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 an increase in the assets of the Scheme to £335m and indicated an increase in the shortfall of assets compared to liabilities to approximately £162m, equivalent to a past service funding level of 67.4%.

Since the contribution rates payable to the Scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2009.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

24. Pensions (cont)

The financial assumptions underlying the valuation as at 30 September 2009 were as follows:

| | %pa |
|---|-----|
| 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 | 2.9 |
| pension accrued from 6 April 2005 (for leavers before 1 October 1993 pension increases are 5.0%) | 2.2 |
| Rate of price inflation | 3.0 |

The valuation was carried out using the PA92C2025 short cohort mortality table for non-pensioners and PA92C2013 short cohort mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

| | |
|----------------|--|
| Non-pensioners | SAPS (S1PA) All Pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement. |
| Pensioners | SAPS (S1PA) All Pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement. |

The long-term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed as:

| Benefit structure | Long-term joint contribution rate (% of pensionable salaries per annum) |
|---|--|
| Final salary 60ths | 19.2 |
| Career average 1/60ths | 17.1 |
| Career average 1/70ths | 14.9 |
| Career average 1/80ths | 13.2 |
| Career average 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.)

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

The total Scottish Housing Associations' Pension Scheme pension cost for the Association was £480,425 (2011 - £354,317). Retirement benefits are accruing under this scheme in respect of one Director. Best estimate of contributions to be paid to the scheme in the next accounting period are ordinary contributions of £227,997 and additional contributions for past service deficit of £271,861.

Contingent Liability if Eildon ceases to participate in the Scheme

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 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.

Eildon Housing Association Ltd has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme based on the financial position of the Scheme as at 30 September 2011. As of this date the estimated employer debt for Eildon Housing Association Ltd was £11,803,889.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

25. Legislative Provisions

Eildon Housing Association and Eildon Tweed Valley Housing Association are incorporated under the Industrial and Provident Societies Act 1965. Eildon Enterprise Ltd is a company limited by guarantee incorporated under the Companies Act 1985.

26. Called Up Share Capital

| | GROUP | | ASSOCIATION | |
|---|------------|------------|-------------|------------|
| | 2012 £ | 2011 £ | 2012 £ | 2011 £ |
| Allotted, Issued and Fully Paid: Ordinary Shares of £1 each | | | | |
| At 1 April | 208 | 206 | 201 | 199 |
| Issued in year at par | 4 | 13 | 4 | 13 |
| Cancelled in year | (11) | (11) | (11) | (11) |
| At 31 March | <u>201</u> | <u>208</u> | <u>194</u> | <u>201</u> |

The shares were allotted to individuals wishing to become members.

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

27. Related Party Transactions

Tenant Committee Members

During the year ended 31 March 2012 Mr M Clark, Mrs D MacDonald and Mr Robin Lewis-Thomas were members of the Board of Management and tenants of Eildon Housing Association Limited. Each were issued with standard tenancy agreements and were awarded tenancies in line with the Association's Allocation Policy. Under the Board of Management Code of Conduct, no tenant members can use their position on the Board of Management to their own advantage.

Eildon Enterprise Limited

Eildon Enterprise Limited (EEL) is a subsidiary of Eildon Housing Association (EHA). All shares of EEL are held by EHA and the Board Members of EHA make up the majority on the EEL Board.

Mr Nile Istephan, the Secretary and Chief Executive of EHA is also Secretary of EEL.

During the year the following transactions took place between EHA and EEL:

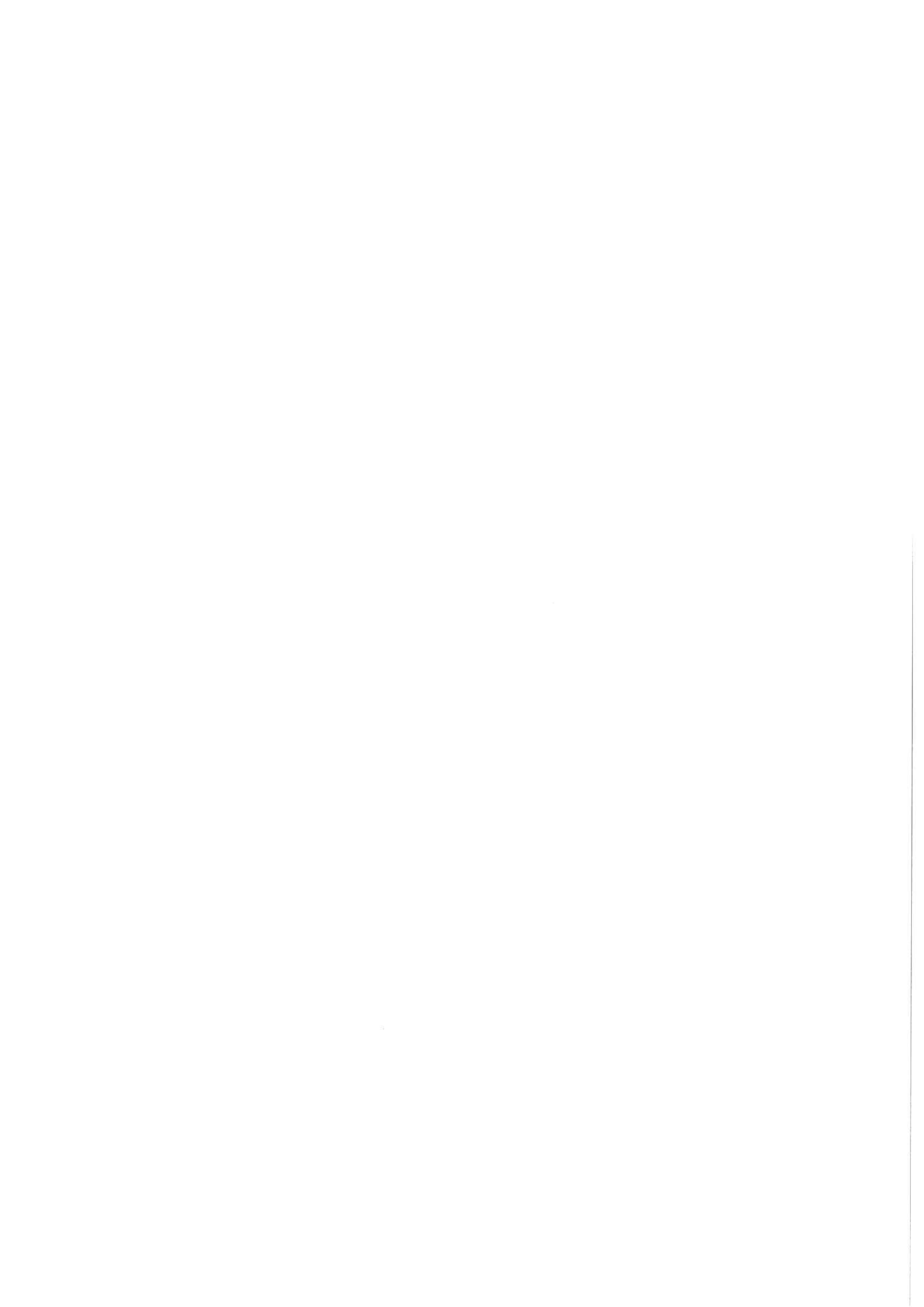
| | 2012 £'000 | 2011 £'000 |
|--------------------------------------|---------------|---------------|
| Consultancy services provided to EEL | <u>210</u> | <u>411</u> |
| Amount due from EEL at the year end | <u>25</u> | <u>48</u> |
| Amount due to EEL at the year end | <u>2</u> | <u>1</u> |

The EEL Balance Sheet and Income and Expenditure Account, along with Eildon Housing Association make up the Group accounts financial statements (pages 19 - 22).

Eildon Tweed Valley Housing Association

During the year the subsidiary Eildon Tweed Valley Housing Association, which was incorporated under the Industrial and Provident Society and dormant, was dissolved.

Mr Nile Istephan, the Secretary and Chief Executive of EHA was also Secretary of Eildon Tweed Valley Housing Association.



A large print version of this booklet
is available upon request.

To order a copy, please contact:

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or

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