

# Hjaltland Housing Association Limited

## REPORT AND FINANCIAL STATEMENTS

31 March 2012

Registered Housing Association No Hal 127  
Financial Services Authority No 1832R(S)  
Scottish Charity No SC031954

**Hjaltland Housing Association Limited**  
MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS  
Year ended 31 March 2012

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**COMMITTEE OF MANAGEMENT**

Dr J Goddard	Chair
R Hunter	Vice Chair
L Rosie	Vice Chair
S Duncan	Treasurer
J Anderson	Committee member
J Dally	Committee member
J Handley	Committee member
W Henderson	Committee member
J Henry	Committee member
G Jacobson	Committee member
G Mitchell	Committee member
T Stove	Committee member
A Tallack	Committee member
R Tulloch	Committee member

**EXECUTIVE OFFICERS**

Mr R Sandison	Chief Executive/Secretary	Resigned 31 March 2012
Mrs S Gray	Finance Manager	
Mr B Leask	Property Services Manager	Resigned 31 March 2012
	Chief Executive/Secretary	Appointed 1 April 2012
Mr P Leask	Property Services Manager	Appointed 2 April 2012
Ms F A Robertson	Housing Services Manager	

**REGISTERED OFFICE**

2 Harbour Street  
Lerwick  
Shetland  
ZE1 0LR

**AUDITORS**

Baker Tilly UK Audit LLP  
St Olaf's Hall  
Church Road  
Lerwick  
Shetland  
ZE1 0FD

**BANKERS**

Bank of Scotland  
117 Commercial Street  
Lerwick  
Shetland  
ZE1 0DN

Royal Bank of Scotland  
81 Commercial Street  
Lerwick  
Shetland  
ZE1 0AD

**SOLICITORS**

Harper Macleod  
The Ca'd'oro  
45 Gordon Street  
Glasgow  
G1 3PE

**Registration Particulars:**

Financial Services Authority

Industrial and Provident Societies Act 1965  
Registered Number 1832 R (S)

Scottish Housing Regulator

Housing Scotland Act 2001  
Registered Number 127

Scottish Charities

Charities and Trustee Investment Act (Scotland) 2005  
Scottish Charity Number SC031954

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# Hjaltland Housing Association Limited

## REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2012

The Committee of Management presents its report and the audited financial statements for the year ended 31 March 2012.

### PRINCIPAL ACTIVITIES

The principal activities of the Association are the provision of rented accommodation at affordable rents and the development of low cost home ownership schemes.

Hjaltland is registered with the Financial Services Authority as an Industrial and Provident Society, The Office of the Scottish Charities Regulator (OSCR) as a charity and the Scottish Housing Regulator as a Registered Social Landlord.

The table below shows the property the Association owns:-

	2012	2011
Managed Property Numbers		
Tenanted Property	545	504
Managed on behalf of others	2	2
Shared Ownership Properties	58	58
Total	<u>605</u>	<u>564</u>

### FINANCIAL REVIEW

Hjaltland made a surplus of £95,605 (2011 - £321,361) during the year. The surplus was made after significant investment in the properties at Setters Hill Estate, Unst. This work was carried out according to the terms of the lease before they were handed back to Defence Estates. Designated reserves had been set aside in previous years to cover this work. In addition to this, works have taken place on window and door replacements, cyclical painting and kitchen refurbishments for various properties.

The total expenditure on planned and cyclical maintenance including major repairs amounted to £430,759. This compares with £223,310 for similar expenditure in the previous year. This expenditure is written off in the year it is incurred and not capitalised.

Following the implementation of the Statement of Recommended Practice – Accounting by registered social housing providers – Update 2010 (SORP 2010), the Association has implemented component accounting. 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 (h)) 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 22.

There was no Gift Aid from Hjaltland Trading Ltd this year which compares with gift aid of nil in the previous year.

Taking these movements into account Hjaltland is in a strong financial position with £2.85m in Capital & Reserves of which £2.3m is in Designated Reserves. Hjaltland continues to have a substantial major repair investment programme with further replacement kitchens, heating improvements and re-harling due over the next few years. We have provided funds over the next three years to meet our commitments under the Scottish Housing Quality Standards. Cash surpluses will continue to be made, subject to our planned major repair programme over the next few years. This includes the acceleration of the replacement of space and water heating to a significant number of properties as part of a major energy efficiency programme in partnership with Shetland Island Council and Scottish & Southern Energy.

# Hjaltland Housing Association Limited

## REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2012

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### SURPLUS FOR THE YEAR

The financial results of Hjaltland are as follows: -

	2012	2011
	£000s	Restated £000s
Surplus for the year	96	321
Transfer to designated reserves – major repairs	800	137
Transfer from designated reserves – major repairs Setters Hill	(275)	-
Transfer from designated reserves – One Stop Shop	(30)	-
Transfer to designated reserves – capital contribution	6	25
Revenue Reserves	577	983

### BUSINESS REVIEW

#### Our Aims

Hjaltland aims to deliver to Shetland a housing service that, as well as improving the quality of life for an individual through the provision of quality housing, offers them value for money. Hjaltland is committed through its housing service and wider action to playing its part in sustaining communities.

1. Hjaltland aims to deliver a high quality housing service to communities throughout Shetland and is committed to ensuring remote communities remain viable through a culture of sustainability and continuous improvement.
  - 1.1. Hjaltland aims to assist people in need, including those with special requirements, through a range of tenures and services.
  - 1.2. We will provide good quality homes that offer value for money, and are affordable to households in communities throughout Shetland.
  - 1.3. Hjaltland is committed to working in partnership with others for the good of the Shetland community.

The Association also has a wholly owned subsidiary, Hjaltland Trading Ltd, whose main objective is to carry on business as a general commercial company, within the Shetland Isles.

### OPERATIONAL REVIEW

#### 1. *Corporate Governance*

Hjaltland has a Committee of Management who are elected by the members of the Association (see below for details). It is the responsibility of the Committee to undertake the strategy, setting of policy and overall direction for the Association. They also monitor the operational activities of the Association. The members of the Committee of Management are unpaid.

The Executive Team of Hjaltland is responsible for achieving the strategy set, and undertaking the operational activities in line with the policies set.

The governing body is the Committee of Management, which is responsible to the wider membership. Committee of Management Members serve in a voluntary capacity, and they recognise that this puts even more onus on them to ensure that they set and achieve high standards of professionalism in the Association's work. They take governance very seriously, and regularly review governance arrangements to ensure that the Committee and Association are fit for purpose. The internal auditors also review Committee structure and governance as part of their remit.

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# Hjaltland Housing Association Limited

## REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2012

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### 2. *Corporate Issues*

The Hjaltland group continued to promote the provision of a One Stop Shop agency on behalf of Shetland Island Council. This service provides local residents with advice, support and limited access to grant funding for property repairs and improvements including energy efficiency measures. At 31 March 2012 there were 3 staff employed to ensure the successful running of this service. This includes a handyman employed to provide small and urgent repairs and adaptations.

During the year the Association continued to assist other organisations in community regeneration projects and it is intended to expand this activity where possible. During the year work continued to develop the new Housing HUB and the Association was successful in obtaining Lottery funding for the 3 year project. The HUB will support young people in transition out of care to gain the skills and expertise required to take on a tenancy in the future.

During the year the Association carried out a review of the current staffing structure and incorporated several changes to ensure that the Association was suitably staffed in the appropriate areas to cope with the forthcoming changes to the One Stop Shop and Housing Management.

Hjaltland is committed to continuing its program of Tenant Satisfaction Surveys conducted by carrying out a postal survey of 100% of tenants on a regular basis.

Hjaltland is committed to involving staff in decision making and policy making. It is intended to continue an informal Office Bearers and Senior staff group which meets monthly.

Hjaltland Trading Ltd continued to carry out various commercial activities in the year to 31 March 2012. We continue to review various activities which will make Hjaltland Trading Ltd have a long term sustainable future to complement the charitable activities of the Association.

#### Performance Management

Service delivery is underpinned by staff performance. This continues to be a high priority for us and we help and encourage our staff to achieve appropriate Vocational Qualifications.

#### Best use of resources

We regularly conduct risk assessments, and take any action necessary to reduce or limit risk. We have a programme of major investment in our housing stock, which is by far our most costly asset, which includes carrying out major repairs. We have updated our stock condition information to ensure that our long-term financial planning reflects our future investment requirements.

#### Services

We aim to deliver high quality services, and we set ourselves the goal of achieving continuous improvement in what we do. In our housing stock, we moved ahead with some major repairs that had become necessary, and brought new schemes into management.

We continued to deliver adaptations to existing properties to meet specific needs of our tenants.

### 3. *Development Issues*

The year just completed has continued to be busy as Hjaltland progressed a number of projects that had received development funding from the Scottish Government. Significant staff resources have been applied to progressing current and future development opportunities this year. We have spent £3,452k (2011 - £5,155k) during the year. Of this spending £908k (2011 - £2,533k) is funded by Housing Association Grant received from the Scottish Government.

The Association was successful in bidding for several development projects and subject to grant funding becoming available through the new Strategic Local Programme, and other forms of subsidy becoming available, it is hoped to

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# Hjaltland Housing Association Limited

## REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2012

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increase stock numbers through completion of new housing which would consolidate the Association's asset base at around 620 by 2013 and 688 by 2014.

The Scottish Government's drive for greater delivery efficiencies has engendered an increased requirement for the private finance element of project funding. This in turn has implications for the annual number of units that can be produced while maintaining sufficient reserves in the medium term. Also in consequence the Association has increased the capital contribution reserve to underline the investment being made directly by the Association.

#### 4. *Housing Issues*

Hjaltland continues to work on reducing the period of time taken to re-let or let new properties to ensure that we maximize our effectiveness in housing people in need and reduce our costs. The rent loss due to empty properties was held down to £1,391 - by using a Choice Based Lettings system the average time taken to re-let a property is 4 days. Net tenant arrears has risen to 4.1%, (previous year 3.4%), however efforts continue to be made to bring the level down.

#### 5. *Property Maintenance*

According to our on-going Tenant Satisfaction Survey levels of satisfaction with regard to property maintenance remain high. 98% of repairs were completed on time compared to 98% last year.

#### 6. *Support Services Issues*

There was a Care Inspectorate Inspection during the year which assessed the area inspected as excellent. Any future recommendations will continue to be implemented. The Shetland Islands Council continued to provide funding during the year.

#### 7. *Finance and IT Issues*

During the year additional private finance arrangements were negotiated with the Royal Bank of Scotland and the Bank of Scotland. In addition a bridging facility continued with the Shetland Islands Council to provide temporary funding in advance of approved Housing Association Grant.

The Association began the process on procuring a new web-site provider and it is expected to be operational through 2012.

#### 8. *Other Areas*

##### Risk Events and Risk Management Policy

The Association re-visits its Business Continuity Plan annually and makes amendments capitalising on any lessons learned during the course of the year. The Committee has continued to operate a formal risk management process to assess business risks and implement risk management strategies. This involves identifying the types of risks the Association faces, prioritising them in terms of potential impact and likelihood of occurrence, and identifying means of mitigating the risks. As part of this process the Committee have reviewed the adequacy of the Association's current internal controls and this continues to be kept under review.

Following changes to the grant regime within which the Association operates additional procedures were implemented with a view to ensuring that financial covenants are kept under close review.

# Hjaltland Housing Association Limited

## REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2012

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### Credit Payment Policy

Hjaltland'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.

### Rental Income

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

### Maintenance Policies

Hjaltland seeks to maintain its properties to the highest standard. To this end, programmes of cyclical repairs are carried out in the medium term to deal with the gradual and predictable deterioration of building components. It is expected that the cost of all these repairs will be charged to the Income and Expenditure.

In addition, Hjaltland has a long term programme of major repairs to cover work which has become necessary since the original development was completed, including works required for subsequent legislative changes. This includes replacement or repairs to features of the properties, which have come to the end of their economic lives. The costs of these repairs will be charged to the Income and Expenditure Account, unless it was agreed they could be capitalised within the terms outlined in the Statement of Recommended Practice for Registered Social Landlords 2010 (SORP). This policy has been revised to ensure compliance with the updated SORP. See note 1(g).

### Budgetary Process

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

### Treasury Management

Hjaltland has an active treasury management function, which operates in accordance with the Treasury Policy approved by the Committee of Management. In this way Hjaltland manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held. At 31 March 2012 Hjaltland had £400k in loan facilities agreed but not yet drawn down.

Hjaltland as a matter of policy does not enter into transactions of a speculative nature. At 31 March 2012, Hjaltland has a mix of fixed and variable rate finance, which it considers appropriate at this time. During the year the proportion of fixed rates to variable continued to be reviewed to take advantage of the low interest rates prevailing.

### Quality and Integrity of Personnel

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

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# Hjaltland Housing Association Limited

## REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2012

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### General Reserves Policy

The Committee members have reviewed the reserves of Hjaltland. 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 Association has designated funds; the purpose of these funds is detailed in note 1 in the financial statements.

### Sales of housing properties

First tranche Shared Ownership disposals are credited to turnover on completion, the cost of construction of these sales is taken to operating costs. Disposals of subsequent tranches are treated as fixed asset disposals with the gain or loss on disposal shown in the income and expenditure account, in accordance with the Statement of Recommended Practice. Disposals under shared equity schemes are accounted for in the income and expenditure account.

### Employee Involvement and Health and Safety

Hjaltland 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.

### Equalities & Diversity

There is an Equality & Diversity policy in place which is kept under review and has been amended to ensure compliance with recent legislative changes. All reasonable adjustments will be made to assist those with a disability through the application process and throughout the course of their employment.

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

### Committee and officers' Insurance

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

### Future developments

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



# Hjaltland Housing Association Limited

## REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2012

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### COMMITTEE OF MANAGEMENT

The Committee of Management of Hjaltland during the year to 31 March 2012 was as follows:

Dr J Goddard	Chair Person	1
R Hunter	Vice-Chair Person	1
L Rosie	Vice-Chair Person	
S Duncan	Treasurer	1
J Anderson		
J Dally		
J Handley		
W Henderson		1
J Henry		
A Tallack		
G Jacobson		
G Mitchell		1
R Tulloch		1
T Stove		1
Sub committee membership	1	Finance Committee

Each member of the Committee of Management holds one fully paid share of £1 in Hjaltland. The executive officers of Hjaltland hold no interest in the share capital and although not having the legal status of "director" they act as executives within the authority delegated by the Committee.

### AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Baker Tilly have agreed to offer themselves for re-appointment as auditors of Hjaltland Housing Association Limited.

On behalf of the Committee of Management

  
Mr B Leask  
Secretary

23 August 2012

2 Harbour Street  
Lerwick  
Shetland

# Hjaltland Housing Association Limited

## STATEMENT OF COMMITTEE OF MANAGEMENT'S RESPONSIBILITIES

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Statute requires the Management Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing those financial statements, the Management Committee are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Management Committee are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the financial statements comply with the requirements of the Industrial and Provident Societies Act 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Hjalmland Housing Association Limited

## COMMITTEE OF MANAGEMENT'S STATEMENT OF INTERNAL FINANCIAL CONTROL

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The Committee of Management acknowledge their ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

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

It is the Committee of Management'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:

- 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 take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance.
- forecasts and budgets are prepared regularly which allow the Committee of Management and staff to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term; regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate.
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Committee of Management members and others.
- the Committee of Management reviews reports from management, from directors, staff and from the external and internal 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 any weaknesses identified from the above reports.

These arrangements are considered appropriate to the scale and range of the Association's activities and comply with the requirements contained in the Scottish Housing Regulator's Guidance and the SFHA's publication "Raising Standards in Housing".

The Committee of Management have reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2012 and until the below date. No weaknesses were found in internal controls which resulted in material losses, contingencies, or uncertainties which would require disclosure in the financial statements or in the auditors' report on the financial statements.

On behalf of the Committee of Management



Dr J Goddard  
Chair  
23 August 2012

# Hjaltland Housing Association Limited

## REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS

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### CORPORATE GOVERNANCE

In addition to our audit of the financial statements, we have reviewed the Committee of Management's statement on page 10 concerning the Association's compliance with the information required by the section on Internal Financial Control within the SFHA's publication "Raising Standards in Housing".

### BASIS OF OPINION

We carried out our review having regard to the Bulletin 2009/04 issued by the Auditing Practices Board. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non compliance.

### OPINION

In our opinion the statement on internal financial control on page 10 has provided the disclosures required by the section on Internal Financial Control within 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  
Statutory Auditors  
St Olaf's Hall  
Church Road  
Lerwick  
Shetland  
ZE1 0FD

Date: 23 August 2012

# Hjaltland Housing Association Limited

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF HJALTLAND HOUSING ASSOCIATION LIMITED

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We have audited the financial statements of Hjaltland Housing Association Limited for the year ended 31 March 2012 on pages 13 to 36. 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 Committee of Management and auditor**

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 9, the Committee of Management 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](http://www.frc.org.uk/apb/scope/private.cfm).

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Schedule 7 of the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

## **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  
St Olaf's Hall  
Church Road  
Lerwick  
Shetland  
ZE1 0FD

23 August 2012

# Hjaltland Housing Association Limited

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2012

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	<i>Notes</i>	2012 £	2011 Restated £
TURNOVER	2	2,503,252	2,081,785
Less: Operating costs	2	(2,043,192)	(1,508,878)
OPERATING SURPLUS		460,060	572,907
(Loss)/Gain on sale of fixed assets		(1,506)	8,433
Interest receivable and other income		9,181	8,712
Interest payable and other charges	6	(372,130)	(268,691)
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		95,605	321,361
Taxation on surplus on ordinary activities	7	-	-
SURPLUS FOR THE YEAR	14	95,605	321,361

The surplus for the year arises from the Association's continuing operations.

### STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2012

		2012 £	2011 Restated £
Surplus for the year		95,605	321,361
Prior period adjustment	22	506,787	-
Total surpluses and deficits recognised since last reporting period		602,392	321,361

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# Hjaltland Housing Association Limited

## BALANCE SHEET

at 31 March 2012

	Note	2012		2011	
		£	£	£	Restated £
<b>TANGIBLE FIXED ASSETS</b>					
Housing properties					
- gross cost less depreciation	8		55,322,724		52,131,068
Less: HAG	8		(38,311,131)		(37,426,909)
Other grants	8		(1,939,465)		(1,941,236)
			<u>15,072,128</u>		<u>12,762,923</u>
Other fixed assets	8		330,334		346,705
			<u>15,402,462</u>		<u>13,109,628</u>
<b>CURRENT ASSETS</b>					
Debtors	9	250,559		380,140	
Cash at bank and in hand		567,256		1,143,747	
			<u>817,815</u>	<u>1,523,887</u>	
CREDITORS: amounts falling due within one year	10	(661,446)		(867,193)	
			<u>156,369</u>	<u>656,694</u>	
<b>NET CURRENT ASSETS</b>					
			<u>15,558,831</u>	<u>13,766,322</u>	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
CREDITORS: amounts falling due after more than one year	11	(12,708,800)		(11,011,896)	
			<u>2,850,031</u>	<u>2,754,426</u>	
<b>NET ASSETS</b>					
<b>CAPITAL AND RESERVES</b>					
Share capital	12		80		80
Designated reserves	13		2,272,504		1,770,749
Revenue reserves	14		577,447		983,597
			<u>2,850,031</u>	<u>2,754,426</u>	
<b>SHAREHOLDERS' FUNDS</b>					
	15		<u>2,850,031</u>	<u>2,754,426</u>	

The financial statements were approved and authorised for issue by the Committee of Management on 23 August 2012.

 : Treasurer  
Mrs S Duncan

 : Chair  
Dr J Goddard

 : Secretary  
Mr B Leask

# Hjaltland Housing Association Limited

CASH FLOW STATEMENT  
for the year ended 31 March 2012

	Note	2012		2011
		£	£	Restated £
NET CASH INFLOW FROM OPERATING ACTIVITIES	16a		673,167	960,239
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		9,181		8,712
Interest paid		(429,955)		(297,521)
Net cash outflow from returns on investments and servicing of finance			(420,774)	(288,809)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Payments for acquisition and construction of housing properties		(3,641,210)		(5,146,042)
Payments to acquire other fixed assets		(20,782)		(50,596)
Capital grants received		1,075,203		2,610,621
Other grants received		-		66,269
Capital grants repaid		-		(27,789)
Receipts from sale of housing properties		-		47,500
Net cash outflow from capital expenditure			(2,586,789)	(2,500,037)
Net outflow before use of liquid resources and financing			(2,334,396)	(1,828,607)
FINANCING				
Loan advances received		2,006,665		2,243,334
Loan principal repayments		(248,760)		(203,108)
Decrease in share capital		-		(4)
Net cash inflow from financing			1,757,905	2,040,222
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			(576,491)	211,615
Further details are given in note 16				



# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2012

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### 1 ACCOUNTING POLICIES

#### (a) INTRODUCTION AND ACCOUNTING BASIS

The principal accounting policies of the Association are set out in the paragraphs (b) to (r) below. These financial statements are prepared under the historical cost convention and are based on the Registered Social Landlords Accounting Requirements (Scotland) Order 2007, the Statement of Recommended Practice "Accounting by Registered Social Landlords" 2010 and applicable accounting standards.

Hjaltland Housing Association and its subsidiary (Hjaltland Trading Limited) comprise a group. The Association has obtained exemption from the Financial Services Authority from producing Consolidated Financial Statements as provided by Section 14(2A) of the Friendly and Industrial and Provident Societies Act 1968. The financial statements reflect only the transactions of Hjaltland Housing Association Limited and not of the group.

#### (b) TURNOVER

Turnover represents rental, service and management charges from properties, agency fees, revenue based grants receivable from Scottish Ministers and first tranche sales of shared ownership properties.

#### (c) FINANCE

The financial statements have been prepared on the basis that the capital expenditure referred to in note 8 will be grant aided, funded by loans, met out of reserves, or from proceeds of sales.

#### (d) MORTGAGES

Mortgage loans are advanced by private lenders under the terms of the individual mortgage deeds in respect of each property or housing scheme. Advances are available only in respect of those developments which have been given approval for Housing Association Grant.

#### (e) GRANTS

##### (i) Development Grants

Housing Association Grants (HAG) are utilised to reduce the amount of mortgage loan in respect of an approved scheme to the amount which it is estimated can be serviced by the net annual income of the scheme. The amount of HAG is calculated on the qualifying cost (note 1(g)) of the scheme in accordance with instructions issued from time to time by the grant awarding body.

Other grants in respect of approved schemes are treated similarly to HAG. HAG and other grants are repayable under certain circumstances. These include the disposal of the properties to which the grants relate.

##### (ii) Revenue Grants

Grants of a revenue nature are credited to income in the year to which they relate.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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### 1 ACCOUNTING POLICIES (continued)

#### (f) HOUSING ASSOCIATION GRANTS – ACQUISITION AND DEVELOPMENT ALLOWANCES RECEIVABLE

Acquisition and Development Allowances are advanced as grants. They are intended to finance certain internal administrative costs relating to the acquisition and development of housing land and buildings for approved schemes. Development allowances become available in instalments according to the progress of work on the scheme. These allowances are credited to development costs when they are receivable.

#### (g) FIXED ASSETS – HOUSING LAND AND BUILDINGS (note 8)

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

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

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

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, kitchens, heating systems, windows, external doors, roof and structure. Each component has a substantially different economic life and is depreciated over this individual life. Depreciation rates are shown in depreciation policy note 1h. The new accounting policy is compliant with the SORP 2010.

Interest on the loan financing the development is capitalised up to the relevant date of completion.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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### 1 ACCOUNTING POLICIES (continued)

#### (h) DEPRECIATION

##### (i) HOUSING PROPERTIES

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

Land	Nil
Kitchens	15 years
Heating systems	20 years
Windows	30 years
External doors	30 years
Roof	45 years
Structure	100 years

##### (ii) Other fixed assets

The Association's assets are written off evenly over their expected useful lives as follows:

Office premises	- 60 years
Furniture & equipment	- between 3 and 25 years
Omniledger	- 6 years

A full year's depreciation is charged on these assets in the year of purchase, but no charge is made in the year of disposal.

##### (i) DESIGNATED RESERVES – FOR FUTURE CYCLICAL REPAIRS AND MAINTENANCE (note 13)

Cyclical maintenance, being the Association's commitment to maintain its properties in accordance with planned programme of works, is set aside in a designated reserve, to the extent that it will not be met from revenue in the year in which it is incurred.

##### (j) DESIGNATED RESERVE – FOR MAJOR REPAIRS (note 13)

Major repairs expenditure, being the Association's commitment to undertake major repairs to its properties is set aside in the designated reserve to the extent that it is not met from HAG.

##### (k) DESIGNATED RESERVE – ONE STOP SHOP (note 13)

Surpluses generated from the activities of the One Stop Shop are set aside in a designated reserve to be used for the future funding of this activity, should external funding cease.

##### (l) DESIGNATED RESERVE – CAPITAL CONTRIBUTIONS (note 13)

Development expenditure, being the Association's commitment to develop new properties is set aside in the designated reserve to the extent that it is not met from HAG.

##### (m) APPORTIONMENT OF MANAGEMENT EXPENSES

Direct employee administration and operating costs have been apportioned to the income and expenditure account on the basis of costs of the staff to the extent that they are directly engaged in each of the operations dealt with in those accounts.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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### 1 ACCOUNTING POLICIES (continued)

#### (n) LEASE OBLIGATIONS

Rentals paid under operating leases are charged to the Income and Expenditure account on the accruals basis.

#### (o) VALUE ADDED TAX

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.

#### (p) PENSIONS

The Association participates in the centralised Scottish Housing Associations' Pension Scheme and retirement benefits to employees of the Association are funded by contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

The expected cost to the Association of pensions is charged to the Income and Expenditure Account so as to spread the cost of pensions over the service lives of the employees in the scheme taken as a whole.

#### (q) STOCK

Stock is valued on the basis of direct costs plus attributable overheads based on normal level of activity.

#### (r) SHARED OWNERSHIP

First tranche Shared Ownership disposals are credited to turnover on completion, the cost of construction of these sales is taken to operating costs. Disposals of subsequent tranches are treated as fixed asset disposals with the gain or loss on disposal shown in the Income and Expenditure account, in accordance with the Statement of Recommended Practice 2010.

The proportion of the development cost of shared ownership properties expected to be disposed as a first tranche sale is held in current assets until it is disposed of. The remaining part of the development cost is treated as a fixed asset.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 2 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

	Note	Turnover £	Operating Costs £	Operating Surplus/ (Deficit) £	2011 Restated £
Social lettings	3a	2,126,775	(1,666,636)	460,139	603,392
Other activities	3b	376,477	(376,556)	(79)	(30,485)
		<u>2,503,252</u>	<u>(2,043,192)</u>	<u>460,060</u>	<u>572,907</u>
Total		2,503,252	(2,043,192)	460,060	572,907
		<u>2,081,785</u>	<u>(1,508,878)</u>	<u>572,907</u>	
Total for previous period of account as restated		2,081,785	(1,508,878)	572,907	

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 3a PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM SOCIAL LETTING ACTIVITIES

	General Needs Housing	Supported Housing Accommodation	Shared Ownership Housing	2012 Total	2011 Total Restated
	£	£	£	£	£
<b>Income from Lettings</b>					
Rent receivable net of service charges	1,819,769	120,887	128,268	2,068,924	1,790,004
Service charges receivable	44,774	8,211	6,257	59,242	49,377
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gross income from rents and service charges	1,864,543	129,098	134,525	2,128,166	1,839,381
Less: Rent losses from voids	(1,288)	(103)	-	(1,391)	(974)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income from rents and service charges	1,863,255	128,995	134,525	2,126,775	1,838,407
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Grants from the Scottish ministers	-	-	-	-	-
Other revenue grants	-	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total turnover from social letting activities	1,863,255	128,995	134,525	2,126,775	1,838,407
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Expenditure on letting activities</b>					
Management and maintenance admin costs	698,913	30,700	44,630	774,243	615,174
Service costs	33,729	5,797	3,911	43,437	50,712
Planned and cyclical maintenance including major repairs costs	430,653	106	-	430,759	223,310
Reactive maintenance costs	154,588	11,757	-	166,345	155,096
Bad debts – rents and service charges	17,478	-	-	17,478	13,964
Depreciation of social housing	213,189	13,352	7,833	234,374	176,759
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating costs for social letting activities	1,548,550	61,712	56,374	1,666,636	1,235,015
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating surplus on social letting activities	314,705	67,283	78,151	460,139	603,392
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating surplus on social letting for previous period of account as restated	471,127	64,182	68,083	603,392	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	

The amount of service charges receivable on housing accommodation not eligible for housing benefit was nil (2011: nil).

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 3b PARTICULARS OF INCOME AND EXPENDITURE FROM OTHER ACTIVITIES

	Grants Scottish Ministers	Other revenue grants	Supporting people income	Other income	Total Turnover	Operating costs- bad debts	Other operating costs	Operating (deficit)/ surplus	Operating (deficit)/ surplus for previous period of account
	£	£	£	£	£	£	£	£	£
Wider role activities undertaken to Support the community, other than the provision, construction, improvement and management of housing	53,529	-	-	-	53,529	-	(68,980)	(15,451)	(13,493)
Factoring	-	-	-	5,616	5,616	-	(2,894)	2,722	(847)
Development and construction of property activities	-	-	-	-	-	-	-	-	(17,367)
Support activities	-	-	19,249	-	19,249	-	(22,673)	(3,424)	(2,455)
Other agency/management services (RHOGS)	-	-	-	-	-	-	-	-	787
Development and improvements for sale to non registered social landlords (shared equity and shared ownership sales)	-	-	-	88,811	88,811	-	(88,811)	-	(888)
Other activities:									
Insurance claims	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	16,887	16,887	-	(813)	16,074	4,886
Recharges	-	-	-	192,015	192,015	-	(192,015)	-	(1,108)
Big Lottery Funding	-	370	-	-	370	-	(370)	-	-
<b>Total from other activities</b>	<b>53,259</b>	<b>370</b>	<b>19,249</b>	<b>303,329</b>	<b>376,477</b>	<b>-</b>	<b>(376,556)</b>	<b>(79)</b>	<b>(30,485)</b>
<b>Total from other activities for the previous period of account</b>	<b>26,601</b>	<b>1,270</b>	<b>19,249</b>	<b>196,258</b>	<b>243,378</b>	<b>-</b>	<b>(273,863)</b>	<b>(30,485)</b>	<b>(30,485)</b>

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

4 OPERATING SURPLUS	2012	2011
	£	Restated £
Operating surplus is stated after charging:		
Auditors remuneration		
Remuneration of the auditors, including expenses and excluding VAT for the year	7,975	7,639
Additional audit remuneration in respect of audit of component accounting	1,575	-
Remuneration of the auditors in respect of services other than those of auditors	4,689	511
	<u>14,239</u>	<u>8,150</u>
Depreciation of fixed assets		
- Owned assets (see note 8)	271,846	211,832
	<u>271,846</u>	<u>211,832</u>
5 DIRECTORS AND EMPLOYEES	2012	2011
	£	£
STAFF COSTS INCLUDING DIRECTORS EMOLUMENTS		
Wages and salaries	695,938	610,702
Social security costs	52,692	45,437
Other pension costs	122,887	89,761
	<u>871,517</u>	<u>745,900</u>
	Number	Number
The average full time equivalent number of persons employed by the Association during the year were as follows		
Administration & maintenance	<u>21</u>	<u>19</u>
The average number of persons employed by the Association during the year were as follows		
	<u>25</u>	<u>23</u>



# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 5 DIRECTORS AND EMPLOYEES (continued)

#### DIRECTORS' EMOLUMENTS

The Directors are defined as the members of the Management Committee, the Directors and any other person reporting directly to the Directors or the Management Committee whose total emoluments exceed £60,000 per year. No member of the Committee of Management received any emoluments in respect of their services to the Association.

	2012	2011
	£	£
Aggregate Emoluments payable to officers and former officers whose total emoluments are £60,000 or more, excluding pension contributions	-	-
Emoluments payable to the Chief Executive (excluding pension contributions)	56,917	54,699
The Association's pension contributions for the Chief Executive amounted to £5,302 (2011: £8,244).		
Pension contributions payable to officers whose total Emoluments (excluding pension contributions) are £60,000 or more	-	-

#### PENSION COSTS

Hjaltland Housing Association participates in the Scottish Housing Associations' Pension Scheme ("the Scheme"). The Scheme is funded and is contracted-out of the State Pension Scheme.

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

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

The last formal valuation of the Scheme was performed as at 30 September 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 £295 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £160 million, equivalent to a past service funding level of 64.8%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2011. 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 £341 million and indicated an increase in the shortfall of approximately £207 million of assets compared to liabilities, equivalent to a past service funding level of 62.2%.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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### 5 DIRECTORS AND EMPLOYEES (continued)

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

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

Hjaltland Housing Association Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the SFHA Scheme based on the financial position of the Scheme as at 30 September 2011. As of this date the estimated employer debt for Hjaltland Housing Association Limited was £2,114,097.

The Association has also been notified by the Pensions Trust of a liability to be paid for the next 14 years in respect of the past service deficit in the Scottish Housing Associations' Pension Scheme. The amount to be paid in 2012/13 is £65,014, this figure is due to increase by 4.5% per annum based on the current past service deficit. The amount may be subject to change following the results of the next valuation and therefore as the liability cannot be properly quantified it has not been accrued or included in the balance sheet.

### GROWTH PLAN

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

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

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

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

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

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# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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### 5 DIRECTORS AND EMPLOYEES (continued)

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

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne by the Member and the Member's Employer shall be determined by agreement between them. Such agreement shall require the Employer to pay part of such contributions and may provide that the Employer shall pay the whole of them.

Hjaltland Housing Association Limited pay no obligatory contributions to the growth plan but employees pay additional voluntary contributions.

As at the balance sheet date there were 3 (2011 - 3) active members of the Plan employed by Hjaltland Housing Association. Hjaltland Housing Association continues to offer membership of the Plan 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. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The valuation results at 30 September 2008 were completed in 2009 and have been finalised. The valuation of the Scheme was performed by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £742 million and the Plan's Technical Provisions (i.e. past service liabilities) were £771 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £29 million, equivalent to a funding level of 96%.

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	%pa
-Investment return pre retirement	7.6
-Investment return post retirement	
Actives/Deferreds	5.1
Pensioners	5.6
-Bonuses on accrued benefits	0.0
-Rate of price inflation	3.2

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

The preliminary triennial valuation results as at 30 September 2011 were received in March 2012 but, as the valuation will not be finalised until later this year, this disclosure note must still refer to the 2008 valuation results as at the last completed valuation.

The Scheme Actuary's preliminary results for 30 September 2011 show that the Plan's assets at that date were £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a funding level of 84%.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 5 DIRECTORS AND EMPLOYEES (continued)

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

The Pensions Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example, the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Plan liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Plan (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2008 valuation was forwarded to The Pensions Regulator on 18 December 2009, as is required by legislation.

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

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

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

Hjaltland Housing Association Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2011. As of this date the estimated employer debt for Hjaltland Housing Association was £12,635.

The Association has been notified of a liability to be paid in respect of the deficit in the Growth Fund. The amount to be paid in 2013/14 is £562, amounts will be paid for ten years commencing 1 April 2013.

6 INTEREST PAYABLE	2012	2011
	£	£
Bank loans and overdrafts	394,274	306,457
Less: Interest capitalised	(22,144)	(37,766)
	<u>372,130</u>	<u>268,691</u>

### 7 TAXATION

The Association achieved charitable status on 10 July 2001 and so is no longer liable for Corporation Tax after that date on its exempt activities.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

8 TANGIBLE FIXED ASSETS					
a) Housing properties	Housing held for letting £	Housing under construction £	Shared ownership completed £	Shared ownership under construction £	Total £
<b>COST</b>					
At 1 April 2011	37,102,118	11,696,211	3,727,783	96,892	52,623,004
Prior period adjustment (note 22)	560,326	-	-	-	560,326
At 1 April 2011 as restated	37,662,444	11,696,211	3,727,783	96,892	53,183,330
Additions during year	281,288	3,170,957	-	-	3,452,245
Disposals in year	(62,830)	-	-	-	(62,830)
Transfers	11,536,769	(11,536,769)	-	-	-
At 31 March 2012	49,417,671	3,330,399	3,727,783	96,892	56,572,745
<b>DEPRECIATION</b>					
At 1 April 2011	418,225	-	49,172	-	467,397
Prior period adjustment (note 22)	584,865	-	-	-	584,865
At 1 April 2011 as restated	1,003,090	-	49,172	-	1,052,262
Charge for year	226,861	-	7,833	-	234,694
Disposals in year	(36,935)	-	-	-	(36,935)
At 31 March 2012	1,193,016	-	57,005	-	1,250,021
<b>HOUSING ASSOCIATION GRANT</b>					
At 1 April 2011	26,731,859	8,539,024	2,584,393	69,731	37,925,007
Prior period adjustment (note 22)	(498,098)	-	-	-	(498,098)
At 1 April 2011 as restated	26,233,761	8,539,024	2,584,393	69,731	37,426,909
Additions during year	125,378	782,971	-	-	908,349
Disposals in year	(24,127)	-	-	-	(24,127)
Transfers	7,069,865	(7,069,865)	-	-	-
At 31 March 2012	33,404,877	2,252,130	2,584,393	69,731	38,311,131
<b>OTHER GRANTS</b>					
At 1 April 2011	1,459,324	434,430	80,710	-	1,974,464
Prior period adjustment (note 22)	(33,228)	-	-	-	(33,228)
At 1 April 2011 as restated	1,426,096	434,430	80,710	-	1,941,236
Additions during year	-	-	-	-	-
Disposals in year	(1,771)	-	-	-	(1,771)
Transfers	276,930	(276,930)	-	-	-
At 31 March 2012	1,701,255	157,500	80,710	-	1,939,465
<b>NET BOOK VALUE</b>					
At 31 March 2012	13,118,523	920,769	1,005,675	27,161	15,072,128
At 31 March 2011 as restated	8,999,497	2,722,757	1,013,508	27,161	12,762,923

Land included under housing properties is all freehold.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 8 TANGIBLE FIXED ASSETS (continued)

The interest capitalised on development period loans in the year amounted to £22,144 (2011 - £37,766). Total development administration costs capitalised amounted to £58,096 (2011 - £100,684) for which Housing Association Grants amounting to £44,159 (2011 - £113,070) were received in the year.

Total expenditure on major works to existing properties was £538,825 (2011 - £329,296). £430,759 (2011 - £223,310) was charged to Income and Expenditure Account and £108,066 (2011 - £105,986) was capitalised. Of the amount capitalised £81,374 (2011 - £86,362) related to replacement of components and £26,692 (2011 - £19,624) related to improvements.

#### b) Other tangible fixed assets

	Office Property £	Workshop £	Office Equipment £	Maintenance Equipment £	Services Equipment £	Total £
<b>COST</b>						
At 1 April 2011	299,333	14,712	157,095	53,573	-	524,713
Additions during year	-	1,436	15,531	3,814	-	20,781
Disposals during year	-	-	(28,229)	-	-	(28,229)
	-----	-----	-----	-----	-----	-----
At 31 March 2012	299,333	16,148	144,397	57,387	-	517,265
	-----	-----	-----	-----	-----	-----
<b>DEPRECIATION</b>						
At 1 April 2011	28,212	5,554	124,038	20,204	-	178,008
Charge during year	4,999	3,229	18,059	10,865	-	37,152
Disposals in year	-	-	(28,229)	-	-	(28,229)
	-----	-----	-----	-----	-----	-----
At 31 March 2012	33,211	8,783	113,868	31,069	-	186,931
	-----	-----	-----	-----	-----	-----
<b>NET BOOK VALUES</b>						
As at 31 March 2012	<u>266,122</u>	<u>7,365</u>	<u>30,529</u>	<u>26,318</u>	-	<u>330,334</u>
As at 31 March 2011	<u>271,121</u>	<u>9,158</u>	<u>33,057</u>	<u>33,369</u>	-	<u>346,705</u>

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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9 DEBTORS	2012	2011
Amounts falling due within one year:	£	£
Rental debtors	123,068	89,424
Bad debt provision	(36,571)	(27,115)
	<u>86,497</u>	<u>62,309</u>
Other debtors	61,941	29,565
Development funding receivable	43,758	210,614
Prepayments and accrued income	58,363	49,846
Amounts due from subsidiary	-	27,806
	<u>250,559</u>	<u>380,140</u>
	<u><u>250,559</u></u>	<u><u>380,140</u></u>
10 CREDITORS: amounts falling due within one year		
Loans (note 11)	301,786	240,785
Trade creditors	175,333	387,000
Accruals and deferred income	143,991	150,951
Other creditors	25,240	24,823
Rent paid in advance	14,567	45,668
Amounts due to subsidiary	21	10,180
VAT	508	7,786
	<u>661,446</u>	<u>867,193</u>
	<u><u>661,446</u></u>	<u><u>867,193</u></u>

Securities held in respect of loans and development overdrafts are detailed in note 11.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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11 CREDITORS: amounts falling due after more than one year	2012	2011
	£	£
Loans	<u>12,708,800</u>	<u>11,011,896</u>

Loans are secured by specific charges on the Association's properties and are repayable at rates of interest between 1.0% and 6.4 % (2011 – 1.0% and 6.4%) in instalments as follows:

In one year (note 11)	301,786	240,785
Between one and two years	301,786	240,785
Between two and five years	1,197,045	961,053
After five years	11,209,969	9,810,058
	<u>13,010,586</u>	<u>11,252,681</u>

The Dunfermline Building Society holds a number of standard securities over various properties owned by the Association.

The Royal Bank of Scotland holds a number of standard securities over various properties owned by the Association.

The Bank of Scotland holds a number of standard securities over various properties owned by the Association.

The Bank of Scotland holds a letter of pledge by the Association for all sums and a negative pledge over 5 properties.

The Secretary of State for Defence Limited hold a standard security and a claw back security over 10 properties owned by the Association.

12 SHARE CAPITAL	2012	2011
	£	£
Shares of £1 each fully paid and issued		
31 March 2011	80	84
Shares issued	4	1
Shares cancelled	(4)	(5)
	<u>80</u>	<u>80</u>
31 March 2012	80	80

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



# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

13 DESIGNATED RESERVES	2011	Transfer from revenue reserves	Transfer to revenue reserves	2012
	£	£	£	£
Cyclical maintenance	72,479	-	-	72,479
Major repairs reserve	1,400,942	800,000	(274,764)	1,926,178
One stop shop	56,585	-	(29,763)	26,822
Capital contribution reserve	240,743	6,282	-	247,025
	<u>1,770,749</u>	<u>806,282</u>	<u>(304,527)</u>	<u>2,272,504</u>

No restrictions are placed upon these reserves, but the Committee of Management have designated their use for specific purposes.

14 REVENUE RESERVE	2012	2011 Restated
	£	£
31 March as originally reported	476,810	824,222
Prior period adjustment (note 22)	506,787	-
	<u>983,597</u>	<u>824,222</u>
31 March as restated	983,597	824,222
Surplus for the financial year	95,605	321,361
Transfer from designated reserves	304,527	(161,986)
Transfer to designated reserves	(806,282)	-
	<u>577,447</u>	<u>983,597</u>
31 March	<u>577,447</u>	<u>983,597</u>
	<u>577,447</u>	<u>983,597</u>
15 RECONCILIATION OF SHAREHOLDERS' FUNDS	2012	2011 Restated
	£	£
Surplus for the financial year	95,605	321,361
New share capital subscribed	4	1
Share capital cancelled	(4)	(5)
	<u>95,605</u>	<u>321,357</u>
NET ADDITION TO SHAREHOLDERS' FUNDS	95,605	321,357
Opening shareholders' funds	2,247,639	2,433,069
Prior period adjustment (note 22)	506,787	-
	<u>2,754,426</u>	<u>2,433,069</u>
Opening shareholders' funds restated	2,754,426	-
	<u>2,754,426</u>	<u>2,433,069</u>
CLOSING SHAREHOLDERS' FUNDS	<u>2,850,031</u>	<u>2,754,426</u>

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

16 CASH FLOW STATEMENT	2012	2011	
	£	Restated £	
a) Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus	460,060	572,907	
Depreciation charges	271,846	228,188	
Increase in work in progress	-	(18,840)	
(Increase)/Decrease in debtors	(37,276)	23,168	
(Increase)/Decrease in creditors	(19,957)	154,816	
Aborted sale costs	(1,506)	-	
	<u>673,167</u>	<u>960,239</u>	
b) Reconciliation of net cash flow to movement in net debt			
(Decrease)/Increase in cash in period	(576,491)	211,615	
Cash inflow from increase in debt	(1,757,905)	(2,040,226)	
	<u>(2,334,396)</u>	<u>(1,828,611)</u>	
Change in net debt resulting from cash flows	(2,334,396)	(1,828,611)	
Net debt at 1 April 2011	(10,108,934)	(8,280,323)	
	<u>(12,443,330)</u>	<u>(10,108,934)</u>	
c) Analysis of changes in net debt			
	1 April 2011 £	Cash flows £	31 March 2012 £
Cash in hand and at bank	1,143,747	(576,491)	567,256
Debt due within one year	(240,785)	(61,001)	(301,786)
Debt due after one year	(11,011,896)	(1,696,904)	(12,708,800)
	<u>(10,108,934)</u>	<u>(2,334,396)</u>	<u>(12,433,330)</u>
Total	<u>(10,108,934)</u>	<u>(2,334,396)</u>	<u>(12,433,330)</u>

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 17 SUBSIDIARY UNDERTAKING

The Association has a subsidiary undertaking, Hjaltland Trading Limited. The subsidiary is limited by guarantee and is registered in Scotland. The Association has an exemption from preparing group accounts from the Financial Services Authority.

Hjaltland Trading Limited's closing reserves for the year were £37,079 (2011 - £21,738). Profit for the year was £15,341 (2011 - Loss of £2,531).

During the year, the Association sold goods and services at normal market rates to Hjaltland Trading Limited of £254,114 (2011 - £187,230). The amount due to the Association at year end was £NIL (2011 - £27,806).

During the year, the Association bought goods and services at normal market rates from Hjaltland Trading Limited of £NIL (2011 - £187,230). The amount due to the company at year end was £21 (2011 - £90,000).

18 CAPITAL COMMITMENTS	2012	2011
	£	£
Capital expenditure that has been contracted for but has not been provided for in the financial statements	667,192	2,567,122
	<u>667,192</u>	<u>2,567,122</u>
The Group expects to finance the above commitment by:		
	2012	2011
	£	£
Capital grant receivable	340,000	678,148
Signed loan commitments available for drawdown	257,895	907,000
Loans under negotiation	-	933,782
Other grants	69,297	48,192
	<u>667,192</u>	<u>2,567,122</u>

### 19 OPERATING LEASES

Payments on leases expiring within 1 year	-	4,320
Payments on leases expiring within 2 to 5 years inclusive	5,521	4,234
Payments on leases expiring in more than 5 years	-	1,287
	<u>5,521</u>	<u>9,841</u>

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

### 21 HOUSING STOCK

The number of units of accommodation in management at the year end was:	2012 No	2011 No
General Needs - New Build	512	471
- Rehabilitation	4	4
Supported Housing	31	31
Shared Ownership	58	58
	<u>605</u>	<u>564</u>

### 22 PRIOR PERIOD ADJUSTMENT

The principal 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 the prior years being capitalised and an additional depreciation charge now being recognised.

The effect of this change in accounting policy on the 31 March 2011 financial statements is shown below. 31 March 2011 opening reserves have been increased by £518,568 of which £486,722 relates to increased depreciation, £1,086,812 relates to major repairs previously written off to the Income and Expenditure Account now capitalised as components, £612,848 relates to the cost of components now replaced, £498,098 relates to the HAG originally allocated to these components and £33,228 relates to other grants also allocated to these components

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

Increase depreciation charge	£ (98,143)
Decrease major works charged against components	86,362
	<u>          </u>
Increase in surplus for the year	<u>(11,781)</u>
In addition the effect upon the balance sheet has been to:	
Increase fixed asset cost	560,326
Increase fixed asset depreciation	(584,865)
Decrease in HAG	498,098
Decrease in other grants	33,228
	<u>          </u>
Net movement in the balance sheet	<u>506,787</u>

Therefore overall effect of prior period adjustment is £506,787.

# Hjaltland Housing Association Limited

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2012

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### 23 RELATED PARTIES

Various members of the Management Committee are tenants of the Association. The transactions with the Association are all done on standard terms, as applicable to all tenants.

One member of the Management Committee is a councillor with the Shetland Islands Council as well as a Committee member of the Association. Any transactions with the Shetland Islands Council are made at arms length, on normal commercial terms and committee members cannot use their position to their advantage.