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Scotland



Home in Scotland Limited

**Annual Report and Financial Statements
For the year ended 31 March 2010**

Registered Industrial and Provident Society No: 1935R (S)
Scottish Housing Regulator Registered No: HAL90
Scottish Charity No: SC005247

Part of the Home Group

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Registered Office and Head Office

Home in Scotland Limited
Unit 3 Q Court
Quality Street
Davidson's Mains
EDINBURGH
EH4 5BP

Registered Industrial and Provident Society No: 1935R (S)
Scottish Housing Regulator Registered No: HAL90
Scottish Charity No: SC005247

Part of Home Group

Chair's Report 09-10

On behalf of Home Scotland's Board I am delighted to introduce this Annual Report.

Over the past year we have continued to grow and develop our services, as well as making some exciting changes which will help shape the organisation for the future.

Our focus is firmly on the delivery of exceptional customer service, and we have begun to develop the structure required to deliver this. Our new staff leadership structure, will support us make the organisation more efficient and ensure we continue to put Customers and Clients at the heart of everything we do.

Award-winning performance

Home Scotland continues to go from strength to strength. We were awarded Large Housing Association of the Year in July 2009 at the Scottish Home Awards, in the face of stiff competition. I would like to record my personal thanks to Margarita Morrison, in her role as Managing Director, for her enthusiasm and commitment in leading the executive team and staff in helping us achieve this recognition.

We were again shortlisted for the Scottish Urban Regeneration Forum [SURF] Awards for Best Practice in Community Regeneration and the Chartered Institute of Housing's [CIH] Excellence in Regeneration award, both recognising our contribution to neighbourhood transformation across Scotland.

Development

Work has begun at one of our largest regeneration schemes, East Balornock in the north of Glasgow. This seven-year programme will see 309 properties demolished and replaced by 309 new homes designed to suit the individual family circumstances of our current customers in the area. Homeowners who have invested in the area also have the chance to take part in this exciting transformation, by taking up funding from the Scottish Government to participate on a shared ownership basis.

We have also made progress on our regeneration scheme at Mill O'Mains in Dundee. With the help of local customers, we have selected ROK as preferred construction partner for their expertise in working with communities to deliver the collective vision for the neighbourhood. We look forward to working with ROK to implement training and apprenticeship opportunities for local residents, ensuring as many people as possible can benefit from the regeneration of Mill O'Mains.

Cumming Drive in Glasgow is an exciting programme in the pipeline, where we will deliver 34 properties, contributing to Glasgow City Council's reprovisioning plans to replace some of the city's most unsuitable housing.

Area Committees

Successful Community Regeneration continues to be our focus since the launch of our Building Communities programme in March 2009. In addition to working with communities in Mill O'Mains and East Balornock, our Area Committees have established steering groups in Newbridge Drive, Dumfries, Southhouse, Edinburgh and Garthamlock, Glasgow and are working with a range of partners and agencies to identify and tackle issues linked to financial inclusion, capacity building and employment.

Chair's Report 09-10

Home Support

Our Home Support service has provided invaluable support to over 210 individuals this year, helping them to sustain tenancies which may otherwise be at risk.

Recognising the wider value of supporting people in this way, we have developed a new evaluation tool to measure the impact of the support we provide for referring agencies and stakeholders. This complements our Life Wheel which measures the impact of our support from our client's perspective. Together they provide a holistic view of the overall effectiveness of our service.

Sustainability

In parallel with a range of agencies, Home Scotland recognises the need for a holistic approach to sustainability which addresses social, environmental and economic sustainability. We are pushing our development standards to achieve higher levels of energy efficiency and have trained our in-house teams to provide Energy Performance Certificates for existing properties. We are looking forward to piloting our first retrofit project in Rosyth funded by the Technical Scrutiny Board.

Finance

We are pleased to have successfully secured a new £20m loan facility with The Housing Finance Corporation [THFC] / European Investment Bank [EIB] and work is currently ongoing to finalise the loan documentation and complete the charged security exercise. THFC was created by the Government as a not for profit Industrial and Provident Society whose sole purpose is funding Housing Associations. Only a small number of Housing Associations in Scotland have received THFC / EIB funding and Home Scotland's successful £20m award is the largest in the country. The projects which will benefit from this new facility are at East Balornock and Cumming Drive in Glasgow and Mill O'Mains in Dundee.

We have also made significant progress towards achieving and maintaining Scottish Housing Quality Standards [SHQS] by 2015. Our ability to take advantage of low interest rates has enabled us to increase the levels of investment in our homes in 2009 and we will continue to be able bring forward our investment programme during 2010 so more customers benefit from improved standards in our houses.

Our prudent approach to financial management has also enabled our Board to take the decision to freeze rent levels for customers in 2010 at a time when we recognise that financial pressures are high.

Overall it has been another very successful year for Home Scotland and I would like to thank all our customers, clients, staff, area committees and Board members for their support. I am confident the Plan we have for next year will continue to allow Home Scotland to go from strength to strength in providing services valued by our customers.

By order of the Board.



Pamela Woodburn, FCIH, MSc (Econ Dev)
Chair

23rd June 2010

BOARD, THE EXECUTIVE AND ADVISERS

Board

Ms Pamela Woodburn, FCIH, MSc (Econ Dev)
(Chair)

Mr John Rogerson, MA (Hons), MBA
(Vice Chair)

Ms Matjorie Cuthbert, MSc, MPhil, CIOH

Mr Roger Eggins, MRICS, BSc(Hons)
- Appointed 2 Jun 2009

Mr Iain Luke, MA (Hons)

Ms Lesley McCourt, LLB(Hons), LLM, MCIQB
- Appointed 26 Jan 2010

Mr Desmond O'Brien, ACMA

Mr Alan Park, CA, BA(Hons)
- Co-opted 10 Jan 2010

Lt Col Mike R Rowney, MBE, FILM, MCFI

Mr Ewan Thomson (Tenant Member)

Mr Jonathan Turner, ACA, BA(Hons)
- Appointed 2 Jun 2009

Resignations:

Ms Carolynn Cruickshank-Gray, MA(Hons)
- Appointed 3 Jul 2009
- Resigned 8 Jun 2010

Mr Ashok Sehgal, MBA, BA, BSc, FCMI, FCIPD, FILM
- Resigned 23 Sep 2009

Prof Mark Stephens, PhD, MSc, MA (Oxon)
- Resigned 23 Sep 2009

Ms Sheila Tolley, (co-opted)
- Resigned 24 Nov 2009

Managing Director and Company Secretary

M B Morrison, FCIH, Dip in Hsg Studies
- Resigned 31 March 2010

Acting Managing Director and Acting Company Secretary

Mrs Karen Heaney, MBA, MCFI
- Appointed Acting Managing Director 1 April 2010.
- Appointed Acting Company Secretary 12 May 2010.

Advisers

Independent Auditors
KPMG LLP
Quayside House
110 Quayside
NEWCASTLE UPON TYNE
NE1 3DX

Bankers
Bank of Scotland plc
Business Banking Centre
2 West Marketgait
DUNDEE
DD1 1QN

Solicitors
T C Young
7 West George Street
GLASGOW
G2 1BA

Miller Hendry
3 Ward Road
DUNDEE
DD1 1LU

REPORT OF THE BOARD FOR THE YEAR ENDED 31 MARCH 2010

The Board presents its report and the audited financial statements for the year ended 31 March 2010.

REGISTRATION OF THE ASSOCIATION

Home in Scotland is registered with the Scottish Federation of Housing Associations' Federal Model Rules H1166 under the Industrial and Provident Societies Act 1965 - registered number 1935R(S) - and with The Scottish Housing Regulator under the Housing (Scotland) Act 2001 - registered number HAL90.

PARENT ASSOCIATION

Home Group Limited is registered with the Financial Services Authority under the Industrial and Provident Societies Act 1965 - registered number 22981R - and with The Housing Corporation under the Housing Act 1974 - registered number L3076.

PRINCIPAL ACTIVITY

The principal activity of the Association is the provision of rented accommodation for those in housing need and the development of low cost home ownership schemes.

RESULTS

The Association has made a surplus of £2,688,000 in the year to 31st March 2010. This is compared with £663,000 in the previous year. Annual surpluses are required to cover long term maintenance obligations, repayment of loans and future risks.

REVIEW OF BUSINESS

A brief review of the business is given on pages 3 and 4 in the Chair's Report. Further information is available in the Association's Annual Review, available on request from the registered office.

THE BOARD

Memberships held by the Board

Ms P Woodburn	Home Group Ltd Member and National Member
Mr J Rogerson	Home Group Ltd Member and National Member
Ms M Cuthbert	Community Member
Mr R Eggins	National Member
Mr I Luke	National Member
Ms L McCourt	National Member
Mr D O'Brien	National Member
Mr A Park	Home Group Ltd, Executive Director - Parent Association Representative, co-optee
Lt Col M Rowney	Community Member
Mr E Thomson	Community Member
Mr J Turner	National Member

REPORT OF THE BOARD FOR THE YEAR ENDED 31 MARCH 2010

STATEMENT OF BOARD'S RESPONSIBILITIES IN RESPECT OF THE BOARD'S REPORT AND THE FINANCIAL STATEMENTS

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

Industrial and Provident Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the association and of the surplus or deficit for that period.

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Industrial and Provident Societies Acts 1965 to 2003, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITORS

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

REPORT OF THE BOARD FOR THE YEAR ENDED 31 MARCH 2010

TREASURY POLICY

Treasury management is operated within a framework of clearly defined Board approved policies and procedures that serve to control the use of financial instruments. The overall aim is to ensure sufficient liquidity is available to meet foreseeable needs, surplus cash is invested prudently and financial risk is minimised. The Board receives regular reports on relevant treasury matters.

Home Scotland finances its operations through a mixture of retained earnings, grants, long term loans and short term facilities. Borrowings are in sterling at both fixed and floating rates of interest and no derivatives are used.

A 364 day £10m intercompany loan with Home Group Limited [HGL] expired in March 2010 and has been renewed for a further year. As at 31 March 2010, Home Scotland had £11.7 million committed and undrawn facilities, all of which were immediately available for drawing.

CREDITOR PAYMENT POLICY

The Association's current policy concerning the payment of its trade creditors is to:

- Settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- Ensure that the suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- Pay in accordance with its contractual and other legal obligations.

The average creditor payment period at 31 March 2010 was 35 days (2009: 44 days). The payment process has been centralised within HGL. Payments are made by HGL and recharged via inter-company account to Home in Scotland; therefore the 35 day average payment period is as recorded by HGL. At year end there are no trade creditors reported in the Home in Scotland accounts, as reflected in the Balance Sheet.

INTERNAL CONTROL ASSURANCE

In accordance with the Scottish Federation of Housing Associations [SFHA] "Raising Standards in Housing" guidance, the Board of Home Scotland acknowledges its responsibility for the systems of internal control of Home Scotland. In addition, the Home Board acknowledges its responsibility for the system of internal control throughout Home.

It should be recognised that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The following key policies, procedures and practices have been established by both the Home Board and the Board of Home Scotland to provide effective internal control.

CONTROL ENVIRONMENT / GOVERNANCE / CONTROL PROCEDURES

Home Group has an established Governance structure in place, which is supported by Governance documents which set out the terms of reference for the Board and its Committees, which includes the Board of Home Scotland. The Home Board has established three functional committees and an advisory panel, being the Audit Committee, Governance Committee, Action Committee and the Treasury Panel.

REPORT OF THE BOARD FOR THE YEAR ENDED 31 MARCH 2010

CONTROL ENVIRONMENT / GOVERNANCE / CONTROL PROCEDURES (continued)

The Governance documents also specify Home's governance standards in core areas such as conduct and probity, and clearly define levels of delegated authority and other governance and control matters.

MONITORING INFORMATION

There is a comprehensive set of financial and operational performance reports established in Home Scotland including KPIs.

- Monthly packs of financial results are produced and monitored.
- Key performance indicators are reported and monitored.
- A traffic light system of reporting is used to help highlight significant variances and to spot trends.
- Cash flow reports, balance sheet reports and treasury reports are produced and monitored.
- Regular reporting on health and safety and risk management highlight the importance of these areas.

The Board of Home Scotland receives performance reports and management accounts at every meeting. Such reports are prepared every month and issued to management for detailed monitoring purposes.

Business Assurance Services provides reports to the Audit Committee and the Board of Home Scotland that monitor the effectiveness and adequacy of the system of internal control.

External Audit provides assurance that the statement of internal control has been prepared in accordance with the guidance from the SFHA's "Raising Standards in Housing".

RISK MANAGEMENT

Central to Home's systems of internal control are its processes and framework for risk management, which are set by the Home Board. Home Scotland is committed to embedding risk management and has adopted Home Group's risk management policy and strategy. Home Scotland's systems and controls are designed to ensure that exposure to significant risk is properly managed.

The management of risks is a continuous process that is linked to Home Scotland's annual business planning cycle and is designed to identify and prioritise the risks to the achievement of Home Scotland's policies, aims and objectives.

Home Group's risk management policy and strategy outlines in detail the arrangements and processes by which it identifies, categorises, assesses and addresses risks. Under it, the key risks facing Home Scotland are regularly reviewed and assessed, together with the steps to avoid or mitigate those risks. A Home Risk Steering Group has responsibility for the overall management of the risk agenda focusing attention and appropriate resources to the effective management of risk.

REPORT OF THE BOARD FOR THE YEAR ENDED 31 MARCH 2010

INTERNAL CONTROL ASSURANCE (Continued)

The Home Scotland Board assesses the effectiveness of the risk management within Home Scotland from reports received from the Management Team during the year. In addition, the Audit Committee, which includes a member of the Home Scotland Board, ensures that Home's approach to risk management is adequate and assesses the significant changes to the risk map from reports received from the Chair of the Risk Steering Group.

FRAUD

It is inherently recognised that Home Scotland does not tolerate fraud and action is taken to reduce the risk of fraud through control systems. A fraud statement and response plan is incorporated in Home's Governance Standards. There were no instances of fraud relating to Home Scotland during the year to 31 March 2010.

OVERALL ASSURANCE

The above procedures and policies are designed to identify, evaluate and manage the significant risks faced by Home Scotland. They are ongoing and have been in place for the year under review and up to the date of the approval of the financial statements.

The Board of Home Scotland has received the Acting Managing Director's annual report on internal controls assurance and has conducted its review of the effectiveness of the system of internal control for managing the significant risks. During the year there were no significant failings or weaknesses identified in internal controls, which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements or in the report of the auditors.

EMPLOYEES

The Home Group policy is to discuss and consult with employees through the forum of the Home Staff Council and local staff committees on all matters likely to affect employees' interests. Information on matters of concern to employees is given through bulletins, newsletters and briefings, which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance. The Group's approach to Equality and Diversity is centred on the benefits a diverse workforce can bring to an organisation and encompasses gender, transgender, race, disability, religious belief, sexual orientation and age.

GOING CONCERN

The Board has a reasonable expectation that the Association has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

POST BALANCE SHEET EVENTS

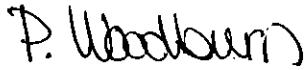
The Board consider that there have been no events since the year-end that have had a significant effect on the Association's financial position.

REPORT OF THE BOARD FOR THE YEAR ENDED 31 MARCH 2010

AUDITORS

A resolution to reappoint KPMG LLP as auditor to the company will be proposed at the Annual General Meeting on 15th September 2010.

By order of the Board.



Pamela Woodburn, FCIH, MSc (Econ Dev)

Chair

23rd June 2010

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HOME IN SCOTLAND LIMITED

Report of the independent auditors to the members of Home in Scotland Limited

We have audited the financial statements of Home in Scotland Limited for the year ended 31 March 2010 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the association's members, as a body, in accordance with Schedule 7 paragraphs 13 and 14 to the Housing (Scotland) Act 2001 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditors

The responsibility of the association's Board for the preparation of the Board's report and the preparation of the financial statements in accordance with applicable United Kingdom law and UK accounting standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Board's Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the association has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Board's Report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the association's circumstances, consistently applied and adequately disclosed.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HOME IN SCOTLAND LIMITED (Continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the association as at 31 March 2010 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

M. R. Thompson

M R Thompson (Senior Statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

23 June 2010

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	2009 £000
Turnover	2	12,407	10,899
Operating costs	2	(9,419)	(8,695)
		<hr/>	<hr/>
Operating surplus	2	2,988	2,204
Surplus on sale of housing properties	6	67	146
Interest receivable and similar income	7	-	2
Interest payable and similar charges	8	(466)	(1,764)
		<hr/>	<hr/>
Surplus for the year		2,589	588
Transfer from designated reserves	18	99	75
		<hr/>	<hr/>
		2,688	663
Revenue reserve brought forward		11,032	10,369
		<hr/>	<hr/>
Revenue reserve carried forward		13,720	11,032

All activities of the Association are classed as continuing.

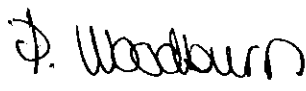
There is no material difference between the surplus on ordinary activities before taxation and the retained surplus for the year as stated above and their historical cost equivalents.

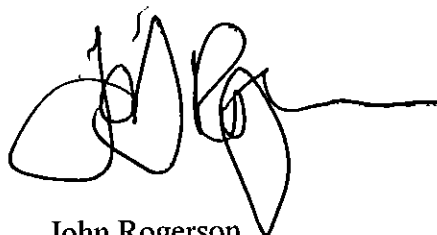
The Association has no recognised surpluses or deficits other than the results for the year as set out above.

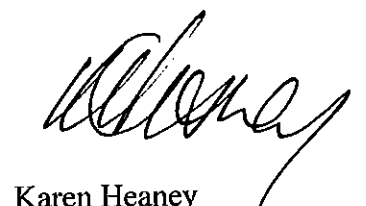
BALANCE SHEET AT 31 MARCH 2010

	Notes	2010 £000	2009 £000
Tangible fixed assets			
Cost	10	135,947	123,921
Less: depreciation	10	(3,015)	(2,541)
Net depreciated cost		132,932	121,380
Less: Housing Association Grant	10	(64,466)	(61,117)
Other grants	10	(4,585)	(4,585)
		63,881	55,678
Other fixed assets	11	470	517
Total Tangible Fixed Assets		64,351	56,195
Current assets			
Stock	12	-	1,387
Debtors	13	742	2,211
Cash at bank and in hand		299	430
		1,041	4,028
Creditors: amounts falling due within one year	14	(7,293)	(11,125)
Net current liabilities		(6,252)	(7,097)
Total assets less current liabilities		58,099	49,098
Creditors: amounts falling due after more than one year	15	(41,809)	(35,376)
Net assets		16,290	13,722
Capital and reserves			
Called-up share capital	16	-	-
Negative goodwill	17	2,372	2,393
Designated reserve	18	198	297
Revenue reserve		13,720	11,032
	19	16,290	13,722

The financial statements on pages 14 to 36 were approved by the Board on 23rd June 2010 and were signed on its behalf by:


 Pamela Woodburn
 Chair


 John Rogerson
 Vice Chair


 Karen Heaney
 Acting Company Secretary

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010	2009
		£000	£000
Net cash inflow from operating activities	20	6,536	2,918
Returns on investments and servicing of finance			
Interest received		-	2
Interest paid		(456)	(2,005)
Net cash outflow from returns on investments and servicing of finance		(456)	(2,003)
Capital expenditure and financial investment			
Purchase of housing properties		(13,077)	(10,188)
Purchase of other tangible fixed assets		(1)	(20)
Sale of housing properties		71	155
Capital grants received - Housing Association Grant		4,804	4,955
Capital grants received - Other		17	-
Net cash outflow from capital expenditure and financial investment		(8,186)	(5,098)
Net cash outflow before financing		(2,106)	(4,183)
Financing			
Loan advance		7,500	4,359
Loan principal repayments		(5,525)	(27)
Net cash inflow from financing	22	1,975	4,332
(Decrease) / Increase in cash		(131)	149

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, the Industrial and Provident Societies Acts, 1965 to 2002, the Housing (Scotland) Act 2001, the Registered Social Landlords Accounting Requirements (Scotland) Order 2007 and the Statement of Recommended Practice - Accounting by Registered Social Landlords [SORP], published in 2008. A summary of the principal accounting policies is set out below.

Whilst the balance sheet shows net current liabilities, the Association has in place external loan agreements as detailed at Note 15 which allow the Association sufficient funding to pay its liabilities as they fall due. The parent undertaking, Home Group Limited, acts as guarantor for these loans, as well as providing a £10 million intercompany facility.

Basis of accounting

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

Turnover

Turnover represents rental income receivable, income from support services, management fees receivable from the parent company and other fees receivable from third parties and all revenue grants receivable from Communities Scotland, local authorities and other agencies.

Supporting People income

Supporting People [SP] contract income received from Administering Authorities is accounted for as SP income in turnover in Note 2 to the financial statements. The related support costs are matched against this income.

Tangible fixed assets and depreciation

Tangible fixed assets, excluding housing properties in the course of construction, are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis to write off the cost less any estimated residual value over the expected economic useful lives of the assets, or in relation to housing properties held at 1 April 1999 over the average of their expected remaining useful economic lives.

Estimated useful lives:	Years
Housing properties	100
Older rehabilitated tenements	60
Freehold Offices	40 to 45
Fixtures, furniture and equipment	8
Computer equipment	3

Leased equipment and software are depreciated over the life of the lease.

Housing properties held on long leases are depreciated over their estimated useful economic lives or the life of the lease, if shorter.

Housing properties held on short-term leases are depreciated over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Housing properties

Housing properties are stated at cost less Housing Association Grant and other grants.

The cost of a property comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Directly attributable costs include the employment costs of development staff, in-house architects, legal staff and surveyors arising directly from the construction, or acquisition of the property together with other incremental costs, which would have been avoided only if the property had not been constructed or acquired.

Housing Properties acquired under transfer of engagements are capitalised at their fair value (Existing use value as social housing) and depreciated over their expected useful life at date of transfer.

Housing properties in the course of construction are stated at cost less Housing Association Grant and other grants and are transferred into housing properties when completed.

Housing Association Grant

Where developments have been financed wholly or partly by Housing Association Grant, the cost of those developments has been reduced by the amount of the grant received.

Housing Association Grant is repayable under certain circumstances, primarily following the sale of property, but such repayment will normally be restricted to the net proceeds of sale.

Other grants

Where developments have been financed wholly or partly by other grants, the cost of those developments has been reduced by the amount of grant received. Other grants of a revenue nature are credited to the income and expenditure account when receivable.

Capitalisation of interest

Interest incurred on financing a development is capitalised up to the date of practical completion of the scheme. The capitalisation rate is the weighted average of the rates applicable to general borrowings that are outstanding during the period.

Impairment

Reviews for impairment of housing properties are carried out on an annual basis and any impairment in an income-generating unit is recognised by a charge in the Income and Expenditure account. Impairment is recognised where the carrying value of an income generating unit exceeds the higher of its net realisable value or value in use.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Provisions for liabilities and charges

The Association recognises in the accounts provisions to meet liabilities arising from past events, which are likely or certain to be incurred, but for which the amount or timing cannot be determined accurately.

Disposal of housing properties

Where properties built for sale are disposed of during the year, the disposal proceeds are included in turnover and the attributable costs included in cost of sales.

The surplus or deficit on disposal of housing properties held as fixed assets, including second or subsequent tranches of shared ownership properties, is accounted for on the face of the income and expenditure account. Where any Housing Association Grant [HAG] to be recycled or repaid is less than the HAG relating to the disposal, the difference is treated as abated HAG and included as a component of the surplus or deficit on disposal.

Shared Ownership

The costs of shared ownership properties are split between current and fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and on disposal the first tranche sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset. Any grant attributable to shared ownership assets is wholly attributed to the fixed asset. Subsequent tranches sold ('staircasing') are accounted for as disposals of housing properties, as noted above.

Homestake

Grants are received from the Scottish Ministers for the construction of properties under the Homestake scheme. The costs net of grants up to the point of sale are reflected as Stock within Current Assets. Upon sale of the Homestake properties to eligible beneficiaries the cost and grants relating to such properties are accounted for in the Income and Expenditure Account as Other Activities; within Turnover and Operating Costs respectively. 100% of the property is sold to the Owner and the Government.

Mixed Tenure Developments

Where a development comprises a number of different tenures, the cross subsidy which may exist is explicitly recognised in accounting for the development by restricting the surplus generated on certain tenures to the overall scheme surplus. This is achieved through the apportionment of costs to each element of the scheme.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Leased assets

Costs in respect of operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

Pension costs

Two defined benefit pension schemes and one defined contribution scheme are provided for the Association's staff.

The Group operates a defined benefit pension section for permanent staff, based on final pensionable salary. The assets of the section are held in a separate trustee administered fund. The fund is valued every three years by an independent qualified actuary using the projected unit method, the rates of contribution payable being recommended by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates.

The cost of providing retirement pensions and related benefits is charged to the income and expenditure account over the periods benefiting from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the section.

The Association is a participating member of the Scottish Federation of Housing Associations scheme, provided through the Pensions Trust, the cost of which is written off on an accruals basis. The assets of the scheme are held separately from those of the Association in an independently administered fund. The Association also contributes for the benefit of one employee to the Strathclyde Pension Scheme.

The Group operates the defined contribution scheme. The contributions paid into the scheme are charged to the income and expenditure account as incurred.

Cyclical and major repairs

The costs of cyclical and major repairs are charged to the income and expenditure account in the year in which they are incurred.

Improvements to property

The Association capitalises expenditure on housing properties which is either capable of generating increased future rents, extends its useful life, or significantly reduces future maintenance costs. All other expenditure incurred in respect of general repairs to its housing stock is charged to the income and expenditure account in the year in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Designated reserve: Service equipment replacement

The Association is under obligations to replace service equipment, such as warden call systems, special adaptations and part furnishings, in accordance with a planned programme of works paid for by tenants through service charges. Where any monies have been collected for an asset, which has not yet been replaced, the funds are transferred to a designated reserve.

Negative goodwill

Negative goodwill arises due to the net reserves that are received into the Association as a result of mergers and stock transfers. Negative goodwill arising on the transfer of engagements represents the excess of the fair value of the identifiable net assets acquired over the fair value of the consideration given and is taken immediately to reserves. This is in accordance with the SORP but not in accordance with FRS 10, which requires that negative goodwill be shown as a negative asset on the balance sheet. The Board is of the opinion that the treatment required by FRS 10 would not present a true and fair view of the Association's net assets because the substance of the transaction is a transfer of a business for minimal consideration rather than a purchase in the conventional manner. If the negative goodwill had been treated as a negative asset as required by FRS 10 then the Association's net assets would have been reduced by £2,372,000 (2009: £2,393,000). Negative goodwill is amortised to the income and expenditure account over the same period for which depreciation is charged on the housing properties acquired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

2. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

	Turnover	Operating costs	Operating surplus	Operating Surplus or Deficit for Previous Period of Account
	£000	£000	£000	£000
Social lettings	10,243	(7,324)	2,919	2,345
Other activities	2,164	(2,095)	69	(141)
Total	12,407	(9,419)	2,988	2,204
Total for previous period of account	10,899	(8,695)	2,204	

2. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS FROM OTHER ACTIVITIES

	Supporting people income	Other income	Total Turnover	Other operating costs	Operating surplus or deficit	Operating surplus or deficit for previous period of account
	£000	£000	£000	£000	£000	£000
Development and construction of property activities	-	1,384	1,384	(1,421)	(37)	(254)
Support activities	572	-	572	(535)	37	14
Agency / management services for registered social landlords	11	197	208	(139)	69	99
Total from other activities	583	1,581	2,164	(2,095)	69	(141)
Total from other activities for the previous period of account	591	639	1,230	(1,371)	(141)	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

2. TURNOVER, OPERATING SURPLUS AND SURPLUS FROM SOCIAL LETTINGS ACTIVITIES (Continued)

	General Needs Housing	Supported Housing Accommoda tion	Shared Ownership Housing	Total	Total for prior year
	£000	£000	£000	£000	£000
Rents receivable net of service charges	9,548	279	77	9,904	9,260
Service charges	84	196	-	280	263
Gross income from rent and service charges	9,632	475	77	10,184	9,523
Less voids	(41)	(5)	-	(46)	(54)
Net income from rents and service charges	9,591	470	77	10,138	9,469
Grants from the Scottish Ministers	43	26	-	69	109
Other revenue grants	33	-	3	36	91
Total turnover from social letting activities	9,667	496	80	10,243	9,669
Management and maintenance administration costs	(3,098)	(128)	(37)	(3,263)	(3,464)
Service costs	(210)	(169)	(1)	(380)	(442)
Planned and cyclical maintenance including major repairs	(2,197)	(51)	-	(2,248)	(1,791)
Reactive maintenance costs	(791)	(26)	-	(817)	(1,022)
Bad debts - rents and service charges	(161)	(1)	-	(162)	(36)
Depreciation of social housing	(463)	(9)	(3)	(475)	(589)
Impairment of social housing	-	-	-	-	-
Amortisation of negative goodwill	21	-	-	21	20
Operating costs for social housing activities	(6,899)	(384)	(41)	(7,324)	(7,324)
Operating surplus or deficit for social lettings	2,768	112	39	2,919	2,345
Operating surplus for social lettings for previous period of account	2,295	22	28	2,345	

The amount of service charges on housing accommodation not eligible for housing benefit was £66,000 (2009: £59,000).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

3. HOUSING STOCK	2010	2009
	No.	No.
Number of units of housing accommodation in management at the year end:		
Owned by the Association and rented		
General Needs	2,883	2,859
Supported Housing Accommodation	122	122
Shared ownership	35	35
Total owned and rented by the Association	<u>3,040</u>	<u>3,016</u>
Managed by the Association and rented	56	-
Leased to the Association and rented	12	12
Total in management at year end	<u>3,108</u>	<u>3,028</u>

4. DIRECTORS' EMOLUMENTS	2010	2009
	£	£
Directors		
Expenses reimbursed to the directors not chargeable to United Kingdom income tax. None of the Board Members received any payment other than expenses.		
	<u>7,865</u>	<u>9,494</u>

The directors are defined for the purpose of this note as the Members of the Board and the Managing Director (and Acting Managing Director), who is not a member of the Board but has a significant decision making role.

Remuneration paid to the directors:	£000	£000
Other emoluments (including pension contributions and benefits in kind)	<u>107</u>	<u>107</u>
Highest paid director		
Emoluments excluding pension contributions and benefits in kind	<u>95</u>	<u>95</u>

Officers Remuneration (excluding employer's pension contribution)

£100,000 to £109,999	1	1
£60,000 to £69,999	2	2

	2010	2010	2010	2009
	Salary	Benefits	Total	Total
	£000	£000	£000	£000
Analysis of directors' emoluments				
Highest Paid Director	<u>95</u>	<u>5</u>	<u>100</u>	<u>100</u>
Pension contributions			<u>7</u>	<u>7</u>
			<u>107</u>	<u>107</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

5. EMPLOYEE INFORMATION

	2010	2009
	No.	No.
The average monthly number of persons (including directors), expressed as full time equivalents, employed during the year was:		
Office staff	76	78
Wardens, caretakers and cleaners	6	6
Clerk of works	1	1
	<u>83</u>	<u>85</u>

Average number of all posts ("Headcount" basis)

89	94
<u>89</u>	<u>94</u>

	2010	2009
	£000	£000
Staff costs (for the above persons):		
Wages and salaries	2,447	2,239
Social security costs	224	218
Other pension costs (note 27)	159	137
	<u>2,830</u>	<u>2,594</u>

6. SURPLUS ON SALE OF HOUSING PROPERTIES

	2010	2009
	£000	£000
Sales proceeds – social housing properties	142	247
Cost of sales – social housing properties	(75)	(101)
Net surplus	<u>67</u>	<u>146</u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2010	2009
	£000	£000
Interest receivable from bank and building society deposits	-	2

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2010	2009
	£000	£000
On bank loans and overdrafts	473	1,646
On other loans	35	386
	<u>508</u>	<u>2,032</u>
Less: interest capitalised	(42)	(268)
	<u>466</u>	<u>1,764</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

9. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2010	2009
	£000	£000
Surplus on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation:		
Housing properties	475	589
Tangible owned other fixed assets	48	52
Amortisation of negative goodwill	(21)	(20)
Auditors' remuneration for audit services	14	12
Operating lease rentals – Land & Buildings	91	91
Operating lease rentals – Housing Properties	14	14
Operating lease rentals – Other	60	38

10. TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

	Completed Housing Properties	Housing Properties Under Construction	Completed shared Ownership Housing Properties	Total
	£000	£000	£000	£000
Cost				
At 1 April 2009	103,423	19,053	1,445	123,921
Additions	475	11,623	-	12,098
Transfers	5,319	(5,319)	-	-
Disposals	(72)	-	-	(72)
At 31 March 2010	109,145	25,357	1,445	135,947
Depreciation				
At 1 April 2009	2,512	-	29	2,541
Charge for year	472	-	3	475
Disposals	(1)	-	-	(1)
At 31 March 2010	2,983	-	32	3,015
Net depreciated cost at 31 March 2010	106,162	25,357	1,413	132,932
Net depreciated cost at 31 March 2009	100,911	19,053	1,416	121,380
Housing Association Grant (HAG)				
At 1 April 2009	48,925	11,167	1,025	61,117
Received during year	110	3,303	-	3,413
Disposals	(64)	-	-	(64)
At 31 March 2010	48,971	14,470	1,025	64,466

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

10. TANGIBLE FIXED ASSETS – HOUSING PROPERTIES (CONTINUED)

Other Grants – New Housing Partnership (Local authorities) & Home Housing Trust

	Completed Housing Properties £000	Housing Properties Under Construction £000	Completed shared Ownership Housing Properties £000	Total £000
At 1 st April 2009	4,585	-	-	4,585
At 31 March 2010	4,585	-	-	4,585
Net book value at 31 March 2010	52,606	10,887	388	63,881
Net book value at 31 March 2009	47,401	7,886	391	55,678

Additions to housing properties in the course of construction during the year included development administration costs of £313,000 (2009: £262,000).

There were assets under charge included in the above Net Book Value amount of £40,900,000 as at 31 March 2010.

Total Housing Association Grant (HAG) received or receivable at the balance sheet date:

	2010 £000	2009 £000
HAG in respect of housing properties shown at cost	64,466	61,117
HAG in respect of housing properties shown at fair values	8,043	8,043
Cumulative amount credited to income and expenditure account	2,265	2,201
Total Housing Association Grant received or receivable at balance sheet date	74,774	71,361

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

11. TANGIBLE FIXED ASSETS – OTHER FIXED ASSETS

	Freehold Offices £000	Fixtures, furniture & equipment £000	Computer equipment & software £000	Total £000
Cost				
At 1 April 2009	635	294	50	979
Reclassification	4	(6)	2	-
Disposals	(4)	(72)	(23)	(99)
Additions	-	-	1	1
At 31 March 2010	635	216	30	881
Depreciation				
At 1 April 2009	228	203	31	462
Reclassification	4	(5)	1	-
Charge for year	14	25	9	48
Disposals	(4)	(71)	(24)	(99)
At 31 March 2010	242	152	17	411
Net book value at 31 March 2010	393	64	13	470
Net book value at 31 March 2009	407	91	19	517

The cost of fixtures, furniture and equipment above has been reduced by an amount of £23,000, being grants received for the purchase of equipment and fittings (2009: £23,000).

12. STOCK

	2010 £000	2009 £000
Homestake	-	1,387

13. DEBTORS

	2010 £000	2009 £000
Rental debtors – Housing accommodation	582	479
Rental debtors – Shared ownership	2	2
Less: Provision for bad debts	(206)	(93)
	378	388
Housing Association Grant receivable	171	1,490
Support Grant receivable	9	26
Prepayments and accrued income	43	174
Amounts due from group undertakings	53	-
Other debtors – due within 1 year	88	133
	742	2,211

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010	2009
	£000	£000
Housing loans from third parties	3	24
Housing loans from group undertakings	3,755	8,200
Rental creditors – Housing Accommodation	340	310
Rental creditors – Shared ownership	4	1
Trade creditors	-	1,420
Accruals and deferred income	2,520	1,069
Amounts due to group undertakings	412	-
Other creditors	259	101
	<u>7,293</u>	<u>11,125</u>

The payment process has been centralised within HGL and payments recharged via intercompany account to Home in Scotland. As a result of this there are no trade creditors reported in the Balance Sheet.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2010	2009
	£000	£000
Housing loans	<u>41,809</u>	<u>35,376</u>

Housing loans are secured by specific charges on the Association's housing properties. They are repayable at varying rates of interest, from 0.71% to 13.00%, due as follows:

	2010	2009
	£000	£000
In instalments:		
In one year or less	3,758	8,224
Between one and two years	1,204	27
Between two and five years	5,214	4,480
In five years or more	35,391	30,869
	<u>45,567</u>	<u>43,600</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

16. SHARE CAPITAL

Each national member of the Association holds one voting share (nominal value £1). Each community member of the Association holds one non-voting share (nominal value £1). All shares are surrendered on the cessation of membership. Shares carry no rights to dividend or repayment of capital.

	2010	2009
National Member shares	£	£
Allotted, issued and fully paid:		
As at 1 April 2009	<u>2</u>	<u>2</u>
At 31 March 2010	<u>2</u>	<u>2</u>
Allotted, not called up:		
As at 1 April 2009 and 31 March 2010	<u>6</u>	<u>6</u>
Community Member Shares		
Allotted, not yet paid:		
As at 1 April 2009	119	122
Surrendered during the year	-	(3)
At 31 March 2010	<u>119</u>	<u>119</u>
Allotted, issued and fully paid:		
As at 1 April 2009	293	284
Issued during year	3	9
At 31 March 2010	<u>296</u>	<u>293</u>
17. NEGATIVE GOODWILL	2010	2009
	£000	£000
As at 1 April 2009	2,393	2,413
Amortised in the year	(21)	(20)
At 31 March 2010	<u>2,372</u>	<u>2,393</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

18. DESIGNATED RESERVES	2010	2009
	£000	£000
Reserve for the replacement of equipment in service schemes		
As at 1 April 2009	297	372
Transfer to revenue reserve	(99)	(75)
At 31 March 2010	198	297

19. RECONCILIATION OF MOVEMENTS IN CAPITAL AND RESERVES	2010	2009
	£000	£000
Surplus for the year	2,589	588
Amortisation of negative goodwill – Note 17	(21)	(20)
Opening capital and reserves	13,722	13,154
Closing Capital and reserves	16,290	13,722

20. RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2010	2009
	£000	£000
Operating surplus	2,988	2,204
Depreciation	523	641
Amortisation of negative goodwill	(21)	(20)
Deficit on disposal of other tangible fixed assets	3	-
Movements in:		
Stocks	1,387	(1,387)
Rental debtors	10	(108)
Other debtors	123	383
Trade creditors	(653)	798
Other creditors less than one year	2,176	407
Net cash inflow from operating activities	6,536	2,918

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

21. ANALYSIS OF NET DEBT

	March 2009 £000	Cash flow £000	Non Cash Changes £000	March 2010 £000
Cash at bank and in hand	430	(131)	-	299
Debt due after one year: Housing loans	(35,376)	(6,441)	8	(41,809)
Debt due within one year: Housing loans	(8,224)	4,466	-	(3,758)
Net Debt	(43,170)	(2,106)	8	(45,268)

22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2010 £000	2009 £000
(Decrease)/increase in cash in the period	(131)	149
Cash inflow from increase in debt and lease financing	(1,975)	(4,332)
Change in net debt resulting from cash flows	(2,106)	(4,183)
Non cash changes	8	1
Movement in net debt in the period	(2,098)	(4,182)
Net debt at start of year	(43,170)	(38,988)
Net debt at end of year	(45,268)	(43,170)

23. CAPITAL COMMITMENTS

	2010 £000	2009 £000
Capital expenditure that has been contracted for but not provided for in the financial statements.	14,208	7,230
Capital expenditure that has been authorised by the Board but has not yet been contracted for.	8,588	-

The amounts contracted for at 31st March 2010 will be HAG funded, loan financed from within agreed facilities and from the Associations reserves.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

24. FINANCIAL COMMITMENTS	2010	2009
Annual commitments under operating leases were as follows:	£000	£000
Housing Properties		
Expiring over five years	<u>14</u>	<u>14</u>
Land and Buildings		
Expiring within one year	58	58
Expiring between two and five years	<u>23</u>	<u>23</u>
	81	81
Other		
Expiring within one year	15	4
Expiring between two and five years inclusive	<u>28</u>	<u>39</u>
	43	43

The Association uses certain assets acquired under operating leases entered into by the parent association, Home Group Limited. The relevant lease charges are included in the Income and Expenditure Account, and the commitments under these leases have been included in the above note.

25. TRANSACTIONS WITH RELATED PARTIES

Home Group Limited

The Association and Parent operate an inter-company account for recharging staff costs, trade creditors and office expenditure, including the provision of treasury services, information systems, human resources and business assurance services, at cost. The balances outstanding on the inter-company account are included within debtors and creditors as appropriate.

Tenant Members

One member of the Board, Mr E Thomson, is a tenant of the Association. His tenancy is on the same basis as all other tenants and does not receive any special benefit. The Board has procedures to protect the Association against any conflict of interest.

26. PARENT ASSOCIATION

The Board regards Home Group Limited as the ultimate parent company and the ultimate controlling party. Copies of the consolidated financial statements of Home Group Limited can be obtained from the Secretary, Home Group Limited, 2 Gosforth Park Way, Gosforth Business Park, Newcastle upon Tyne, NE12 8ET.

27. PENSION OBLIGATIONS

The Home Group Ltd Scheme

The Association is a member of the final salary pension scheme operated by Home Group Limited. This scheme was closed to new entrants with effect from 1 April 2001.

Defined benefit accounting under the provision of FRS 17 has not been used, as Home in Scotland Limited is unable to identify its share of the underlying assets and liabilities in the Scheme on a consistent and reasonable basis. Consequently, the contributions paid by the Association are accounted as if the scheme were a defined contribution scheme. The cost of contributions to the Group scheme amount to £70,000 (2009: £56,000) being 11.5% of pensionable salary.

An actuarial valuation of the Group scheme was undertaken on 31 March 2008 and revealed a deficit of £37.0m. It has been agreed that with effect from April 2009, the contribution rate will be 14.9% of pensionable salaries plus a fixed sum of £2.29m per annum increasing at a compound rate of 5.32% p.a. The Association will contribute at 11.5% for active members and will bear a proportion of the fixed sum based upon the number of active members in the scheme. Full disclosure of the actuarial valuation is provided within consolidated Home Group Limited financial statements.

The SFHA / Pension Trust scheme

The Association participates in the SFHA Pension Scheme. The SFHA Pension Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

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

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

During the accounting period the association paid contributions at the rate of 18.9% for the period to 31 March 2010. Member contributions were 7.7% for the period to 31 March 2010.

As at the balance sheet date there were 4 active members of the Scheme employed by the Association, which has closed to new entrants.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

27. PENSION OBLIGATIONS (CONTINUED)

A professionally qualified actuary using the "projected unit credit" method performed the last formal valuation of the Scheme as at 30 September 2006. The market value of the Scheme's assets at the valuation date was £268 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £54 million (equivalent to a past service funding level of 83%).

The financial assumptions underlying the valuation as at 30 September 2006 were as follows:

	% per annum
Investment return pre retirement	7.2
Investment return post retirement	4.9
Rate of salary increases	4.6
Rate of pension increases	
- Pension accrued pre 06 April 2005	2.6
- Pension accrued from 06 April 2005	2.2
(For leavers before 1 October 1993 pension increases are 5.0%)	
- Rate of price inflation	2.6

The employers' ongoing future service contribution rate, after allowing for changes in benefits, was assessed as 10.1% of pensionable salaries.

Following consideration of the results of the actuarial valuation it was agreed that, with effect from 1 April 2008:

- The standard employer contribution rate would be increased from 14.0% to 15.4% of pensionable salaries.
- Member contributions would be increased from 7.0% to 7.7% of pensionable salaries.

A small number of employers, including Home in Scotland Limited, that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.5% to reflect the higher costs of a closed arrangement.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit, on an on-going funding basis, by 30 September 2015.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

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

27. PENSION OBLIGATIONS (CONTINUED)

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, and 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.

Contributions made in year amounted to £25,620 (2009: £24,110).

The Strathclyde Pension scheme

Home in Scotland Limited contributes to this multi-employer defined benefit scheme for the benefit of one employee. The Scheme is funded and is contracted out of the state scheme. Contributions made in year amounted to £5,110 (2009: £4,720).

Home Group Ltd Defined Contribution scheme

With effect from 1 April 2001, new entrants are able to join the money purchase section of the Home Group Pension and Life Assurance Scheme. The charge to the Income and Expenditure Account for this scheme is the contribution payable, which amounted to £58,300 (2009: £52,100).