

Hjaltland Housing Association Limited

REPORT AND FINANCIAL STATEMENTS

for the year ended

31 March 2014

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

Hjaltland Housing Association Limited

MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS

Year ended 31 March 2014

COMMITTEE OF MANAGEMENT

R Hunter	Chair
P Coleman	Vice Chair
L Rosie	Vice Chair
H Sutherland	Treasurer
J Anderson	Committee Member
J Dally	Committee Member
Dr J Goddard	Committee Member
J Handley	Committee Member
W Henderson	Committee Member
G Mitchell	Committee Member
T Smith	Committee Member
V Simpson	Committee Member
A Tallack	Committee Member

EXECUTIVE OFFICERS

Mr B Leask	Chief Executive/Secretary
Mrs S Gray	Finance Manager
Mr P Leask	Property Services Manager
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

SOLICITORS

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

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

Registration Particulars:

Financial Conduct Authority	Co-operative and Community Benefit Societies Act 2014 Registered Number 1832 R (S)
Scottish Housing Regulator	Housing (Scotland) Act 2010 Registered Number 127
Scottish Charities	Charities and Trustee Investment (Scotland) Act 2005 Scottish Charity Number SC031954

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2014

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

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 Conduct Authority as a Co-operative and Community Benefit 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 we own:-

	2014	2013
Managed Property Numbers:		
Tenanted Property	581	561
Managed on behalf of others	2	2
Shared Ownership Property	55	57
Total	638	620

Financial Review

Hjaltland made a surplus of £465,760 (2013 - £529,534) during the year. Planned and cyclical maintenance costs of £205,833 were incurred on cyclical painting, electrical survey checks, boiler & ventilation maintenance etc. This compares with £145,904 for similar expenditure in the previous year. This expenditure is written off in the year it is incurred and not capitalised.

In addition to the expenditure which is charged to the Income & Expenditure account £402,779 (2013 - £335,319) of costs spent on existing properties have been capitalised. Of the amount capitalised £380,309 (2013 - £265,668) related to the replacement of components and £22,470 (2013 - £69,651) related to improvements.

In line with the Statement of Recommended Practice – Accounting by registered social housing providers – Update 2010 (SORP 2010), the Association has implemented component accounting. 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 depreciation charge for the year is £257,014 compared to £260,045 for the previous year.

Taking these movements into account Hjaltland is in a strong financial position with £3.85m in Capital & Reserves of which £2.68m is in Designated Reserves. Hjaltland continues to have a substantial major repair investment programme with further replacement kitchens, heating improvements and re-roofing works due over the next few years. We have provided funds 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 continuation 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 Scottish & Southern Energy.

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2014

Surplus for the year

The financial results of Hjaltland are as follows: -

	2014	2013
	£000s	£000s
Surplus for the year	466	530
Transfer from/ (to) designated reserves – major repairs	(450)	1,201
Transfer from designated reserves – capital contribution	-	14
Transfer from cyclical maintenance reserves	-	72
Transfer from/ (to) designated pension reserve	26	(1,273)
Transfer from/ (to) Big Lottery restricted Fund	4	(40)
Revenue Reserves	1,127	1,081

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.

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.

Hjaltland aims to assist people in need, including those with special requirements, through a range of tenures and services.

We will provide good quality homes that offer value for money, and are affordable to households in communities throughout Shetland.

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.

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2014

The governing body is the Committee of Management, which is responsible to the wider membership. Committee 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.

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. At 31st March 2014 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. The Association continued to develop the Housing HUB which supports young adults in gaining the skills and expertise required to take on a tenancy in the future.

Hjaltland recently reviewed the Tenant Satisfaction Survey, in consultation with the tenants, to ensure it met the requirements of the ARC and Housing Charter. It is intended to carry out a 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 four times a year.

Hjaltland Trading Ltd continued to carry out various commercial activities in the year to 31 March 2014. 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.

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2014

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 & future development opportunities this year. We have spent £4,735k (2013 - £3,447k) during the year. Of this spending £193k (2013 - £1,807k) is funded by grants received from the Scottish Government and £3,045k (2013 - £742k) is funded by grants received from other sources, mainly the Shetland Islands Council who are providing grant funding to match the Scottish Government on three development projects which are either now complete or nearing completion.

Subject to grant funding becoming available through the Affordable Housing Investment Programme, and the availability of other forms of subsidy, it is hoped to increase stock numbers through completion of new housing which would consolidate the Association's asset base at around 671 by 2015 and 707 by 2016.

The Scottish Government's recent changes to the provision of housing subsidy led to the need for innovative housing solutions and an increased level of private finance. The Association decided to avoid new innovative options for a more conservative approach mirroring the old Grant model. This was achieved through partnership working with the Local Authority with the Council match funding projects. The availability of affordable Private Finance continues to provide significant hurdles but the Government have relaxed the set formula calculation of Private Finance as was the norm under the old HAG model to allow RSL's to accurately assess the level of finance individual projects can support.

4 Housing Issues

Hjaltland continues to work on minimising the period of time taken to re-let or let new properties to ensure that we maintain our effectiveness in housing people in need and reduce our costs. The rent loss due to empty properties increased to £4110 due mainly to a small number of sudden deaths and a few properties needing a significant level of re-let repairs but by offering a Choice Based Lettings system the average time taken to re-let a property is still only 7.7 days. Net tenant arrears has fallen to 3.4%, (previous year 3.7%), however efforts continue to be made to bring the level down.

5 Property Maintenance

The Association's repairs service performance remains very strong with all emergency repairs being completed in an average of 8.5 hours. On average the non-emergency repairs took 5 days to complete, well within the 10 day target.

6 Support Services Issues

The sheltered service continues to be regulated under the Care Inspectorate as a housing support service. The Association also provides support services via the Hub Project and the Housing Outreach worker both of which are included in our registration with the Care Inspectorate.

7 Finance and IT Issues

During the year additional private finance arrangements were finalised with the Shetland Islands Council to provide finance for a new development project of 26 units which is currently on site. In addition a bridging facility continued with the Shetland Islands Council to provide temporary development funding.

A new website has been developed which was launched in May 2013. This process included input from a group of tenants who were involved from the beginning in the appointment of the successful bidder in the tendering process through to development and testing prior to launch.

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2014

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 has 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.

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 Account.

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 2014 Hjaltland had £2,735k in loan facilities agreed but not yet drawn down.

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2014

Hjaltland as a matter of policy does not enter into transactions of a speculative nature. At 31 March 2014, 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.

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.

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

Year ended 31 March 2014

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.

The Committee of Management of Hjaltland during the year to 31 March 2014 was as follows:

R Hunter	Chairperson		1
P Coleman	Vice-Chair Person		1
L Rosie	Vice-Chair Person		
H Sutherland	Treasurer	Appointed 22/08/2013	1
J Anderson			1
J Dally			
J Goddard			1
J Handley			
W Henderson			1
J Henry		Resigned 18/07/2013	
G Mitchell			1
J Smith		Resigned 18/07/2013	
V Simpson			
T Smith		Appointed 22/08/2013	
A Tallack			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.

Hjaltland Housing Association Limited

REPORT OF COMMITTEE OF MANAGEMENT

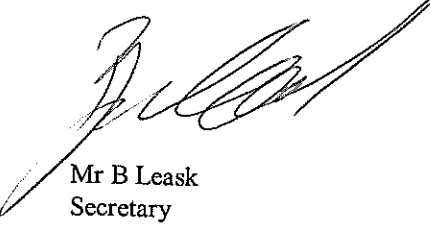
Year ended 31 March 2014

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.

On behalf of the Committee of Management



Mr B Leask
Secretary
2 Harbour Street
Lerwick, Shetland

Hjaltland Housing Association Limited

STATEMENT OF COMMITTEE OF MANAGEMENT'S RESPONSIBILITIES

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.
- d. state where applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements.

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 Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Registered Social Landlords Determination of Accounting Requirements - April 2012. 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.

Hjaltland Housing Association Limited

COMMITTEE OF MANAGEMENT'S STATEMENT OF INTERNAL FINANCIAL CONTROL

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 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.

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 2014 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



R Hunter
Chair

21 August 2014

Hjaltland Housing Association Limited

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

We have audited the financial statements of Hjaltland Housing Association for the year ended 31 March 2014 on pages 13 to 37. 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 part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Committee of Management and auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 10, the Management Committee are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

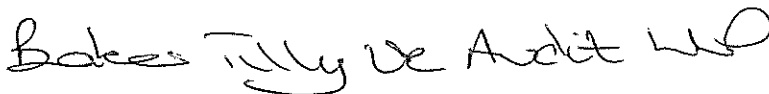
In our opinion the financial statements:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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



BAKER TILLY UK AUDIT LLP

Statutory Auditor

Chartered Accountants

St Olaf's Hall

Church Road

Lerwick

Shetland

ZE1 0FD

Date: 21 August 2014

Hjaltland Housing Association Limited

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2014

	<i>Notes</i>	2014 £	2013 £
TURNOVER	2	3,028,870	2,715,041
Less: Operating costs	2	(2,182,854)	(1,776,194)
OPERATING SURPLUS		846,016	938,847
Gain on sale of fixed assets	4	48,186	3,979
Interest receivable and other income		13,609	13,534
Interest payable and other charges	6	(442,051)	(426,826)
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		465,760	529,534
Taxation on surplus on ordinary activities	7	-	-
SURPLUS FOR THE YEAR	16	465,760	529,534

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

There are no recognised gains or losses other than the surplus for the year above.



Hjaltland Housing Association Limited


BALANCE SHEET

at 31 March 2014

	Note	2014	2013
		£	£
TANGIBLE FIXED ASSETS			
Housing properties			
- gross cost less depreciation	8	62,720,497	58,333,263
Less: HAG	8	(40,083,750)	(39,964,925)
Other grants	8	(5,718,553)	(2,675,383)
Other fixed assets	8	16,918,194	15,692,955
	8	321,004	330,874
CURRENT ASSETS		17,239,198	16,023,829
Work in progress	9	415,751	47,314
Debtors	10	527,969	762,368
Cash at bank and in hand		2,627,042	983,750
CREDITORS: amounts falling due within one year	11	(3,325,075)	(1,257,257)
NET CURRENT ASSETS		245,687	536,175
TOTAL ASSETS LESS CURRENT LIABILITIES		17,484,885	16,560,004
CREDITORS: amounts falling due after more than one year	12	(13,639,566)	(13,180,443)
NET ASSETS		3,845,319	3,379,561
CAPITAL AND RESERVES			
Share capital	13	74	76
Restricted reserves	14	35,891	40,034
Designated reserves	15	2,682,510	2,258,267
Revenue reserves	16	1,126,844	1,081,184
SHAREHOLDERS' FUNDS	17	3,845,319	3,379,561

The financial statements were approved and authorised for issue by the Committee of Management on 21 August 2014.

 : Vice Chair
 L Rosie
 : Secretary
 Mr B Leask

 : Chair
 R Hunter

Hjaltland Housing Association Limited

CASH FLOW STATEMENT

for the year ended 31 March 2014

	Note	2014	2013
		£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	18a	825,005	1,205,517
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		13,609	13,534
Interest paid		(458,797)	(438,186)
Net cash outflow from returns on investments and servicing of finance		(445,188)	(424,652)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments for acquisition and construction of housing properties		(4,868,191)	(2,962,263)
Payments to acquire other fixed assets		(22,965)	(39,421)
Capital grants received		4,954,363	2,117,735
Capital grants repaid		(61,759)	(72,827)
Receipts from sale of housing properties		124,393	75,511
Net cash inflow/(outflow) from capital expenditure		125,841	(881,265)
Net inflow/(outflow) before use of liquid resources and financing		505,658	(100,400)
FINANCING			
Loan advances received		1,484,084	825,000
Loan principal repayments		(346,448)	(308,102)
Decrease in share capital		(2)	(4)
Net cash inflow from financing		1,137,634	516,894
INCREASE IN CASH AND CASH EQUIVALENTS		1,643,292	416,494
Further details are given in note 18			

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

31 March 2014

1 ACCOUNTING POLICIES

(a) INTRODUCTION AND ACCOUNTING BASIS

The principal accounting policies of the Association are set out in the paragraphs (b) to (t) below. These financial statements are prepared under the historical cost convention and in accordance with the Registered Social Landlords Determination of Accounting Requirements – April 2012, 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 Conduct Authority (formerly the Financial Services Authority) from producing Consolidated Financial Statements. 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 2014

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.

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

(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

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

1 ACCOUNTING POLICIES (continued)

(h) DEPRECIATION (continued)

(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 RESERVE – FOR MAJOR REPAIRS AND PLANNED MAINTENANCE (note 15)

Major repairs and planned maintenance 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. Since the introduction of component accounting the replacement of components is capitalised in the balance sheet rather than being treated as a revenue cost. This means that this reserve does not need to be maintained at the same level as previously.

(j) DESIGNATED RESERVE – ONE STOP SHOP (note 15)

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.

(k) DESIGNATED RESERVE – CAPITAL CONTRIBUTIONS (note 15)

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.

(l) DESIGNATED RESERVE – PENSION (note 15)

The pension reserve reflects the need to set aside funds which will be required to pay for the past service deficit on the SHAPS pension scheme. The current recovery plan is based on 13 years, of which there are 12 years remaining. Therefore, the reserve is calculated to be the Net Present Value of the Association's commitment for those 12 years.

(m) RESTRICTED RESERVES

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by funders or which have been raised by the charity for particular purposes. The costs of raising and administering such funds are charged against the specific fund.

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

1 ACCOUNTING POLICIES (continued)

(n) 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.

(o) LEASE OBLIGATIONS

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

(p) 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.

(q) 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.

(r) STOCK

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

(s) 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.

(t) WORK IN PROGRESS

Work in progress represents new sums spent to date on shared equity properties. No element of profit is included in the valuation of work in progress, which is valued at the lower of cost and net realisable value.

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

2 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS/(DEFICIT)

	Note	Turnover	2014 Operating Costs	Operating Surplus/ (Deficit)	2013
		£	£	£	£
Social lettings	3a	2,452,672	1,597,757	854,915	903,457
Other activities	3b	576,198	585,097	(8,899)	35,390
Total		<u>3,028,870</u>	<u>2,182,854</u>	<u>846,016</u>	<u>938,847</u>
Total for previous period of account		<u>2,715,041</u>	<u>1,776,194</u>	<u>938,847</u>	

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

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

	General Needs Housing £	Supported Housing Accommodation £	Shared Ownership Housing £	2014 Total £	2013 Total £
Income from Lettings					
Rent receivable net of service charges	2,126,410	133,640	137,213	2,397,263	2,268,891
Service charges receivable	46,387	7,089	6,043	59,519	64,239
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross income from rents and service charges	2,172,797	140,729	143,256	2,456,782	2,333,130
Less: Rent losses from voids	(3,872)	(238)	-	(4,110)	(1,272)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income from rents and service charges	2,168,925	140,491	143,256	2,452,672	2,331,858
	<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	2,168,925	140,491	143,256	2,452,672	2,331,858
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Expenditure on letting activities					
Management and maintenance admin costs	734,845	39,974	46,184	821,003	736,659
Service costs	37,883	5,231	3,921	47,035	47,080
Planned and cyclical maintenance including major repairs costs	204,173	1,660	-	205,833	145,904
Reactive maintenance costs	204,612	14,585	-	219,197	220,301
Bad debts – rents and service charges	48,029	-	-	48,029	18,766
Depreciation of social housing	235,512	13,507	7,641	256,660	259,691
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating costs for social letting activities	1,465,054	74,957	57,746	1,597,757	1,428,401
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating surplus on social letting activities	703,871	65,534	85,510	854,915	903,457
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating surplus on social letting for previous period of account	749,708	65,697	88,052	903,457	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	

The amount of service charges receivable on housing accommodation not eligible for housing benefit was £nil (2013: £nil).

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

3b PARTICULARS OF INCOME AND EXPENDITURE FROM OTHER ACTIVITIES

	Grants Scottish Ministers	Other revenue grants	Supporting people income	Other income	Total Turnover	Other operating costs	2014 Operating (deficit)/ surplus	2013 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)	-	14,578	-	120	14,698	(19,181)	(4,483)	4,812
Factoring	-	-	-	6,111	6,111	(4,784)	1,327	(677)
Support activities	-	-	-	-	-	(14,769)	(14,769)	(14,859)
Other agency/management service Developments and improvements for sale to non-registered landlords (shared equity)	26,527	-	-	-	26,527	(27,652)	(1,125)	(869)
Other activities:	57,411	-	-	183,427	240,838	(231,610)	9,228	-
Miscellaneous	-	-	-	6,465	6,465	(1,029)	5,436	6,949
Recharges	-	-	-	160,562	160,562	(160,932)	(370)	-
Big Lottery Funding (restricted)	-	107,194	-	-	107,194	(111,337)	(4,143)	40,034
NINES project grant (restricted)	-	13,803	-	-	13,803	(13,803)	-	-
Total from other activities	83,938	135,575	-	356,685	576,198	(585,097)	(8,899)	35,390
Total from other activities for the previous period of account	55,672	156,231	-	171,280	383,183	(347,793)	35,390	

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

4	OPERATING SURPLUS		2014	2013
			£	£
	Operating surplus is stated after charging:			
	Auditor's remuneration			
	Remuneration of the auditors, including expenses and excluding VAT for the year		8,890	8,610
			<u>8,890</u>	<u>8,610</u>
	Depreciation of fixed assets			
	- Gain on disposal of fixed assets		48,186	3,979
	- Owned assets (see note 8)		289,849	298,926
			<u>289,849</u>	<u>298,926</u>
		Shared	Right	Total
		Ownership	to Buy	
		£	£	£
	Gain on disposal of fixed assets			
	Housing Properties			
	Net Proceeds	126,839	-	126,839
	Less Asset cost	(77,887)	-	(77,887)
	Accumulated depreciation	1,680	-	1,680
		<u>126,839</u>	<u>-</u>	<u>126,839</u>
	Net gain on sale of housing property	50,632	-	50,632
		<u>50,632</u>	<u>-</u>	<u>50,632</u>
	Other costs			(2,446)
				<u>48,186</u>
				<u>48,186</u>
5	DIRECTORS AND EMPLOYEES AND PENSION COSTS		2014	2013
			£	£
	STAFF COSTS INCLUDING DIRECTORS EMOLUMENTS			
	Wages and salaries		802,686	727,099
	Social security costs		61,197	58,300
	Other pension costs		129,376	122,053
			<u>993,259</u>	<u>907,452</u>
	The average full time equivalent number of persons employed by the Association during the year were as follows		Number	Number
	Administration & maintenance		25	24
			<u>25</u>	<u>24</u>
	The average number of persons employed by the Association during the year were as follows		29	28
			<u>29</u>	<u>28</u>

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

5 DIRECTORS AND EMPLOYEES AND PENSION COSTS (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.

	2014	2013
	£	£
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)	<u>58,329</u>	<u>55,590</u>

The Association's pension contributions for the Chief Executive amounted to £5,481 (2013: £5,209).

Pension contributions payable to officers whose total Emoluments (excluding pension contributions) are £60,000 or more

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

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

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

5 DIRECTORS AND EMPLOYEES AND PENSION COSTS (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 SHAPS Scheme based on the financial position of the Scheme as at 30 September 2013. As of this date the estimated employer debt for Hjaltland Housing Association Limited was £2,412,117.

The Association has also been notified by the Pensions Trust of a liability to be paid for the next 12 years in respect of the past service deficit in the Scottish Housing Associations' Pension Scheme. The amount to be paid in 2014/15 is £95,228. The deficit contribution is due to increase thereafter by 3% 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. However the Association has set aside a designated reserve to cover the Net Present Value of the agreed Past Service Deficit contribution, payable over the next 12 years, which equals £1,247,419.

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.

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

5 DIRECTORS AND EMPLOYEES AND PENSION COSTS (continued)

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

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 1 (2013 - 2) 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 on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Plan is a multi-employer scheme, where the assets are co-mingled for investment purposes, and benefits are paid out of the Plan's total assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

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

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

-Investment return pre retirement	%pa 4.9
-Investment return post retirement	
Actives/Deferreds	4.2
Pensioners	4.2
-Bonuses on accrued benefits	0.0
-Inflation – Retail Prices Index (RPI)	2.9
-Inflation – Consumer Prices Index (CPI)	2.4

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

5 DIRECTORS AND EMPLOYEES AND PENSION COSTS (continued)

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

The Scheme Actuary has prepared a funding position update as at 30 September 2013. The market value of the Plan's assets at that date was £772 million and the Plan's Technical Provisions (i.e. past service liabilities) was £927 million. The update, therefore, revealed a shortfall of assets compared with the value of liabilities of £155 million, equivalent to a funding level of 83%.

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 2011 valuation was forwarded to The Pensions Regulator on 2 October 2012, as is required by legislation.

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

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

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

When an employer withdraws from a multi-employer defined benefit pension scheme which is in deficit, the employer is required by law to pay its share of the deficit, calculated on a statutory basis (known as the buy-out basis). Due to a change in the definition of money purchase contained in the Pensions Act 2011, the calculation basis that applies to the Growth Plan will be amended to include Series 3 liabilities in the calculation of employer's debt on withdrawal.

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

5 DIRECTORS AND EMPLOYEES AND PENSION COSTS (continued)

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 2013. As of this date the estimated employer debt for Hjaltland Housing Association was £12,164.

The Growth Plan is a "last man standing" multi-employer scheme. This means that if a withdrawing employer is unable to pay its debt on withdrawal the liability is shared amongst the remaining employers. The participating employers are therefore, jointly and severally liable for the deficit in the Growth Plan. As at 30 September 2013, the total deficit calculated on the buy-out basis was £219.9m.

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 2014/15 is £578, amounts will be paid for ten years commencing 1 April 2013. The additional contributions will increase by 3% p.a.

6 INTEREST PAYABLE	2014	2013
	£	£
Bank loans and overdrafts	456,108	433,661
Less: Interest capitalised	(14,057)	(6,835)
	<u>442,051</u>	<u>426,826</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 2014

8 TANGIBLE FIXED ASSETS				
a) Housing properties	Housing held for letting £	Housing under construction £	Shared ownership completed £	Total £
COST				
At 1 April 2013	52,086,703	4,069,566	3,670,290	59,826,559
Additions during year	770,160	3,964,597	-	4,734,757
Disposals in year	(31,586)	-	(87,286)	(118,872)
Transfers	843,753	(843,753)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2014	53,669,030	7,190,410	3,583,004	64,442,444
DEPRECIATION				
At 1 April 2013	1,429,502	-	63,794	1,493,296
Charge for year	249,373	-	7,641	257,014
Disposals in year	(26,684)	-	(1,679)	(28,363)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2014	1,652,191	-	69,756	1,721,947
HOUSING ASSOCIATION GRANT				
At 1 April 2013	34,697,475	2,728,119	2,539,331	39,964,925
Additions during year	46,300	146,725	-	193,025
Disposals in year	(4,055)	-	(70,145)	(74,200)
Transfers	309,528	(309,528)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2014	35,049,248	2,565,316	2,469,186	40,083,750
OTHER GRANTS				
At 1 April 2013	1,856,408	740,285	78,690	2,675,383
Additions during year	367,539	2,677,492	-	3,045,031
Disposals in year	(847)	-	(1,014)	(1,861)
Transfers	309,529	(309,529)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2014	2,532,629	3,108,248	77,676	5,718,553
NET BOOK VALUE				
At 31 March 2014	<u>14,434,962</u>	<u>1,516,846</u>	<u>966,386</u>	<u>16,918,194</u>
At 31 March 2013	<u>14,103,318</u>	<u>601,162</u>	<u>988,475</u>	<u>15,692,955</u>

Land included under housing properties is all freehold.

The interest capitalised on development period loans in the year amounted to £14,057 (2013 - £6,835). Total development administration costs capitalised amounted to £58,018 (2013 - £56,640) for which Housing Association Grants amounting to £45,652 (2013 - £107,882) were received in the year.

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

8 TANGIBLE FIXED ASSETS (continued)

Total expenditure on major works to existing properties was £608,612 (2013 - £481,223). £205,833 (2013 - £145,904) was charged to Income and Expenditure Account and £402,779 (2013 - £335,319) was capitalised. Of the amount capitalised £380,309 (2013 - £265,668) related to replacement of components and £22,470 (2013 - £69,651) related to improvements.

b) Other tangible fixed assets

	Office Property £	Workshop £	Office Equipment £	Maintenance Equipment £	Total £
COST					
At 1 April 2013	321,554	16,148	156,272	58,885	552,859
Additions during year	-	10,638	10,676	1,651	22,965
Disposals during year	-	-	-	-	-
At 31 March 2014	321,554	26,786	166,948	60,536	575,824
DEPRECIATION					
At 1 April 2013	38,581	12,014	129,429	41,961	221,985
Charge during year	5,370	5,357	12,301	9,807	32,835
Disposals in year	-	-	-	-	-
At 31 March 2014	43,951	17,371	141,730	51,768	254,820
NET BOOK VALUES					
As at 31 March 2014	277,603	9,415	25,218	8,768	321,004
As at 31 March 2013	282,973	4,134	26,843	16,924	330,874

9 WORK IN PROGRESS

	2014 £	2013 £
Cost of developing properties under New Supply Shared Equity	1,075,019	773,416
Scottish Government grants received to develop properties	(329,634)	(399,998)
Other grant received to develop properties	(329,634)	(326,104)
	415,751	47,314

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

10 DEBTORS

Amounts falling due within one year:	2014 £	2013 £
Rental debtors	148,815	128,945
Bad debt provision	(65,551)	(42,751)
	<u>83,264</u>	<u>86,194</u>
Other debtors		
Development funding receivable	53,626	101,783
Prepayments and accrued income	151,411	474,762
Amounts due from subsidiary	87,672	65,932
Grant funding receivable	44,952	33,697
	107,044	-
	<u>527,969</u>	<u>762,368</u>

11 CREDITORS: amounts falling due within one year

Loans (note 12)	381,546	347,033
Trade creditors	371,564	657,125
Accruals and deferred income	335,596	209,799
Other creditors	1,572,273	21,322
SIC bridging finance	644,000	-
Rent paid in advance	20,096	21,978
	<u>3,325,075</u>	<u>1,257,257</u>

Securities held in respect of loans and development overdrafts are detailed in note 12.

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

12 CREDITORS: amounts falling due after more than one year	2014 £	2013 £
Loans	<u>13,639,566</u>	<u>13,180,443</u>
<p>Loans are secured by specific charges on the Association's properties and are repayable at rates of interest between 0.8% and 4.77 % (2013 – 1.0% and 6.4%) in instalments as follows:</p>		
In one year (note 11)	381,546	347,033
Between one and two years	381,546	347,033
Between two and five years	1,403,433	1,187,057
After five years	11,854,587	11,646,353
	<u>14,021,112</u>	<u>13,527,476</u>

The Nationwide 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 owned by the Association.

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

Shetland Islands Council holds a standard security over four plots of ground at Hoofields, Lerwick.

Shetland Leasing and Property Developments Limited holds a standard security over ground at Staneyhill, Lerwick.

13 SHARE CAPITAL	2014 £	2013 £
Shares of £1 each fully paid and issued		
At 1 April	76	80
Shares issued	-	4
Shares cancelled	(2)	(8)
	—	—
At 31 March	<u>74</u>	<u>76</u>

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 2014

14 RESTRICTED RESERVES	2013	Transfer from revenue reserves	Transfer to revenue reserves	2014
	£	£	£	£
NINES	-	-	-	-
Big Lottery – Hub project	40,034	-	(4,143)	35,891
	<u>40,034</u>	<u>-</u>	<u>(4,143)</u>	<u>35,891</u>

The restricted reserve is held for the restricted income received from the Big Lottery Fund for the HUB project and ERDF funding for the NINES project.

The Hub project is funded by the Big Lottery Fund and provides intensive support, accommodation and outreach to young care leavers to help them develop their skills to manage their own tenancy and support them to obtain employment, training or voluntary work. As well as Big Lottery funding, the Shetland Islands Council financially support this project. Information on the level of funding is contained in note 3(b).

NINES (North Isles New Energy Solutions). The Association is involved in a project to install more efficient storage heaters and water tanks in domestic properties. Funding received matched expenditure in the year as per note 3(b).

15 DESIGNATED RESERVES	2013	Transfer from revenue reserves	Transfer to revenue reserves	2014
	£	£	£	£
Major repairs reserve & planned maintenance	725,481	450,000	-	1,175,481
One stop shop	26,822	-	-	26,822
Capital contribution reserve	232,788	-	-	232,788
Pension reserve	1,273,176	-	(25,757)	1,247,419
	<u>2,258,267</u>	<u>450,000</u>	<u>(25,757)</u>	<u>2,682,510</u>

No restrictions are placed upon these reserves, but the Committee of Management have designated their use for specific purposes, as set out in the accounting policies on page 18.

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

16	REVENUE RESERVE	2014	2013
		£	£
	At 1 April	1,081,184	577,447
	Surplus for the financial year	465,760	529,534
	Transfer from designated reserves (note 15)	25,757	1,287,413
	Transfer to designated reserves (note 15)	(450,000)	(1,273,176)
	Transfer from restricted reserve (note 14)	4,143	-
	Transfer to restricted reserve (note 14)	-	(40,034)
		<hr/>	<hr/>
	At 31 March	1,126,844	1,081,184
		<hr/> <hr/>	<hr/> <hr/>
17	RECONCILIATION OF SHAREHOLDERS' FUNDS	2014	2013
		£	£
	Surplus for the financial year	465,760	529,534
	New share capital subscribed	-	4
	Share capital cancelled	(2)	(8)
		<hr/>	<hr/>
	NET ADDITION TO SHAREHOLDERS' FUNDS	465,758	529,530
	Opening shareholders' funds	3,379,561	2,850,031
		<hr/>	<hr/>
	CLOSING SHAREHOLDERS' FUNDS	3,845,319	3,379,561
		<hr/> <hr/>	<hr/> <hr/>

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

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31 March 2014

18 CASH FLOW STATEMENT	2014	2013	
	£	£	
a) Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus	846,016	938,847	
Depreciation charges (note 8)	289,849	298,426	
Increase in work in progress	(368,438)	(47,314)	
Decrease/(Increase) in debtors	18,093	(80,805)	
Increase in creditors	39,485	77,733	
Aborted sale costs	-	3,338	
Loss on component replacements	-	15,292	
	<u>825,005</u>	<u>1,205,517</u>	
b) Reconciliation of net cash flow to movement in net debt			
Increase in cash in period	1,643,292	416,494	
Cash inflow from increase in debt	(1,137,636)	(516,890)	
	<u>505,656</u>	<u>(100,396)</u>	
Change in net debt resulting from cash flows	(12,543,726)	(12,443,330)	
Net debt at 1 April			
Net debt at 31 March	<u>(12,038,070)</u>	<u>(12,543,726)</u>	
c) Analysis of changes in net debt			
	1 April 2013 £	Cash flows £	31 March 2014 £
Cash in hand and at bank	983,750	1,643,292	2,627,042
Debt due within one year	(347,033)	(678,513)	(1,025,546)
Debt due after one year	(13,180,443)	(459,123)	(13,639,566)
	<u>(12,543,726)</u>	<u>505,656</u>	<u>12,038,070</u>

19 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 Conduct Authority (formerly the Financial Services Authority).

Hjaltland Trading Limited's closing reserves for the year were £63,433 (2013 - £55,893). Profit for the year was £7,540 (2013 - £18,814).

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

19 SUBSIDIARY UNDERTAKING (continued)

During the year, the Association sold goods and services at normal market rates to Hjaltland Trading Limited of £139,015 (2013 - £137,720). The amount due to the Association at year end was £44,952 (2013 - £33,697).

During the year, the Association bought goods and services at normal market rates from Hjaltland Trading Limited of £nil (2013 - £nil). The amount due to the company at year end was £nil (2013 - £nil).

20 CAPITAL COMMITMENTS

	2014	2013
	£	£
Capital expenditure that has been contracted for but has not been provided for in the financial statements	4,576,729	4,365,952

The Group expects to finance the above commitment by:

	2014	2013
	£	£
Capital grant receivable	1,512,761	75,000
Signed loan commitments available for drawdown	2,250,210	1,765,224
Sales	672,400	776,000
Other grants	-	1,749,728
Internal funding	141,358	-
	<u>4,576,729</u>	<u>4,365,952</u>

	2014	2013
	£	£
21 OPERATING LEASES		
Plant and machinery		
Payments on leases expiring within 1 year	-	-
Payments on leases expiring within 2 to 5 years inclusive	4,619	4,619
Payments on leases expiring in more than 5 years	-	-
	<u>4,619</u>	<u>4,619</u>

22 HOUSING STOCK

The number of units of accommodation in management at the year end was:

	2014	2013
	No	No
General Needs - New Build	548	528
- Rehabilitation	4	4
Supported Housing	31	31
Shared Ownership	55	57
	<u>638</u>	<u>620</u>

Hjaltland Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS

(continued)

31 March 2014

23 RELATED PARTIES

One member of the Management Committee is a tenant 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.

24 CONTINGENT LIABILITY

Hjaltland Housing Association has been notified by The Pensions Trust of payments required in respect of the past service deficit in the Scottish Housing Association's Pensions Scheme. The net present value of the total commitment over the next 12 years discounted at 3.5% is £1,247,419. 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.

With the introduction of component accounting Housing Association Grant received to fund developments has been allocated across specific components. Grant funding, in relation to components, may have to be repaid where the property has been disposed of.