

MELVILLE HOUSING ASSOCIATION LIMITED
REPORT and CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2012

Registered Housing Association No. HAL 286

Financial Services Authority No. 2466 R(S)

Recognised Scottish Charity No. SC 032755

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT and FINANCIAL STATEMENTS

Year ended 31 March 2012

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MELVILLE HOUSING ASSOCIATION LIMITED

EXECUTIVES AND ADVISERS

MANAGEMENT COMMITTEE: Mr B Christie C.A. (Chairman)
Mr R Anderson (Vice Chairman)
Mrs D Carmichael (Treasurer)
Mrs N McNeill (elected Secretary 22 September 2011)
Mr J Scott (Secretary) (resigned 13 September 2011)
Mr S Campbell
Mrs A Drummond (elected 13 September 2011)
Mr D Fletcher (resigned 13 September 2011)
Mrs G Gourlay
Mr R Haddow
Mr D Jarrold (resigned 25 April 2012)
Mr W McAleece
Mr A Murphy
Mr A Morrison (co-opted 20 June 2012)
Mr M Perks (co-opted 21 March 2012)
Mrs B Shearer
Mrs E Smith
Mr R Walkinshaw (resigned 25 April 2012)

SECRETARY: Mrs N McNeill

CHIEF EXECUTIVE: Mr A Noble

REGISTERED OFFICE: 7 Eskdail Court
Dalkeith
Midlothian
EH22 1AG

AUDITORS: Chiene + Tait
Chartered Accountants & Statutory Auditor
61 Dublin Street
Edinburgh
EH3 6NL

SOLICITORS: Harper Macleod LLP
The Cadoro
45 Gordon Street
Glasgow
G1 3PE

BANKERS: The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH2 2YB

Registration Particulars: Financial Services Authority Industrial and Provident Societies Act 1965
Registered Number 2466 R(S)
Recognised Scottish Charity SC 032755
The Scottish Government, Housing (Scotland) Act 2001
Registered Number HAL 286

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

The Management Committee of Melville Housing Association Limited presents the group report and the audited financial statements for the year ended 31 March 2012.

Principal activities

The Association was formed on 9 February 1994 and is registered under the Industrial and Provident Societies Act 1965 and with the Scottish Government under the Housing (Scotland) Act 2001.

Ironmills Developments Limited is a wholly-owned subsidiary of Melville Housing Association Limited and was incorporated on 17 October 2007.

The principal activities of the group are providing and managing low cost rented accommodation. At 31 March 2012, the Association held 1,851 units for social rent. Ironmills is developing mid market rental opportunities and had 12 units available for let in July 2012.

Objectives

The Association's objectives are set out in its business plan 2010-2015 which was approved by the Management Committee in March 2010. The key objectives are set out below:

Housing and Support Services

- To deliver high quality and supportive housing management and tenancy support services.

Growth

- To increase our housing stock by an average of 40 units per annum.
- To increase our overall financial strength to support our activities and provide new services.

Asset Management

- To improve and adapt our existing housing in order to increase quality and energy efficiency.
- To make efficient use of our financial assets.
- To seek new permanent office accommodation within 5 years to replace offices which are scheduled to be demolished as part of the Dalkeith town centre regeneration scheme.

Staff and Committee

- To develop and support a highly skilled and effective staff team.
- To recruit, retain, support and develop skilled Committee members.

Relationships

- To strengthen existing partnerships and form new relationships in support of our future activities and projects in the wider community.

Sustainability

- To improve community well-being by providing desirable homes that are comfortable and energy efficient.
- To help tenants settle in their homes and live peaceably with their neighbours.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

The following paragraphs set out how Melville has performed during the year ended 31 March 2012 against these objectives.

Operating and Financial Review

Introduction

This was a year which saw us complete 31 new build properties and acquire 9 mortgage to rent properties. A further 106 new build units are due to be completed by December 2012. We achieved high levels of customer satisfaction and continued to invest in property maintenance and refurbishment. Our turnover increased by 8.7% driven by an increase in housing units and a rent increase in the year of 5.5%. We returned a surplus of £1.1m compared to surplus of £1.3m in prior year. The reduction in bottom line position reflects an increased investment in property maintenance and an increase in depreciation as a result of increased capital investment. Interest costs were higher due to additional loan finance to fund our development programme.

We also introduced component accounting in the year as required by the Statement of Recommended Practice (SORP) – Accounting by Registered Social Housing Providers 2010. The Association's policy is to capitalise housing improvements and therefore no change in accounting policy resulted from the adoption of the updated SORP. The introduction of accelerated rates of depreciation for individual components is more fully explained in note 1g. No prior year adjustment or restatement of prior year results was required, and together with the Association's continuing policy of revaluation, the overall impact upon the current year was minimal (see note 1g).

Housing and Support Services

We continued to focus on the management of arrears and voids during a period when stock turnover was relatively stable. We also continued the excellent work of our Tenancy Support and Money Advice services.

Rent arrears

Our arrears performance continued a long-term trend of improved performance, with arrears being 1.9% of rental income at 31 March 2012 (2011, 2.3%) bettering our target for rent arrears of 2.5%. This highly successful outcome was achieved by building on prior year successes arising from changes to our arrears management processes, and the introduction of new, more accessible methods of payment.

Lettings

During the year, 128 of our properties became available for let compared with 119 in 2011. On average, we took 11 days to relet properties compared with 13 days in 2011. This was in line with our target of 11 days and represents very good performance in comparison with other RSLs in our peer group which average 29 days (Source: Peer Group 7 APSR – 2010-11).

Income lost on empty properties was 0.23% of rental income (2011, 0.22%), below our target of 0.26%. The average rent lost on empty properties for our peer group is 1%.

We are constantly looking at ways of reducing the time it takes to relet properties through early inspection, providing easy access for contractors and closely monitoring progress during the completion of repairs.

Tenancy Support

Our "New Beginnings" tenancy support service has proved very successful with 64 tenants having benefited from practical support and advice from our support workers in the year. The service, established in 2008 with support from The Big Lottery, is delivered in partnership with Home Scotland Ltd who provide specialised management support. The aim of the service is to help tenants become established in their new homes, reducing tenancy failures and helping to build stable communities.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Tenancy Support (continued)

This has had a significant impact, and in the year, the number of tenancies failing to last one year remained at 12 (2011, 12). In 2010 the year before we commenced this service, 21 tenancies failed in the first year.

Money Advice

While our Tenancy Support service provides help and advice to new Melville tenants, our Money Advice and Welfare Benefits Advice services are available to all of our tenants. Our Money Advice service was developed with the support of the Big Lottery to complement our existing welfare benefits service.

Our Welfare and Money Advice service helped tenants access £268k in unclaimed benefit monies during the year which will have long-term benefits for the individuals and families, helping them to sustain their homes.

As well as providing individual advice, our Welfare Adviser provides advice to tenants, Committee and staff via briefings, leaflets and newsletter articles, helping the Association and its tenants prepare for the impact of the Government's welfare reform plans.

Growth

In the five years to 31 March 2012, we have invested £41.9m of Housing Association Grant (HAG) and private investment monies in new properties, providing 206 additional homes through our new build and rehabilitation programme. We have consistently achieved our investment targets, and we were delighted to receive a joint nomination with Midlothian Council for a UK Housing Award in the category of finance and development. The shortlisting recognised the work done to deliver the maximum number of houses at a development in Penicuik, Midlothian. By working together with the Council including sharing costs and reallocating land, we were able to build an additional four homes, significant in an area where affordable housing is in short supply and high demand.

In October 2010 we commenced our largest development of 133 units in Mayfield, Dalkeith, with an investment of £16.2m in Housing Association Grant and private finance monies. 27 units were completed and handed over in the financial year with a further 106 units to be handed over during April to December 2012. This includes 12 units which will be leased to Ironmills Developments Ltd for on-letting at mid-market rent.

We are grateful to the support of the Scottish Government, Midlothian Council and the Royal Bank of Scotland in delivering our current and future development programmes.

Asset Management

During the year we invested £3.1m in property maintenance and improvements, underlining our commitment to maintaining the standard of our existing properties.

Our Window Improvement Programme completed in December 2011, a four year programme which provided the installation of 8,350 replacement windows in 1,260 homes. We invested over £3.6m in this programme. It is estimated that on average the improvement in overall energy efficiencies is around 11.25% for each household.

We finalised our external door replacement programme in the year and have replaced 338 doors in 194 properties, a total investment of £189k which will significantly improve home security and insulation.

During the year we entered into discussions with several major energy providers to secure Community Energy Saving Programme (CESP) grant monies to fund external wall insulation and heating improvements to our 'non-traditional build' properties. In May 2012 we commenced a programme which will invest £3.2m of CESP grants and private finance to clad and improve the heating of 295 homes in the Mayfield area of Dalkeith.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Asset Management (continued)

This programme will radically improve the comfort levels for tenants making their homes much cheaper to heat and keep warm and will also make the buildings look more modern and attractive. The majority of the work is being paid for by a £2m grant from Scottish Power for a programme which will deliver significant carbon savings, (50,000 tonnes) and will improve tenant's heating bills by up to £475 per annum per household.

In June we successfully achieved stage one approval of our Heritage Lottery Fund grant of £1.47m to develop The Corn Exchange in Dalkeith. The Corn Exchange was opened in 1854 and is a grade A listed building but has had little use in the last 25 years. The Association is working in partnership with Midlothian Council and the Dalkeith Townscape Heritage Initiative on plans which will provide a dedicated community use area as well as provide offices for Melville Housing Association. The Association's Stage two funding application will be submitted in December 2012 with final approval of the grant determined in March 2013.

Repairs service

During the year, we completed 6,567 individual repairs to tenants' homes. From September 2010, our response repairs service has been delivered through a partnership with R3 Repairs Ltd. R3 is a wholly owned subsidiary of East Lothian Housing Association.

Adaptations

We continue to employ an occupational therapist in partnership with Midlothian Council, to help with the large number of tenants who may benefit from physical help in their homes in the form of equipment and/or adaptations. This service has been very successful, linking with other housing and maintenance services and directly improving peoples' lives. We invested £110k in medical adaptations during the year, funded by grants received from the Scottish Government.

Financial Assets

During the year we restated our loan facility combining our various loans into one £31.1m facility. We achieved competitive rates for that loan and through a combination of long-term fixed rates and lower interest rates on our variable-rate loans, we have minimised interest costs. Through active treasury management, we have minimised our loan drawdowns, keeping surplus cash levels to a minimum. Any surplus cash is invested in interest-bearing accounts, however with interest rates low, interest earned on deposits has been low in the year.

With salary scales linked to the national SNJC points, salaries were frozen during 2011 and will remain frozen in 2012, minimising growth in management costs.

Relationships

We recognise that as well as our core landlord and development roles, we have a wider role to play in the communities in which we operate. In the year, we have participated in a number of community based projects.

- Arniston Rangers Cherokees (Gorebridge) - annual sponsorship agreement with an under-8s football team allowing them to buy kit and equipment as well as access SportsScotland matched funding;
- We organised public artworks for our latest development in Mayfield, Dalkeith. This was developed with the help of Midlothian Council's Art and Creativity team and Creative Scotland;
- Melville continues to involve Lawfield Primary School with the Mayfield development. A Lawfield pupil designed Melville's new 'Welcome to your new home' card and Melville made a donation to the school's garden fund;

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Relationships (continued)

- We granted a licence at the end of March 2011 to Midlothian Voluntary Action (MVA) for a trial period to create and manage a community garden from a large open grass area we own at Mclean Place. We are now in discussion with the Gorebridge Growers to lease this land (at nil charge) to carry out community activities in the garden;
- Melville staff took part in the World's Biggest Coffee Morning to raise funds for Macmillan Cancer Support and over £500 was raised by staff for Childline, their chosen charity for the year;
- We installed a touch screen monitor in our reception area to allow tenants who don't have internet access at home to browse our website, in particular our property swap section;
- We completed a research project, funded by the Big Lottery to test the feasibility of setting up a volunteering project for the benefit of Melville tenants to help strengthen the communities they live in. This research was completed in partnership with Midlothian Voluntary Action, and Volunteer Centre Midlothian. We are now working with these organisations to ensure tenants are aware of the services offered and are supported in contacting and being part of services, such as befriending schemes;
- We collaborated with the leading property maintenance provider Malcolm Homes to offer suitably experienced Melville tenants the opportunity to work on our major kitchen replacement contract;
- Following vandalism at a local school garden, Melville made a donation of £200 for planters at the school.

Staffing and Committee

During the year, we employed on average 38 staff. We take a positive approach to individual and group development to ensure staff have the skills to carry out their jobs in a changing environment. This is delivered through structured group training and supporting staff to attain relevant professional qualifications.

Governance

Our Management Committee consists of a maximum of 15 members elected at the Annual General meeting. Some members serve on our Audit Sub-Committee. Each Board member holds one fully paid share of £1 in Melville Housing Association.

The Committee is responsible for the strategic direction and internal controls of the Association. Committee members attended a one-day strategic planning event in November 2011 and participated in a structured training programme throughout the year. Members are also encouraged to attend relevant conferences.

Under our Governance policies, all members receive an annual appraisal and skills audit, where overall Committee performance, individual contribution, information requirements and future training needs are reviewed. The results of the appraisals are reported to Committee and are used to develop future training plans and to influence the development of Governance arrangements.

We greatly appreciate the efforts of all of our Committee members for their time, commitment and enthusiasm in helping the Association achieve its aims and objectives.

FUTURE DEVELOPMENTS

The main challenges to the organisation for the future will arise from the Government's welfare reform plans, the new regulatory environment and in securing funding for our development programmes.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Welfare Reform

The Welfare Reform Act 2012 which received Royal assent in March 2012 will bring in a series of reforms which will have a direct impact on our tenants with many experiencing a reduction in benefits, and the need for tenants to apply for benefits via online internet services. We have completed a sample survey of our tenants and have found that some 55% of those surveyed do not have ready access to online services.

The application of Universal Credit and the direct payment of housing benefits to tenants will also bring challenges as many tenants will be responsible for rental payments for the first time. This will obviously have an impact on rent collection strategies and arrears management.

We are taking action now to inform our tenants on how welfare reforms will affect them and to provide information and support on how to access online services. We have developed a full communications strategy to ensure that relevant information is managed and delivered in a timely manner.

The Scottish Social Housing Charter

On 14 March 2012, the Scottish Social Housing Charter was approved by resolution of the Scottish Parliament and came into effect from 1 April 2012. The Charter replaces the performance standards set out in the guidance that the Scottish Ministers issued under section 79 of the Housing (Scotland) Act 2001 in November 2006.

The Charter contains 16 outcomes and standards which will be used to measure the performance of RSL's in Scotland. The Scottish Housing Regulator will monitor, assess and report on how well we achieve the Charter's outcomes.

We welcome the content of the Charter and are taking steps now to implement the processes and systems required to capture the evidence needed to comply with the Charter.

Funding for development opportunities

In February 2011, the Scottish Government published a policy statement entitled 'Homes fit for the 21st Century; the Scottish Government's Strategy and Action Plan for Housing in the next Decade:2011-2020'.

The paper included housing supply and investment reform proposals that will fundamentally change the process for RSLs applying for HAG subsidy for future projects.

At the beginning of May 2012, the Scottish Government published its policy 'Affordable Housing Supply Programme, Strategic Local programmes, 2012-2015'. Resource Planning Assumptions (RPA's) will be issued for each local authority area with anticipated grant awards for RSL and local authority projects for a 3 year spending review periods. For this period (2012-2015) £6.8m has been allocated to Midlothian. Although Midlothian's allocation is reasonable compared to other local authorities, this includes IIF monies previously allocated, leaving £3.5m new monies for the period. Melville's expenditure alone over the last 3 financial years has been £11.8m. We therefore face a significant reduction in our HAG allocation and the corresponding number of houses we can procure.

A benchmark of £42k HAG subsidy per housing unit has been set for social rent properties. The social housing sector has advised the Scottish Government that it is not financially viable to build social housing at this level of subsidy. It is possible that some mid market rent projects will be financially viable at the stated benchmark of £30k per unit, however the Government's policy states that its affordable housing programme should achieve two thirds of units for social rent and only one third for alternative tenures. This may therefore limit the number of mid market rented units, RSL's can procure.

We will also seek to grow through our continued support of the Mortgage to Rent scheme, helping those in significant housing need and avoiding homelessness. During 2011-12 we acquired 9 properties through this scheme bring our total properties acquired to date to 72. This too is however subject to new funding caps which may affect the future financial viability of the scheme.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Providing quality homes and services

Investing in our existing tenants' homes remains a priority. Through our five-year rolling investment programme, we aim to achieve the Scottish Housing Quality Standard for our properties ahead of the 2015 target date.

We will continue to work in close partnership with our main repairs contractor, R3 Repairs Ltd, to deliver improved levels of customer service, quality and efficiency.

We will continue to focus on our Housing and Support services, adapting to changing customer requirements and changing tenant profiles. In particular, we will focus on our welfare and money advice services, to help tenants most at risk during the significant welfare reform programme.

We will continue to support staff and Committee through structured group and personal training, ensuring that we have the skills to achieve our strategic objectives.

Across all our activities, we will continue to review how we work and who we work with. We have been successful in working with a range of partners to help us deliver our services. Through continued partnership working we can generate efficiencies through shared services and skills, maximising the benefits while minimising the cost of our activities.

CREDIT PAYMENT POLICY

The Association's policy concerning the payment of its trade creditors recognises that it transacts with a significant number of local small and medium sized entities and Melville always seeks to pay suppliers within agreed payment terms. The average payment period is less than thirty days.

TREASURY MANAGEMENT POLICY

The Association's Treasury Management policy seeks to ensure that Melville always has access to sufficient resources to operate its business and that these are available in a timely manner, and at reasonable cost. In addition our policy aims to achieve value for money and limit risk in managing our cash resources.

MAINTENANCE POLICIES

The Association seeks to maintain its properties to the highest standard commensurate with good practice. 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 the Association has a long term programme of major repairs for works which have become necessary since the original development was completed, including works required by subsequent legislative changes. This includes replacement of or repairs to features of the properties which have come to the end of their economic lives. The cost of these repairs will be reviewed to identify whether or not they add value to the properties; if so the cost will be capitalised in line with the Statement of Recommended Practice (SORP), if not they will be treated as revenue expenditure.

RESERVES

Revenue Reserve

Details of movements in the year are set out on page 9, under 'Surplus for the year and transfers'.

Pension Reserve

For the year ended 31 March 2012 the Lothian Pension Scheme actuary has informed the Association that its share of the pension deficit amounts to £683,000 and this is shown on the Balance Sheet.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Revaluation Reserve

All of Melville's housing properties in ownership as at 31 March 2012 were re-valued at that date by DTZ and changes in value are shown in the revaluation reserve (note 13). Where properties are revalued and the value is less than the carrying value of the property, and where this represents impairment, this loss is recognised in the Income and Expenditure account. Where these deficits are reversed in subsequent revaluations, those surpluses are also recognised.

EMPLOYEE INVOLVEMENT AND HEALTH AND SAFETY

Melville Housing Association encourages employee involvement in all major initiatives and holds an annual review day where there is an opportunity for staff to discuss and agree strategic objectives. A staff meeting is held monthly where staff members can and do raise health and safety issues. In addition, Health and Safety matters are considered on an ongoing basis at Senior Management and Management Committee meetings.

SURPLUS FOR THE YEAR AND TRANSFERS

The results for the Group are shown in the Income and Expenditure Account on page 15. The surplus for the Group is £1.1m (2011: surplus of £1.3m). The Group's accumulated reserves are decreased by a £76,000 transfer to the Pensions Reserve, and increased by transfers of £288,000 from the Revaluation Reserve. The surplus plus transfers result in a £1.34m increase in the Group Revenue Reserves at 31 March 2012 (2011: increase of £0.97m). Our subsidiary company, Ironmills Developments Limited, incurred a loss of £1,860 during the year to 31 March 2012 (2011: loss of £3,738).

MANAGEMENT COMMITTEE AND EXECUTIVE OFFICERS

The Management Committee and executive officers of the Association are listed on page 1. Each member of the Management Committee holds one fully paid share of £1 in the Association.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

The Management Committee and executive officers 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 Management Committee and executive officers have confirmed that they have taken all the steps that they ought to have taken as Committee members and executive officers in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

BY ORDER OF THE COMMITTEE



N McNeill
Secretary

7 Eskdail Court
Dalkeith
Midlothian
EH22 1AG

Date: 8/8 2012

MELVILLE HOUSING ASSOCIATION LIMITED

STATEMENT OF RESPONSIBILITIES OF THE MANAGEMENT COMMITTEE

The Industrial and Provident Societies Acts and registered social housing legislation require 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 for that period. In preparing these financial statements, the Committee is required to:

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

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. The Management Committee also has general responsibility for taking reasonable steps to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

BY ORDER OF THE COMMITTEE



**N McNeill
Secretary**

8/8 2012

MELVILLE HOUSING ASSOCIATION LIMITED

INTERNAL FINANCIAL CONTROL

MANAGEMENT COMMITTEE STATEMENT

The Management Committee acknowledges its ultimate responsibility for ensuring that the Association has in place a system of financial controls that is appropriate for the business environment in which it operates. These financial 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;
- The safeguarding of assets against unauthorised use or disposition.

It is the Management Committee'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 of the Association's systems include ensuring that:

- Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of financial controls and restrict unauthorised use of the Association's assets;
- Experienced and suitably qualified staff take responsibility for important business functions, and annual appraisal procedures have been established to maintain standards of performance;
- Forecasts and budgets are prepared which allow the Management Committee and executive officers to monitor the key business risks, financial objectives and the progress being made towards achieving financial plans set for the year and for the medium term;
- Regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, with significant variances from budget being investigated as appropriate;
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the Management Committee;
- The Management Committee receives an annual report from the internal and external auditors who review and test the systems of internal financial control to the extent necessary to express their audit opinion;
- Formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports.

MELVILLE HOUSING ASSOCIATION LIMITED

INTERNAL FINANCIAL CONTROL

MANAGEMENT COMMITTEE STATEMENT- (Continued)

The effectiveness of the Association's system of internal financial control has been reviewed during the year ended 31 March 2012, and until the date noted below to the extent that formal policies and procedures are in place. A full Risk Assessment has been carried out and a 3 year programme of internal audit is in progress.

No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in the financial statements or in the external auditors' report on the financial statements.

BY ORDER OF THE COMMITTEE



N McNeill
Secretary

8/8 2012

We have audited the consolidated financial statements of Melville Housing Association Limited for the year ended 31 March 2012 which comprise the Income and Expenditure Account, the Statement of Total Recognised Surpluses and Deficits, the Note of Historical Cost Surpluses and Deficits, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with Section 9 of the Friendly and Industrial and Provident Societies Act 1968, and to the charity's trustees as a body, in accordance with Section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). 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, the Association's members as a body and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Management Committee and the auditor

As explained more fully in the Statement of Responsibilities of the Management Committee set out on page 10, the Management Committee is responsible for the preparation of financial statements which 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of, whether the accounting policies are appropriate to the association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the board; and the overall presentation of the financial statements. In addition, we read all the financial and nonfinancial information in the Report of the Management Committee to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's and Group's affairs as at 31 March 2012 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002, the Housing (Scotland) Act 2001, The Registered Social Landlords Accounting Requirements (Scotland) Order 2007, the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002, or the Charity Accounts (Scotland) Regulations 2006 (as amended) require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the information given in the Report of the Management Committee is inconsistent in any material respect with the financial statements; or
- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Management Committee's statement concerning internal financial control made under "The Code of Audit Practice" contained within the publication "Raising Standards in Housing" which is the guidance issued by the Scottish Federation of Housing Associations. The object of our review is to draw attention to non-compliance with the guidance.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Association's system of internal financial control or its corporate governance procedures.

Opinion

With respect to the Management Committee's statements on internal financial control, in our opinion the Management Committee has provided the disclosures required by the guidance and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.



CHIENE + TAIT

Chiene + Tait is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Chartered Accountants and Statutory Auditor

61 Dublin Street

Edinburgh

EH3 6NL

23 August 2012

MELVILLE HOUSING ASSOCIATION LIMITED**INCOME and EXPENDITURE ACCOUNT**

Year ended 31 March 2012

| | | Group | | Association | |
|--|-------------|--------------|--------------|--------------------|--------------|
| | Note | 2012 | 2011 | 2012 | 2011 |
| | | £'000 | £'000 | £'000 | £'000 |
| TURNOVER | 2 | 7,017 | 6,467 | 7,017 | 6,467 |
| Operating costs | 2 | (4,711) | (4,163) | (4,709) | (4,161) |
| OPERATING SURPLUS | 2 | <u>2,306</u> | <u>2,304</u> | <u>2,308</u> | <u>2,306</u> |
| Gain on sale of fixed assets | | - | 25 | - | 25 |
| Interest receivable and other income | | 44 | 10 | 44 | 10 |
| Interest payable and loan redemption charges | 5 | (1,225) | (1,000) | (1,225) | (1,000) |
| SURPLUS FOR THE YEAR | | <u>1,125</u> | <u>1,339</u> | <u>1,127</u> | <u>1,341</u> |

All results derive from continuing activities.

The notes on pages 21 to 37 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

STATEMENT of TOTAL RECOGNISED SURPLUSES and DEFICITS

Year ended 31 March 2012

| | Note | Group | | Association | |
|--|------|---------------|---------------|---------------|---------------|
| | | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Surplus for the year | | 1,125 | 1,339 | 1,127 | 1,341 |
| Gain on revaluation of properties | 7 | 934 | 1,560 | 934 | 1,560 |
| Actuarial (loss) / gain on pension obligations | 19 | (306) | 489 | (306) | 489 |
| Total surplus recognised since last annual report | | 1,753 | 3,388 | 1,755 | 3,390 |

NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS

| | Group | | Association | |
|--|---------------|---------------|---------------|---------------|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Surplus for the year before taxation | 1,125 | 1,339 | 1,127 | 1,341 |
| Difference between a historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount | 288 | 120 | 288 | 120 |
| Realisation of property revaluation gains of previous years | - | 30 | - | 30 |
| Historical cost surplus on ordinary activities before taxation | 1,413 | 1,489 | 1,415 | 1,491 |
| Historical cost surplus for the year retained after transfers | 1,413 | 1,489 | 1,415 | 1,491 |

The notes on pages 21 to 37 form part of these financial statements.


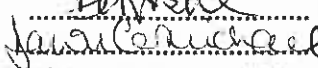
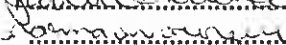
MELVILLE HOUSING ASSOCIATION LIMITED

BALANCE SHEET

At 31 March 2012

| | Notes | Group | | Association | |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| TANGIBLE FIXED ASSETS | | | | | |
| Housing properties – gross valuation less depreciation | 7 | 54,630 | 47,476 | 54,630 | 47,476 |
| Less: HAG | 7 | (6,739) | (6,632) | (6,739) | (6,632) |
| | | <u>47,891</u> | <u>40,844</u> | <u>47,891</u> | <u>40,844</u> |
| Other Fixed Assets | 7 | 202 | 261 | 202 | 261 |
| | | <u>48,093</u> | <u>41,105</u> | <u>48,093</u> | <u>41,105</u> |
| Investments | 8 | - | - | - | - |
| | | <u>48,093</u> | <u>41,105</u> | <u>48,093</u> | <u>41,105</u> |
| CURRENT ASSETS | | | | | |
| Debtors | 9 | 436 | 215 | 456 | 232 |
| Cash at bank and in hand | | 794 | 1,639 | 778 | 1,622 |
| | | <u>1,230</u> | <u>1,854</u> | <u>1,234</u> | <u>1,854</u> |
| CREDITORS: Amounts falling due within one year | 10 | <u>(2,252)</u> | <u>(1,242)</u> | <u>(2,237)</u> | <u>(1,225)</u> |
| NET CURRENT (LIABILITIES)/ASSETS | | <u>(1,022)</u> | <u>612</u> | <u>(1,003)</u> | <u>629</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>47,071</u> | <u>41,717</u> | <u>47,090</u> | <u>41,734</u> |
| CREDITORS: Amounts falling due after more than one year | 11 | <u>(24,971)</u> | <u>(21,600)</u> | <u>(24,971)</u> | <u>(21,600)</u> |
| NET ASSETS BEFORE PENSION DEFICIT | | <u>22,100</u> | <u>20,117</u> | <u>22,119</u> | <u>20,134</u> |
| Pension Deficit | 19 | <u>(683)</u> | <u>(453)</u> | <u>(683)</u> | <u>(453)</u> |
| NET ASSETS AFTER PENSION DEFICIT | | <u>21,417</u> | <u>19,664</u> | <u>21,436</u> | <u>19,681</u> |
| CAPITAL AND RESERVES | | | | | |
| Share capital | 12 | - | - | - | - |
| Revaluation reserve | 13 | 15,380 | 14,734 | 15,380 | 14,734 |
| Revenue reserve | 14 | 6,720 | 5,383 | 6,739 | 5,400 |
| Pension reserve | 15 | (683) | (453) | (683) | (453) |
| | 16 | <u>21,417</u> | <u>19,664</u> | <u>21,436</u> | <u>19,681</u> |

The financial statements were approved and authorised for issue by the Management Committee on 8 August 2012.

 **B Christie** Chairman
 **D Carmichael** Treasurer
 **N McNeill** Secretary

The notes on pages 21 to 37 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT

Year ended 31 March 2012

| | Note | Group | | Association | |
|---|-------|---------------|---------------|---------------|---------------|
| | | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Net cash inflow from operating activities | (i) | 3,714 | 2,400 | 3,676 | 2,456 |
| Returns on investments and servicing of finance | (ii) | (1,215) | (995) | (1,176) | (995) |
| Capital expenditure and financial investment | (ii) | (3,344) | (1,346) | (3,344) | (1,346) |
| (Decrease)/Increase in cash in the year | | (845) | 59 | (844) | 115 |
| Reconciliation of net cashflow to movement in net debt | | | | | |
| (Decrease)/Increase in cash in the year | | (845) | 59 | (844) | 115 |
| Amortisation of finance costs | | (5) | (2) | (5) | (2) |
| Net cash flow from debt | | (3,366) | (825) | (3,366) | (825) |
| Movement in net debt in the year | | (4,216) | (768) | (4,215) | (712) |
| Net debt at 1 April 2011 | | (19,961) | (19,193) | (19,978) | (19,266) |
| Net debt at 31 March 2012 | (iii) | (24,177) | (19,961) | (24,193) | (19,978) |

The notes on pages 19 and 20 form part of the cash flow statement.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the CASH FLOW STATEMENT

Year ended 31 March 2012

i RECONCILIATION OF OPERATING SURPLUS TO OPERATING CASHFLOWS

| | Group | | Association | |
|---|--------------|--------------|--------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| Operating surplus | 2,306 | 2,304 | 2,308 | 2,306 |
| Depreciation charge | 656 | 438 | 656 | 438 |
| Abortive development costs | - | 61 | - | 61 |
| Loss on revaluation | - | 277 | - | 277 |
| Decrease in pensions provision | (37) | (512) | (76) | (512) |
| (Increase) / Decrease in debtors | (221) | 5 | (224) | 59 |
| Increase/(Decrease) in creditors | 1,010 | (173) | 1,012 | (173) |
| | | | | |
| Net cash inflow from operating activities | <u>3,714</u> | <u>2,400</u> | <u>3,676</u> | <u>2,456</u> |

ii ANALYSIS OF CASHFLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

| | Group | | Association | |
|---|----------------|----------------|--------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| Returns on investments and Servicing of finance | | | | |
| Interest received | 44 | 10 | 44 | 10 |
| Net return on Pension Scheme Assets | (39) | (7) | - | (7) |
| Interest paid | (1,225) | (1,000) | (1,225) | (1,000) |
| Bank arrangement fee amortisation | 5 | 2 | 5 | 2 |
| | | | | |
| Net cash outflow from returns on investments and servicing of finance | <u>(1,215)</u> | <u>(995)</u> | <u>(1,176)</u> | <u>(995)</u> |
| | | | | |
| Capital expenditure and financial investment | | | | |
| Acquisition of housing properties | (11,045) | (7,117) | (11,045) | (7,117) |
| Sales of LIFT properties | - | - | - | - |
| Purchase of other fixed assets | (40) | (36) | (40) | (36) |
| Proceeds from sale of fixed assets | - | 85 | - | 85 |
| HAG | 4,375 | 4,895 | 4,375 | 4,895 |
| Loans draw down | 3,366 | 827 | 3,366 | 827 |
| | | | | |
| Net cash (outflow) from capital expenditure and financial investment | <u>(3,344)</u> | <u>(1,346)</u> | <u>(3,344)</u> | <u>(1,346)</u> |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the CASH FLOW STATEMENT - (Continued)

Year ended 31 March 2012

iii ANALYSIS OF NET DEBT (Group)

| | At 31 March 2011 £'000 | Cash flow Movements £'000 | Other Non-cash Movements £'000 | At 31 March 2012 £'000 |
|--------------------------|---|--|---|---|
| Cash at bank and in hand | 1,639 | (845) | - | 794 |
| Debt due after one year | (21,600) | (3,371) | - | (24,971) |
| Total | <u>(19,961)</u> | <u>(4,216)</u> | - | <u>(24,177)</u> |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS

Year ended 31 March 2012

1 Accounting Policies

a) Group accounts - basis of preparation

The group financial statements consolidate the financial statements of Melville Housing Association Limited and its subsidiary, Ironmills Developments Limited, for the year ended 31 March 2012.

b) Accounting Basis

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered by the Financial Services Authority. The financial statements have been prepared under the historical cost convention, modified for the revaluation of housing properties held for letting, and in compliance with The Registered Social Landlords Accounting Requirements (Scotland) Order 2007 and The Statement of Recommended Practice (SORP 2010), "Accounting by Registered Housing Providers" and all applicable accounting standards.

c) Going concern

The financial statements have been prepared on a going concern basis. The Management Committee have assessed the Association's ability to continue as a going concern and have reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

d) Turnover

Turnover represents rental and service charge income receivable, fees receivable and revenue grants receivable from the Scottish Government, local authorities and other agencies.

e) Sale of housing properties

Properties are disposed of under the appropriate legislation and guidance. All costs relating to the share of property sold are removed from the financial statements at the date of sale.

f) Fixed Assets

All properties were revalued at 31 March 2012 and as a matter of policy all owned housing stock are revalued annually.

Improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancements can occur if the improvements result in:-

- an increase in rental income; or
- a 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.

Other fixed assets are initially stated at cost.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

1 Accounting Policies (Continued)

g) Depreciation

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties held for letting on practical completion of construction.

Freehold land is not depreciated.

Depreciation was previously charged on a straight line basis over the expected economic useful lives of the properties, excluding land, which had been calculated at 80 years.

Following a reassessment of the property lives and components, freehold housing properties are now depreciated by component on a straight line basis over the estimated useful economic lives of component categories after accounting for HAG received.

The financial impact of the reassessment of the property lives and components was a reduction in the annual depreciation charge of £8,599 compared to how it would have been calculated under the old method.

Useful economic lives for identified components are as follows:

| Component | Useful economic life |
|-----------------------------|-----------------------------|
| Structure | 80 -100 years |
| Windows and external doors | 30 years |
| Kitchens | 15 years |
| Bathrooms | 25 years |
| Central heating and boilers | 25 years |

Impairment reviews are carried out on an annual basis on assets whose useful economic lives are expected to exceed 50 years, in accordance with Financial Reporting Standard 11.

Impairment is calculated as the difference between the carrying value of income generating units and the estimated value in use at the date an impairment loss is recognised. Value in use represents the net present value of expected future cash flows from these units.

Impairment of assets is recognised in the income and expenditure account.

Depreciation is provided on all non-housing tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

| | |
|----------------------------------|---------------------------|
| Office Improvements | - over remainder of lease |
| Office Ventilation System | - over 10 years |
| Fixtures, fittings and equipment | - over 3 - 5 years |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

1 Accounting Policies (Continued)

h) Housing Association Grants and other Grants

Housing Association Grants (HAG) are made by the Scottish Government, and are utilised to reduce the capital costs of an approved scheme to an amount of required loan finance which it is estimated can be serviced by the net rental income of the scheme. The amount of HAG is calculated on qualifying costs of the scheme in accordance with instructions issued from time to time by the Scottish Government. The total amount of HAG Melville has received to date is stated in Note 7, Tangible Fixed Assets.

HAG and other grants are repayable under certain circumstances, primarily following sale of property, but will normally be restricted to net proceeds of sale.

i) LIFT (previously Homestake) Properties

Properties developed under the Scottish Government's shared equity LIFT initiative are funded by grant and ultimate sales proceeds.

The net investment in LIFT properties is shown on the face of the balance sheet and represents total costs incurred at the balance sheet date less grants receivable and proceeds of sales. LIFT allowances receivable to market the properties are taken to income as developments are completed and until that point they are included within deferred income.

j) Pensions

The Association participates in a defined benefit, final salary scheme operated by the Lothian Pension Fund. Contributions are charged to the income and expenditure account so as to spread the cost of pensions over the employees' working lives within the Association.

k) Pension Reserve

This reserve is based on the Association's liability with regard to the defined benefits, final salary pension scheme. In line with FRS 17 the deficit is disclosed on the face of the balance sheet.

l) Operating leases

Rentals paid under operating leases are charged to the income and expenditure account as they are incurred.

m) Financial Instruments

Financial assets and financial liabilities are recognised on the Association's balance sheet when the Association becomes a party to the contractual provisions of the instrument.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

2 Particulars of turnover, operating surplus and net surplus by class of business.

| | GROUP | | | | ASSOCIATION | | | |
|--------------------------------------|-------------------|-----------------------------|---------------------------------------|--|-------------------|-----------------------------|---------------------------------------|---------------------------------------|
| | Turnover £'000 | Operating Costs £'000 | Operating Surplus 2012 £'000 | Operating Surplus/(loss) 2011 £'000 | Turnover £'000 | Operating Costs £'000 | Operating Surplus 2012 £'000 | Operating Surplus 2011 £'000 |
| Social lettings (Note 3) | 6,807 | (4,564) | 2,243 | 2,377 | 6,807 | (4,562) | 2,245 | 2,295 |
| Other activities (Note 4) | 210 | (147) | 63 | (73) | 210 | (147) | 63 | 11 |
| Total | 7,017 | (4,711) | 2,306 | 2,304 | 7,017 | (4,709) | 2,308 | 2,306 |
| Total for previous period of account | 6,467 | (4,163) | 2,304 | | 6,467 | (4,161) | 2,306 | |

MELVILLE HOUSING ASSOCIATION LIMITED**NOTES to the FINANCIAL STATEMENTS (Continued)****Year ended 31 March 2012****3. Particulars of turnover, operating costs and operating surplus or deficit from social letting activities**

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Rent receivable net of service charges | 6,566 | 6,076 |
| Service charges | 26 | 22 |
| | <hr/> | <hr/> |
| Gross income from rents and service charges | 6,592 | 6,098 |
| Less voids | (15) | (11) |
| | <hr/> | <hr/> |
| Net income from rents and service charges | 6,577 | 6,087 |
| Grants from the Scottish Ministers | 230 | 233 |
| | <hr/> | <hr/> |
| Total turnover from social letting activities | <u>6,807</u> | <u>6,320</u> |
| | | |
| Management and maintenance administration costs before decrease in pension provision | 2,009 | 1,995 |
| Decrease in pension provision | (37) | (512) |
| | <hr/> | <hr/> |
| Management and maintenance administration costs after decrease in pension provision | 1,972 | 1,483 |
| Service costs | 26 | 22 |
| Planned and cyclical maintenance including major repairs costs | 1,091 | 1,011 |
| Reactive maintenance costs | 838 | 763 |
| Bad debts – rents and service charges | 80 | 50 |
| Depreciation of social housing | 557 | 337 |
| Loss on initial revaluation of social housing | - | 277 |
| | <hr/> | <hr/> |
| Operating costs for social letting activities | <u>4,564</u> | <u>3,943</u> |
| | | |
| Operating surplus for social lettings | <u>2,243</u> | <u>2,377</u> |

All income is derived from General Needs housing provision.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

4. Particulars of Turnover, operating costs and operating surplus or deficit from other activities – Association & Group

| | Grants from Scottish Ministers £'000 | Other Revenue Grants £'000 | Other income £'000 | Total Turnover £'000 | Operating costs – bad debts £'000 | Other Operating costs £'000 | Operating surplus or deficit 2012 £'000 | Operating surplus or deficit 2011 £'000 |
|---|---|-------------------------------|-----------------------|-------------------------|--------------------------------------|--------------------------------|---|---|
| Other activities (see note 16) * | - | 105 | 105 | 210 | - | (147) | 63 | (16) |
| Development activities ** | - | - | - | - | - | - | - | (57) |
| Total from other activities | - | 105 | 105 | 210 | - | (147) | 63 | (73) |
| Total from other activities for the previous period of account | - | 93 | 54 | 147 | - | (220) | (73) | |

* Other Revenue of £104,885 was received from the Big Lottery Fund in the year to assist with the provision of support for new tenants

** Development activities refer to abortive development costs written off in the year.

There are no other activities to report.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

5 Interest Payable and Similar Charges

| | Group | | Association | |
|--|--------------|--------------|--------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| On loans partly repayable after five years | 1,225 | 1,000 | 1,225 | 1,000 |

6 Taxation on Surplus for the Year

Melville Housing Association's charitable activities fall within the exemptions afforded by part 11 of the Corporation Tax Act 2010. Accordingly, there is no Corporation Tax charge in these financial statements. The Group is subject to tax in respect of Ironmills Developments Limited but no charges have arisen in respect of the period to 31 March 2012.

7 Tangible Fixed Assets – Association and Group

| | Housing Properties Held for Development | | Total Housing Properties | Office Fixtures Fittings & Equipment | Total |
|----------------------------|--|------------------|---------------------------------|---|--------------|
| | Letting | Programme | Properties | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost/valuation | | | | | |
| At 1 April 2011 | 42,103 | 5,373 | 47,476 | 738 | 48,214 |
| Additions | 2,306 | 8,739 | 11,045 | 40 | 11,085 |
| Transfers | 3,704 | (3,704) | - | - | - |
| Disposals | - | - | - | - | - |
| Loss on revaluation | (3,891) | - | (3,891) | - | (3,891) |
| At 31 March 2012 | 44,222 | 10,408 | 54,630 | 778 | 55,408 |
| Depreciation | | | | | |
| At 1 April 2011 | - | - | - | 477 | 477 |
| Provided in year | 557 | - | 557 | 99 | 656 |
| Disposals | - | - | - | - | - |
| Gain on revaluation | (557) | - | (557) | - | (557) |
| At 31 March 2012 | - | - | - | 576 | 576 |
| HAG | | | | | |
| At 1 April 2011 | 1,653 | 4,979 | 6,632 | - | 6,632 |
| Additions | 727 | 3,647 | 4,374 | - | 4,374 |
| Transfers | 1,887 | (1,887) | - | - | - |
| Disposals | - | - | - | - | - |
| Adjustment for revaluation | (4,267) | - | (4,267) | - | (4,267) |
| At 31 March 2012 | - | 6,739 | 6,739 | - | 6,739 |
| Net book value | | | | | |
| At 31 March 2012 | 44,222 | 3,669 | 47,891 | 202 | 48,093 |
| At 31 March 2011 | 40,450 | 394 | 40,844 | 261 | 41,105 |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

7 Tangible Fixed Assets – Association and Group (Continued)

None of the Association's land or buildings is held under a lease.

All Housing properties held for letting as at the 31 March 2012 were revalued as at 31 March 2012 in accordance with our Accounting Policies (see note 1f). Housing properties held for letting that were acquired or developed after 1 April 2011 were valued for the first time as at 31 March 2012.

Housing Association Grants (HAG) received in respect of all properties owned at 31 March 2012 amounted to £25,251,184. Whilst eliminated on revaluation for accounting purposes HAG remains legally repayable to the Scottish Government in certain circumstances.

The valuation was carried out by DTZ, an external valuer, on the basis of Existing Use Value for Social Housing (EUV-SH) as defined in the RICS Valuation Standards. In determining this valuation, the valuers made use of discounted cash flow methodology and key assumptions regarding the level of future rental growth and the discount rate. For the 2012 valuation the assumed real discount rate was 6.25% for LSVT stock (2011, 6.25%) and ranged between 5.75% and 6.5% for all other, non-LSVT, stock (2011, 5.75% and 6.5%).

The historic cost less HAG and depreciation of all properties at 31 March 2012 was £29,191,340 (2011, £22,789,239).

Works to existing properties during the year comprised of the following:

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Charged to income and expenditure (Note 3) | 1,929 | 1,774 |
| Capitalised | | |
| Replacement of components and improvements | 1,192 | 829 |
| Total | <u>3,121</u> | <u>2,603</u> |

8 Investments

| | Group | | Association | |
|--|---------------|---------------|---------------|---------------|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Group undertakings: | | | | |
| Shares in Ironmills Developments Limited | - | - | - | - |

The Association owns one share in Ironmills Developments Limited at a cost of £1 (2011: £1).

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

9 Debtors

| | Group | | Association | |
|--------------------------------|--------------|--------------|--------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| Gross rental debtors | 186 | 201 | 186 | 201 |
| Less bad debt provision | (76) | (81) | (76) | (81) |
| | <u>110</u> | <u>120</u> | <u>110</u> | <u>120</u> |
| Due from subsidiary company | - | - | 20 | 17 |
| Other debtors | 350 | 85 | 350 | 85 |
| Less bad debt provision | (107) | (75) | (107) | (75) |
| Prepayments and accrued income | <u>83</u> | <u>85</u> | <u>83</u> | <u>85</u> |
| | <u>436</u> | <u>215</u> | <u>456</u> | <u>232</u> |

10 Creditors: Amounts falling due within one year

| | Group | | Association | |
|---------------------------------------|--------------|--------------|--------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade creditors | 693 | 19 | 693 | 19 |
| Other taxes and social security costs | 30 | 29 | 30 | 29 |
| Other creditors | 15 | 17 | - | - |
| Accruals and deferred income | 1,261 | 942 | 1,261 | 942 |
| Rents in advance | <u>253</u> | <u>235</u> | <u>253</u> | <u>235</u> |
| | <u>2,252</u> | <u>1,242</u> | <u>2,237</u> | <u>1,225</u> |

11 Creditors: Amounts falling due after more than one year, excluding pensions liability

| | Group | | Association | |
|---|---------------|---------------|--------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| Housing property loans not wholly repayable within five years | <u>25,092</u> | <u>21,651</u> | <u>25,092</u> | <u>21,651</u> |
| Housing property loans are repayable in instalments: | | | | |
| Between one year and two years | 209 | 42 | 209 | 42 |
| Between two years and five years | 530 | 500 | 530 | 500 |
| After five years | <u>24,353</u> | <u>21,109</u> | <u>24,353</u> | <u>21,109</u> |
| | <u>25,092</u> | <u>21,651</u> | <u>25,092</u> | <u>21,651</u> |
| Less unamortised loan issue expenses | <u>(121)</u> | <u>(51)</u> | <u>(121)</u> | <u>(51)</u> |
| | <u>24,971</u> | <u>21,600</u> | <u>24,971</u> | <u>21,600</u> |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

11 Creditors: Amounts falling due after more than one year, excluding pensions liability (continued)

Housing property loans are secured with RBS plc by a standard security over the Association's property and impledgement over the Association's bank account. The loans are repayable by quarterly instalments commencing on 15 October 2022 on £19.6m and on 6 January 2013 on £4.5m. The remaining £1m is part of a £7m facility that must be fully drawn by 23 November 2016 with quarterly repayments commencing on 31 August 2016. Interest is currently charged quarterly on variable rate loans at LIBOR plus mandatory costs and margins ranging between 0.25% and 1.8%.

Interest rate swap contracts have been entered as follows:

- £10m is fixed at 6.65% until 2037.
- £4m is fixed at 4.86% until 2037.
- £3m is fixed at 4.83% commencing July 2011 until 2036
- £2.6m is fixed at 4.89% commencing July 2011 until 2036
- £3.5m fixed at 3.475% commencing April 2014 until 2039.

12 Share Capital

| | Association | |
|-------------------|-------------|-------|
| | 2012 | 2011 |
| | £ | £ |
| Shares of £1 each | | |
| At 1 April 2011 | 144 | 145 |
| Issued in year | 3 | 3 |
| Cancelled in year | (17) | (4) |
| | <hr/> | <hr/> |
| At 31 March 2012 | 130 | 144 |

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions on 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.

13 Revaluation Reserve

| | Group | | Association | |
|---|--------|--------|-------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2011 | 14,734 | 13,324 | 14,734 | 13,324 |
| Release to Income and Expenditure Account (note 14) | (288) | (150) | (288) | (150) |
| Gain on revaluation (note 7) | 934 | 1,560 | 934 | 1,560 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Reserve at 31 March 2012 | 15,380 | 14,734 | 15,380 | 14,734 |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

14 Revenue Reserve

| | Group | | Association | |
|--|--------------|--------------|--------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2011 | 5,383 | 4,413 | 5,400 | 4,428 |
| Transfer from Income and Expenditure Account | 1,125 | 1,339 | 1,127 | 1,341 |
| Release from Revaluation Reserve (note 13) | 288 | 150 | 288 | 150 |
| Transfer to Pensions Reserve (note 15) | (76) | (519) | (76) | (519) |
| Reserve at 31 March 2012 | 6,720 | 5,383 | 6,739 | 5,400 |

15 Pension Reserve

| | Group | | Association | |
|---|--------------|--------------|--------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2011 | (453) | (1,461) | (453) | (1,461) |
| From Revenue Reserve (note 14) | 76 | 519 | 76 | 519 |
| Actuarial gain / (loss) | (306) | 489 | (306) | 489 |
| Reserve at 31 March 2012 (note 19) | (683) | (453) | (683) | (453) |

16 Reconciliation of Movement in Accumulated Reserves

| | Group | | Association | |
|---|---------------|---------------|--------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2011 | 19,664 | 16,276 | 19,681 | 16,291 |
| Surplus / (Deficit) for the year before gain on revaluation of properties and actuarial surplus on pension scheme | 1,125 | 1,339 | 1,127 | 1,341 |
| Gain / (Loss) on revaluation of property | 934 | 1,560 | 934 | 1,560 |
| Actuarial (loss)/ gain in pension scheme | (306) | 489 | (306) | 489 |
| Accumulated reserves at 31 March 2012 | 21,417 | 19,664 | 21,436 | 19,681 |

The Big Lottery provided a grant of £104,885 during the year to 31 March 2012 to assist Melville to provide support to new tenants, a project called New Beginnings. The entire Big Lottery grant was fully spent as at 31 March 2012 and there was no balance outstanding. Funds received from the Big Lottery have been accounted for as restricted funds during the year, and applied in accordance with the terms of the grant.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

17 Employees

| | 2012 | 2011 |
|-------------------------|--------------|--------------|
| | £'000 | £'000 |
| Staff costs during year | | |
| Wages and salaries | 1,131 | 1,139 |
| Social security costs | 95 | 90 |
| Other pension costs | 232 | 213 |
| Temporary staff costs | 21 | 18 |
| | <u>1,479</u> | <u>1,460</u> |

| | No. | No. |
|--|------------|------------|
| The average number of staff employed by the Association during the year were as follows: | | |
| Directorate | 2 | 2 |
| Corporate Services | 6 | 6 |
| Finance | 4 | 3 |
| Housing Services | 10 | 11 |
| Property & Lettings | 11 | 11 |
| Development | 3 | 3 |
| | <u>36</u> | <u>36</u> |
| (including temporary/agency staff) | | |

| | | |
|---|-----------|-----------|
| The average full time equivalent number of persons employed by the Association during the year were | <u>32</u> | <u>33</u> |
|---|-----------|-----------|

The Directors are defined as the members of the Management Committee, the Chief Executive and any other person reporting directly to the Chief Executive or the Management Committee whose total emoluments, excluding pension contributions, exceed £60,000 per year.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

17 Employees (Continued)

| | 2012 £ | 2011 £ |
|--|-----------|-----------|
| Aggregate emoluments including pension contributions of £43,264 (2011: £52,192) payable to Directors | 245,843 | 313,084 |

The emoluments of the Chief Executive, excluding pension contributions, were £75,083 (2011: £73,443).

The number of other Directors whose emoluments, excluding pension contributions, were above £60,000 for the year was:

| | 2012 | 2011 |
|---------------------|------|------|
| £70,000 to £80,000* | 2 | 3 |

* The band presented includes pension contributions

The Chief Executive is an ordinary member of the Association's pension scheme described in note 19. No enhanced or special terms apply to his membership and he has no other pension arrangements to which the Association contributes. The Association's contributions for the Chief Executive in the year amounted to £16,166 (2011: £14,888)

| | 2012 £ | 2011 £ |
|--|-----------|-----------|
| Total expenses reimbursed insofar as not chargeable to UK Income Tax | | |
| - Chief Executive | 153 | 556 |
| - Management Committee | 1,214 | 1,584 |

No member of the Management Committee received any emoluments in respect of their services to the Association.

18 Auditor's Remuneration

| | 2012 £ | 2011 £ |
|--|-----------|-----------|
| The remuneration of the auditors (including expenses and VAT for the year) was as follows: | | |
| Audit services | 9,594 | 9,270 |
| Non-audit services | 840 | 6,372 |
| | 10,434 | 15,642 |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

19 Pension Obligations

The company's employees belong to one principal pension scheme, the Lothian Pension Fund (LPF) which provides benefits based on final pensionable salary.

Movement in deficit during the year

Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

| | 2012 | 2011 |
|-------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Present value of funded obligations | (5,260) | (4,527) |
| Fair value of plan assets | 4,577 | 4,074 |
| | <u>(683)</u> | <u>(453)</u> |
| Unrecognised past service cost | - | - |
| Deficit | <u>(683)</u> | <u>(453)</u> |
| Net liability | <u>(683)</u> | <u>(453)</u> |
| Amounts in the balance sheet | | |
| Liabilities | (683) | (453) |
| Assets | - | - |
| Net liability | <u>(683)</u> | <u>(453)</u> |

The amounts recognised in income and expenditure are as follows

| | 2012 | 2011 |
|--------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Current service cost | 191 | 228 |
| Interest on obligations | 254 | 270 |
| Expected return on plan assets | (293) | (277) |
| Past service cost | - | (530) |
| Total | <u>152</u> | <u>(309)</u> |
| Actual return on plan assets | <u>89</u> | <u>210</u> |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

19 Pension Obligations (Continued)

Analysis of the amount recognised in statement of recognised surpluses and deficits

| | 2012 | 2011 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Actual return less expected return on pension scheme assets | (204) | (67) |
| Experience surplus and deficits arising on the scheme liabilities | - | - |
| Changes in financial assumptions underlying the present value of the scheme liabilities | (102) | 556 |
| Actuarial gain / (loss) in pension plan | (306) | 489 |
| Increase/(decrease) in irrecoverable surplus from membership fall and removal of Pension surplus from the Balance Sheet | - | - |
| Actuarial (deficit)/ surplus recognised in STRSD | (306) | 489 |
| Cumulative actuarial losses | (690) | (384) |

Changes in the present value of the defined benefit obligations are as follows:

| | 2012 | 2011 |
|------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Opening defined benefit obligation | 4,527 | 5,182 |
| Service cost | 191 | 228 |
| Interest cost | 254 | 270 |
| Contributions by members | 72 | 71 |
| Actuarial losses/(gains) | 290 | (558) |
| Past services gains | - | (530) |
| Benefits paid | (74) | (136) |
| Closing defined benefit obligation | 5,260 | 4,527 |

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

19 Pension Obligations (Continued)

Changes in the fair value of plan assets are as follows:

| | 2012 | 2011 |
|-----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Opening fair value of plan assets | 4,074 | 3,721 |
| Expected return | 293 | 277 |
| Actuarial (losses) / gains | (16) | (69) |
| Contributions by employer | 228 | 210 |
| Contributions by members | 72 | 71 |
| Benefits paid | (74) | (136) |
| Closing fair value of plan assets | <u>4,577</u> | <u>4,074</u> |

The group expects to contribute £254,000 to its defined benefit pension plans in 2012/13.

| | 2012 | 2011 |
|---|-------------|-------------|
| | % | % |
| The major categories of plan assets as a percentage of stated plan assets are as follows: | | |
| Equities | 79 | 79 |
| Bonds | 8 | 8 |
| Property | 11 | 10 |
| Cash | <u>2</u> | <u>3</u> |

Principal actuarial assumptions at the balance sheet date:

| | 2012 | 2011 |
|-------------------------------|---------------|---------------|
| | % p.a. | % p.a. |
| Discount rate | 4.8 | 5.5 |
| Future salary increases | 4.8 | 5.1 |
| Future pension increases | 2.5 | 2.8 |
| The expected return on assets | <u>5.8</u> | <u>7.0</u> |

Amounts for the current and previous four periods are as follows:

Defined benefit pension plans

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|----------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Defined benefit obligation | (5,260) | (4,527) | (5,182) | (2,764) | (3,342) |
| Plan assets | 4,577 | 4,074 | 3,721 | 2,558 | 3,445 |
| Surplus/(deficit) | (683) | (453) | (1,461) | (206) | 103 |
| Experience adjustments on plan liabilities | (204) | - | - | 583 | (1) |
| Experience adjustments on plan assets | <u>(16)</u> | <u>(69)</u> | <u>747</u> | <u>(1,283)</u> | <u>(343)</u> |

The total pension charge for the year was £207,120. At 31 March 2012 £26,784 was due to be paid over to the pension scheme (2011: £23,727). The agreed employer contribution rate from 1 April 2012 is 22.1% (2011: 22.7%).

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2012

20 Capital Commitments and Contingent Liabilities & Gains

As at 31 March 2012, the Association had the following capital commitments:

| | 2012 £'000 | 2011 £'000 |
|-----------------------------------|---------------|---------------|
| Contracted for less certified | 3,760 | 7,637 |
| Authorised not yet contracted for | - | - |

These commitments will be funded by private finance. A £6m facility from the Royal Bank of Scotland is in place to fund this.

21 Other Financial Commitments

At 31 March 2012, the Group and Association was committed to making the following payments during the next year in respect of operating leases

| | Land & Buildings | |
|--------------------------|------------------|---------------|
| | 2012 £'000 | 2011 £'000 |
| Leases expiring: - | | |
| Within two to five years | 57 | 51 |
| After five years | - | - |

22 Related Party Transactions and subsidiary company

Three members of the Management Committee rent property from the Association on standard terms, as applicable to all tenants.

A subsidiary company limited by shares, Ironmills Developments Limited, was incorporated on 17 October 2007, registered number: SC 332523.

During the year the Association accounted for professional fees amounting to £870 on behalf of Ironmills Developments Limited. Amounts due from the subsidiary company at the year end are detailed in note 9. Subsequent to year end a payment plan was put in place to pay by instalments the full amounts due by April 2016.

23 Unit Numbers

| | 2012 No. | 2011 No. |
|---------------|-------------|-------------|
| General Needs | 1,851 | 1,811 |

Two properties, one comprising 6 self-contained flats and the other 8 individual bed spaces, have been included as 14 individual units in the number of properties to comply with the Registered Social Landlords Accounting Requirements (Scotland) Order 2007 Order definition.