

MELVILLE HOUSING ASSOCIATION LIMITED
REPORT and CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

Registered Housing Association No. HAL 286

Financial Conduct Authority No. 2466 R(S)

Recognised Scottish Charity No. SC 032755

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT and FINANCIAL STATEMENTS

Year ended 31 March 2013

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MELVILLE HOUSING ASSOCIATION LIMITED

EXECUTIVES AND ADVISERS

Year ended 31 March 2013

MANAGEMENT COMMITTEE: Mr R Anderson (elected Chairman 26 September 2012)*
Mrs G Gourlay (elected Vice Chairman 26 September 2012)
Mr B Christie C.A. (elected Treasurer 26 September 2012)
Mrs D Carmichael (resigned 12 September 2012)
Mr J Hackett (co-opted 19 June 2013)
Mrs N McNeill (Secretary) *
Mr P Cameron (co-opted 19 June 2013)
Mr S Campbell *
Mrs A Drummond (resigned 30 January 2013)
Mr R Haddow
Mr W McAleece *
Mr A Murphy
Mr A Morrison (elected 12 September 2012)
Mr M Perks (resigned 12 September 2012)
Mrs B Shearer
Mrs E Smith

* Also Board members of Ironmills Developments Limited

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 Conduct Authority Industrial and Provident Societies Act 1965
Registered Number 2466 R(S)
Recognised Scottish Charity SC 032755
The Scottish Government, Housing (Scotland) Act 2010
Registered Number HAL 286

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

For the year ended 31 March 2013

The Management Committee of Melville Housing Association Limited presents the group report and the audited financial statements for the year ended 31 March 2013.

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 2010.

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 the provision and management of low cost rented accommodation. At 31 March 2013, the Association held 1,937 units for social rent and 12 units for on letting to Ironmills. Ironmills continued to develop mid market rental opportunities.

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.

The following paragraphs set out how Melville has performed during the year ended 31 March 2013 against these objectives.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Operating and Financial Review

Introduction

During the year we completed our £16.3m housing development in Mayfield, Dalkeith, delivering 133 new homes for Midlothian. We invested £2.3m in property maintenance and refurbishment and invested a further £1.5m (net of £1.9m in grants) in external wall insulation and modern heating systems for our no-fines properties in Mayfield. Our turnover increased by 6.6% driven by an increase in housing units and a rent increase in the year of 4%. We returned a surplus of £1.45m compared to a surplus of £1.1m in prior year.

Throughout the year we maintained high levels of customer satisfaction.

Housing and Support Services

We continued to focus on the management of arrears and voids and continued the excellent work of our Tenancy Support and Money Advice services. We also implemented a comprehensive communications strategy to inform our tenants of changes arising from welfare reforms. This included detailed articles in our newsletter VOICE, and personal visits and phone calls to all affected tenants.

Rent arrears

Our arrears performance continued a long-term trend of improved performance, with current tenant arrears being 2.35% of rental income at 31 March 2013 (2012, 1.9%) bettering our target for current rent arrears of 2.5%. This compares favourably with other RSLs in our peer group where the average current tenant arrears are 2.7% (Source: Peer Group 7 APSR – 2011-12).

Lettings

During the year, 193 of our properties became available for let compared with 128 in 2012. Lets in the year were boosted by 106 newly available units in Mayfield. On average, we took 11 days to relet properties compared with 11 days in 2012. This was in line with our target of 11 days and represents very good performance in comparison with other RSLs in our peer group where the average is 28 days.

Income lost on empty properties was 0.23% of rental income (2012, 0.23%), 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 75 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.

During the year 18 tenancies failed to last one year representing 9% of new tenancies. In 2008, the year before we commenced this service, almost 25% of new tenancies failed within one 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 £168k in unclaimed benefit monies during the year which will have long-term benefits for the individuals and families, helping them to sustain their homes.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Money Advice (continued)

As well as providing individual advice, our Welfare Adviser provides general 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 2013, we have invested over £60m of Housing Association Grant (HAG) and private investment monies in new properties, providing 290 additional homes through our new build and rehabilitation programme.

In December 2012 we completed our largest development of 133 units in Mayfield, Dalkeith, with a total investment of £16.3m in Housing Association Grant and private finance monies. 106 units were completed and handed over in the financial year including 12 units which are leased to Ironmills Developments Ltd for on-letting at mid-market rent. The housing publication *Inside Housing* included this development in its top 50 UK affordable housing developments in 2013 and Melville was also short-listed in the Large Affordable Housing Development of the Year category in this year's Scottish Home Awards.

Pupils from Lawfield Primary School joined Margaret Burgess, MSP, Minister for Housing and Welfare to unveil a plaque and artwork at the official opening of the development. The development consists of semi-detached and terraced properties and cottage-style flats. Designed to meet the needs of those on Melville's housing waiting list, the properties are a mix of 2-bedroom flats and 3 and 4 bedroom family homes. The larger houses have thermal solar panels and there are also two specially adapted ground floor properties for tenants with disabled children.

Plans are under way to complete 20 new properties at Kippielaw in Dalkeith. These units are part of a larger Taylor Wimpey development of 223 properties and will provide 18 2-bed flats and 2 3-bed houses. Construction work on these properties is expected to be completed by Spring 2014. The start of the work which is part-funded by a grant of £863k from the Scottish Government was marked by a visit from Deputy First Minister Nicola Sturgeon.

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 £3.8m in property maintenance and improvements, underlining our commitment to maintaining the standard of our existing properties.

With grant funding from the Community Energy Saving Programme (CESP) we were able to complete a project to externally clad 296 no-fines properties in the Mayfield area of Dalkeith, install the highest rated modern condensing gas boilers and refurbish some of the roofs of these properties. The Energy Savings Trust estimates that such improvements can lead to savings for the householder of up to £475 per year in heating costs.

We also invested £100k in upgrading and replacing kitchens and £190k in our bathrooms replacements programme. These programmes are part of our 30 year rolling maintenance and refurbishment programme.

It is one of Melville's key strategic objectives to procure new office accommodation by 2015, which meets the long term needs of our customers and service delivery. During June 2012, we received grant approval in principle from the Heritage Lottery Fund to purchase the old Corn Exchange building in Dalkeith and to convert it into new office accommodation for Melville and to provide additional space for community use. This followed grant approval in principle from Historic Scotland mainly towards the costs of external repairs. The building is Grade A listed, included on Historic Scotland's Buildings at Risk Register and has not been used for many years.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Asset Management (continued)

Melville's new office accommodation will be better suited for our future needs by providing better accessibility for staff and visitors and having a very good standard of environmental sustainability thereby reducing our carbon footprint and running costs.

The project will further develop our Wider Role objectives by incorporating new premises for the Dalkeith Museum, conference facilities for community organisations at a minimal cost and an exhibition of the history of the Corn Exchange as part of the new Dalkeith Heritage Trail. The Heritage Lottery Fund will also pay the total cost for Melville to employ a full time Heritage officer for 3 years who will organise community events and activities in the new museum and conference room.

During June 2013, Melville achieved full planning permission to refurbish and convert the building and also secured second stage Lottery funding. Melville is now in a position to purchase the building and progress plans to completion by early 2015.

Repairs service

During the year, we completed 6,027 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. In line with our procurement policy, our reactive maintenance service will be subject to a competitive tendering process during 2013.

Adaptations

We employ an occupational therapist in partnership with Midlothian Council, to help with those 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 £70k in medical adaptations during the year, funded by grants received from the Scottish Government.

Financial Assets

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.

With salary scales linked to the national SNJC points, salaries were frozen for a third year in 2012-13.

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 Sportscotland matched funding;
- Easthouses Lily MWFC – sponsored fund raising efforts;
- Sponsorship of Midlothian Swimming Club;
- Melville continued to involve Lawfield Primary School in the Langlaw Road development, with pupils from the school working with Scottish artist Susheila Jamieson and poet Ken Cockburn to design artwork which is now on permanent display throughout the development;
- We assisted the Scottish Veterans Garden City Association with its Houses for Heroes campaign by submitting grant applications on its behalf to the Scottish Government's Greener Homes Innovation Schemes for a site in Penicuik and 6 other sites throughout Scotland. Further details are provided on page 8;

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Relationships (continued)

- With the assistance of Midlothian Voluntary Action we applied for grant funding for a paid internship for a young unemployed graduate to catalogue the collection of Dalkeith History Society's museum;
- Melville staff, committee, contractors and tenants raised £1,000 for local charity Midlothian Sure Start. Midlothian Sure Start supports young families within the community. Fundraising efforts included an open day for tenants at Christmas, staff bake sales, a raffle and coffee mornings;
- We collaborated with the leading property maintenance provider, Dunedin Canmore Enterprises, to secure employment opportunities for two of our tenants.

Staffing and Committee

During the year, we employed on average 35 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.

One of our housing officers achieved national recognition receiving the Bob Allan Young Achiever in Housing Excellence award from the Chartered Institute of Housing (CIH) Scotland. At the same event our Welfare Benefits Adviser achieved runner-up for the Margaret Vass Excellence in Housing Management and Homelessness award.

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 Committee 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 two-day strategic planning event in November 2012 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 development programmes.

Welfare Reform

The Welfare Reform Act 2012 continued to be our main focus during the year as we made every effort to ensure we were as prepared as we could be for the impending changes.

The first change was the implementation of the under-occupancy benefits cut (the so-called bedroom tax) with over 450 of our tenants affected. We contacted all affected tenants to provide advice on the changes, and followed up with personal visits where requested. Articles were published in our newsletter VOICE and we issued a special Benefits Reform issue of the newsletter in early March 2013. We also held drop-in sessions to provide advice on the impact of the reforms.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Welfare Reform (continued)

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. Pilot studies of the impact of direct payments have shown arrears to increase significantly. This is obviously of concern and we have extra resources in place to deal with rent collections as well as to provide advice to tenants. We will continue to monitor our arrears, bad debts and cash flow as we navigate this change.

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.

For each year ending 31 March and starting with the year 2013/14 we will have to submit an Annual Return on the Charter to the Scottish Housing Regulator. We will also have to report our progress towards or achievement of the Charter outcomes to our tenants.

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 have fundamentally changed the process for RSLs applying for HAG subsidy for future projects.

Resource Planning Assumptions have been 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 Innovation and Investment Fund (IIF) monies previously allocated, leaving £3.5m of new monies for the period. Melville has on average utilised £4.8m of HAG grants per annum over the last 5 years. We therefore face a significant reduction in our HAG allocation and the corresponding number of houses we can procure.

A further concern is that a benchmark of £42k HAG subsidy per housing unit has been set for social rent properties and the RSL sector has repeatedly advised the Scottish Government that it is not financially viable to build social housing at this level of subsidy. Since May 2012, the Scottish Government has announced additional money for housing development but the £42k HAG subsidy benchmark remains in place.

We have only been able to progress one project for HAG approval 2012/13 (Kippielaw, Dalkeith). We were able to negotiate a substantial discount below market valuation for this development. This allowed us to construct a project which is financially viable while also meeting the Developer's planning obligations for this site. All of these units are programmed to be delivered during 2013/14.

The future for our development programme remains challenging as we will not be able to procure any further social housing development unless the £42k HAG subsidy is raised to a realistic level or another subsidy is made available. In addition we have to consider the impact of welfare reform on our underlying business assumptions. Any increase in bad debt costs or arrears may mean future development programmes, even with increased subsidy, will be financially unviable.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

Funding for development opportunities (continued)

We may have the opportunity to carry out development agency work for the charity Houses for Heroes during 2013/14. Houses for Heroes was established by the Scottish Veterans Garden City Association, to house disabled veterans principally from the Iraq and Afghanistan conflicts. In the run up to Christmas 2012, we assisted the charity with 7 grant applications to the Scottish Government for the construction of 38 wheelchair-adapted houses in different parts of Scotland. As a result of these applications, the charity has been allocated £1.3m in grants towards its proposed projects. Houses for Heroes is hopeful in receiving the balance of the required funds from charitable donations and may then require some assistance in procuring its developments thereafter. Houses for Heroes is extremely grateful for the assistance provided by Melville and we have indicated that we would be pleased to offer further assistance.

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. We are also committed to achieving value for money and have implemented a value for money review of all 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 as properties mature, 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.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

RESERVES

Revenue Reserve

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

Pension Reserve

For the year ended 31 March 2013 the Lothian Pension Scheme actuary has informed the Association that its share of the pension deficit amounts to £985k and this is shown on the Balance Sheet.

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. Our next housing stock re-valuation will be in April 2014.

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 £1.45m (2012: surplus of £1.1m). The Group's accumulated reserves are decreased by a £35k transfer to the Pensions Reserve, and increased by transfers of £365k from the Revaluation Reserve. The surplus plus transfers result in a £1.78m increase in the Group Revenue Reserves at 31 March 2013 (2012: increase of £1.34m). Our subsidiary company, Ironmills Developments Limited, returned a surplus of £2,724 during the year to 31 March 2013 (2012: loss of £1,860).

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.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE

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: 14 August 2013

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 2010, and the Determination of Accounting Requirements (2012). 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

14 August 2013

MELVILLE HOUSING ASSOCIATION LIMITED

INTERNAL FINANCIAL CONTROL

MANAGEMENT COMMITTEE STATEMENT– (Continued)

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.

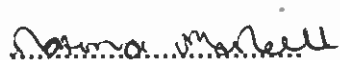
It is the Management Committee's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial mis-statement or loss. Key elements of the Association's systems include ensuring that:

- 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.

The effectiveness of the Association's system of internal financial control has been reviewed during the year ended 31 March 2013, 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

14 August 2013

We have audited the consolidated financial statements of Melville Housing Association Limited for the year ended 31 March 2013 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 11, 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 2013 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 2010, the Charities and Trustee Investment (Scotland) Act 2005, Regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended), and the Determination of Accounting Requirements (April 2012).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the 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
Chartered Accountants and Statutory Auditor
61 Dublin Street
Edinburgh
EH3 6NL

21 August 2013

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

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

Year ended 31 March 2013

		Group		Association	
	Note	2013	2012	2013	2012
		£'000	£'000	£'000	£'000
TURNOVER	2	7,483	7,017	7,480	7,017
Operating costs	2	(4,673)	(4,711)	(4,673)	(4,709)
OPERATING SURPLUS	2	<u>2,810</u>	<u>2,306</u>	<u>2,807</u>	<u>2,308</u>
Profit on disposal of fixed assets		25	-	25	-
Interest receivable and other income		19	44	19	44
Interest payable and loan redemption charges	5	(1,402)	(1,225)	(1,402)	(1,225)
SURPLUS FOR THE YEAR		<u>1,452</u>	<u>1,125</u>	<u>1,449</u>	<u>1,127</u>

All results derive from continuing activities.

MELVILLE HOUSING ASSOCIATION LIMITED

STATEMENT of TOTAL RECOGNISED SURPLUSES and DEFICITS

Year ended 31 March 2013

		Group		Association	
	Note	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Surplus for the year		1,452	1,125	1,449	1,127
Gain on revaluation of properties	7	-	934	-	934
Actuarial loss on pension obligations	19	(337)	(306)	(337)	(306)
Total surplus recognised since last annual report		<u>1,115</u>	<u>1,753</u>	<u>1,112</u>	<u>1,755</u>

NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS

		Group		Association	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Surplus for the year before taxation		1,452	1,125	1,449	1,127
Difference between a historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount		365	288	365	288
Historical cost surplus on ordinary activities before taxation		<u>1,817</u>	<u>1,413</u>	<u>1,814</u>	<u>1,415</u>
Historical cost surplus for the year retained after transfers		<u>1,817</u>	<u>1,413</u>	<u>1,814</u>	<u>1,415</u>

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

MELVILLE HOUSING ASSOCIATION LIMITED

BALANCE SHEET

At 31 March 2013

	Notes	Group		Association	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
TANGIBLE FIXED ASSETS					
Housing properties – gross valuation less depreciation	7	59,608	54,630	59,608	54,630
Less: HAG and other grants	7	(7,415)	(6,739)	(7,415)	(6,739)
		<u>52,193</u>	<u>47,891</u>	<u>52,193</u>	<u>47,891</u>
Other Fixed Assets	7	186	202	186	202
		<u>52,379</u>	<u>48,093</u>	<u>52,379</u>	<u>48,093</u>
Investments	8	-	-	-	-
		<u>52,379</u>	<u>48,093</u>	<u>52,379</u>	<u>48,093</u>
CURRENT ASSETS					
Debtors	9	740	436	749	456
Cash at bank and in hand		1,554	794	1,545	778
		<u>2,294</u>	<u>1,230</u>	<u>2,294</u>	<u>1,234</u>
CREDITORS: Amounts falling due within one year	10	<u>(1,848)</u>	<u>(2,252)</u>	<u>(1,832)</u>	<u>(2,237)</u>
NET CURRENT ASSETS/ (LIABILITIES)		<u>446</u>	<u>(1,022)</u>	<u>462</u>	<u>(1,003)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>52,825</u>	<u>47,071</u>	<u>52,841</u>	<u>47,090</u>
CREDITORS: Amounts falling due after more than one year	11	<u>(29,308)</u>	<u>(24,971)</u>	<u>(29,308)</u>	<u>(24,971)</u>
NET ASSETS BEFORE PENSION DEFICIT		<u>23,517</u>	<u>22,100</u>	<u>23,533</u>	<u>22,119</u>
Pension Deficit	19	<u>(985)</u>	<u>(683)</u>	<u>(985)</u>	<u>(683)</u>
NET ASSETS AFTER PENSION DEFICIT		<u>22,532</u>	<u>21,417</u>	<u>22,548</u>	<u>21,436</u>
CAPITAL AND RESERVES					
Share capital	12	-	-	-	-
Revaluation reserve	13	15,015	15,380	15,015	15,380
Revenue reserve	14	8,502	6,720	8,518	6,739
Pension reserve	15	(985)	(683)	(985)	(683)
	16	<u>22,532</u>	<u>21,417</u>	<u>22,548</u>	<u>21,436</u>

The financial statements were approved and authorised for issue by the Management Committee on 14 August 2013.

 R Anderson Chairman

 B Christie 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 2013

		Group		Association	
	Note	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Net cash inflow from operating activities	(i)	2,727	3,714	2,734	3,676
Returns on investments and servicing of finance	(ii)	(1,394)	(1,215)	(1,394)	(1,176)
Capital expenditure and financial investment	(ii)	(573)	(3,344)	(573)	(3,344)
Increase/(Decrease) in cash in the year		<u>760</u>	<u>(845)</u>	<u>767</u>	<u>(844)</u>

Reconciliation of net cashflow to movement in net debt

Increase/(Decrease) in cash in the year		760	(845)	767	(844)
Amortisation of finance costs		(4)	(5)	(4)	(5)
Net cash flow from debt		<u>(4,333)</u>	<u>(3,366)</u>	<u>(4,333)</u>	<u>(3,366)</u>
Movement in net debt in the year		(3,577)	(4,216)	(3,570)	(4,215)
Net debt at 1 April 2012		<u>(24,177)</u>	<u>(19,961)</u>	<u>(24,193)</u>	<u>(19,978)</u>
Net debt at 31 March 2013	(iii)	<u>(27,754)</u>	<u>(24,177)</u>	<u>(27,763)</u>	<u>(24,193)</u>

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 2013

i RECONCILIATION OF OPERATING SURPLUS TO OPERATING CASHFLOWS

	Group		Association	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Operating surplus	2,810	2,306	2,807	2,308
Depreciation charge	812	656	812	656
Decrease in pensions provision	(20)	(37)	(20)	(76)
Increase in debtors	(304)	(221)	(293)	(224)
(Decrease)/ Increase in creditors	(571)	1,010	(572)	1,012
Net cash inflow from operating activities	<u>2,727</u>	<u>3,714</u>	<u>2,734</u>	<u>3,676</u>

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

	Group		Association	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Returns on investments and servicing of finance				
Interest received	19	44	19	44
Net return on Pension Scheme Assets	(15)	(39)	(15)	-
Interest paid	(1,402)	(1,225)	(1,402)	(1,225)
Bank arrangement fee amortisation	4	5	4	5
Net cash outflow from returns on investments and servicing of finance	<u>(1,394)</u>	<u>(1,215)</u>	<u>(1,394)</u>	<u>(1,176)</u>
Capital expenditure and financial investment				
Acquisition of housing properties	(5,711)	(11,045)	(5,711)	(11,045)
Sales of shared equity properties	-	-	-	-
Purchase of other fixed assets	(90)	(40)	(90)	(40)
Proceeds from sale of fixed assets	52	-	52	-
HAG	676	4,375	676	4,375
Loans draw down	4,500	3,366	4,500	3,366
Net cash (outflow) from capital expenditure and financial investment	<u>(573)</u>	<u>(3,344)</u>	<u>(573)</u>	<u>(3,344)</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the CASH FLOW STATEMENT - (Continued)

Year ended 31 March 2013

iii ANALYSIS OF NET DEBT (Group)

	At 31 March 2012 £'000	Cash flow Movements £'000	Other Non-cash Movements £'000	At 31 March 2013 £'000
Cash at bank and in hand	794	760	-	1,554
Debt due after one year	(24,971)	(4,337)	-	(29,308)
Total	(24,177)	(3,577)	-	(27,754)

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS

Year ended 31 March 2013

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 2013.

b) Accounting Basis

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered by the Financial Conduct 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 Determination of Accounting Requirements (2012) 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 has assessed the Association's ability to continue as a going concern and has a 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

Social housing stock and Mid Market Rent properties are held at valuation and are assessed annually by the Association, with any material movements adjusted through the Revaluation or Revenue Reserves as appropriate.

Stock 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 2013

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.

Freehold housing properties are depreciated by component on a straight line basis over the estimated useful economic lives of component categories after accounting for HAG received.

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 to 5 years

Year ended 31 March 2013

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) Shared Equity (previously LIFT) Properties

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

The net investment in shared equity 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. Shared 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 2013

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

	GROUP				ASSOCIATION			
	Turnover £'000	Operating Costs £'000	Operating Surplus/(deficit) 2013 £'000	Operating Surplus 2012 £'000	Turnover £'000	Operating Costs £'000	Operating Surplus/(deficit) 2013 £'000	Operating Surplus 2012 £'000
Social lettings (Note 3)	7,333	(4,475)	2,858	2,243	7,333	(4,475)	2,858	2,245
Other activities (Note 4)	150	(198)	(48)	63	147	(198)	(51)	63
Total	7,483	(4,673)	2,810	2,306	7,480	(4,673)	2,807	2,308
Total for previous period of account	7,017	(4,711)	2,306		7,017	(4,709)	2,308	

MELVILLE HOUSING ASSOCIATION LIMITED**NOTES to the FINANCIAL STATEMENTS (Continued)**

Year ended 31 March 2013

3. Particulars of turnover, operating costs and operating surplus or deficit from social letting activities

	2013	2012
	£'000	£'000
Rent receivable net of service charges	7,189	6,566
Service charges	46	26
	<hr/>	<hr/>
Gross income from rents and service charges	7,235	6,592
Less voids	(17)	(15)
	<hr/>	<hr/>
Net income from rents and service charges	7,218	6,577
Grants from the Scottish Ministers	115	230
	<hr/>	<hr/>
Total turnover from social letting activities	<u>7,333</u>	<u>6,807</u>
Management and maintenance administration costs before decrease in pension provision	2,167	2,009
Decrease in pension provision	(20)	(37)
	<hr/>	<hr/>
Management and maintenance administration costs after decrease in pension provision	2,147	1,972
Service costs	36	26
Planned and cyclical maintenance including major repairs costs	619	807
Reactive maintenance costs	852	1,122
Bad debts – rents and service charges	115	80
Depreciation of social housing	706	557
	<hr/>	<hr/>
Operating costs for social letting activities	<u>4,475</u>	<u>4,564</u>
Operating surplus for social lettings	<u>2,858</u>	<u>2,243</u>

All income is derived from General Needs housing provision.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

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

	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 2013 £'000	Operating surplus or deficit 2012 £'000
Other activities (see note 16)	-	98	49	147	-	198	(51)	63
Total from other activities		98	49	147	-	198	(51)	63
Total from other activities for the previous period of account	-	105	105	210	-	(147)	63	

Other Revenue Grants of £98,347 were received from the Big Lottery Fund in the year to assist with the provision of support for new tenants. Other income of £49,101 was generated from a management and lease agreement with Ironmills Developments Ltd.

There are no other activities to report.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

5 Interest Payable and Similar Charges

	Group		Association	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
On loans partly repayable after five years	1,402	1,225	1,402	1,225

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 2013.

7 Tangible Fixed Assets – Association and Group

	Housing Properties Held for Development		Total Housing Properties	Office Fixtures Fittings & Equipment	Total
	Letting	Programme	Properties	Equipment	£'000
	£'000	£'000	£'000	£'000	£'000
Cost/valuation					
At 1 April 2012	44,222	10,408	54,630	778	55,408
Additions	1,947	3,764	5,711	134	5,845
Transfers	13,316	(13,316)	-	-	-
Disposals	(55)	-	(55)	-	(55)
At 31 March 2013	59,430	856	60,286	912	61,198
Depreciation					
At 1 April 2012	-	-	-	576	576
Provided in year	706	-	706	106	812
Disposals	(28)	-	(28)	-	(28)
At 31 March 2013	678	-	678	682	1,360
HAG & other grants					
At 1 April 2012	-	6,739	6,739	-	6,739
Additions	-	676	676	44	720
Transfers	6,739	(6,739)	-	-	-
Disposals	-	-	-	-	-
Adjustment for revaluation	-	-	-	-	-
At 31 March 2013	6,739	676	7,415	44	7,459
Net book value					
At 31 March 2013	52,013	180	52,193	186	52,379
At 31 March 2012	44,222	3,669	47,891	202	48,093

Included within housing properties held for letting are 12 mid market rent units valued at a cost, net of social housing grant, of £614k.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

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 valued by an external valuer as at 31 March 2012 and the next valuation will be carried out in April 2014.

Housing Association Grants (HAG) received in respect of all properties owned at 31 March 2013 amounted to £25,927,649. Whilst eliminated on revaluation for accounting purposes HAG remains legally repayable to the Scottish Government in certain circumstances.

The valuation as at 31 March 2012 was carried out by DTZ, 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 2013 was £37,373,729 (2012, £29,191,340).

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

	2013 £'000	2012 £'000
Charged to income and expenditure (Note 3)	1,471	1,929
Capitalised		
Replacement of components and improvements	2,094	1,192
Total	<u>3,565</u>	<u>3,121</u>

8 Investments

	Group		Association	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Group undertakings:				
Shares in Ironmills Developments Limited	-	-	-	-

The Association owns one share in Ironmills Developments Limited at a cost of £1 (2012: £1).

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

9 Debtors

	Group		Association	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Gross rental debtors	220	186	221	186
Less bad debt provision	(85)	(76)	(86)	(76)
	<u>135</u>	<u>110</u>	<u>135</u>	<u>110</u>
Due from subsidiary company	-	-	9	20
Other debtors	248	350	248	350
Less bad debt provision	(147)	(107)	(147)	(107)
Prepayments and accrued income	504	83	504	83
	<u>740</u>	<u>436</u>	<u>749</u>	<u>456</u>

10 Creditors: Amounts falling due within one year

	Group		Association	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade creditors	449	693	448	693
Other taxes and social security costs	33	30	33	30
Loans payable within one year	167	-	167	-
Other creditors	15	15	-	-
Accruals and deferred income	911	1,261	911	1,261
Rents in advance	273	253	273	253
	<u>1,848</u>	<u>2,252</u>	<u>1,832</u>	<u>2,237</u>

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

	Group		Association	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Housing property loans not wholly repayable within five years	<u>29,425</u>	<u>25,092</u>	<u>29,425</u>	<u>25,092</u>
Housing property loans are repayable in instalments:				
Between one year and two years	167	209	167	209
Between two years and five years	776	530	776	530
After five years	28,482	24,353	28,482	24,353
	<u>29,425</u>	<u>25,092</u>	<u>29,425</u>	<u>25,092</u>
Less unamortised loan issue expenses	(117)	(121)	(117)	(121)
	<u>29,308</u>	<u>24,971</u>	<u>29,308</u>	<u>24,971</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

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 implementation 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 £5.2m 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	
	2013	2012
	£	£
Shares of £1 each		
At 1 April 2012	130	144
Issued in year	4	3
Cancelled in year	(10)	(17)
	124	130
At 31 March 2013	124	130

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	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
At 1 April 2012	15,380	14,734	15,380	14,734
Release to Income and Expenditure Account (note 14)	(365)	(288)	(365)	(288)
Gain on revaluation (note 7)	-	934	-	934
	15,015	15,380	15,015	15,380
Reserve at 31 March 2013	15,015	15,380	15,015	15,380

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

14 Revenue Reserve

	Group		Association	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
At 1 April 2012	6,720	5,383	6,739	5,400
Transfer from Income and Expenditure Account	1,452	1,125	1,449	1,127
Release from Revaluation Reserve (note 13)	365	288	365	288
Transfer to Pensions Reserve (note 15)	(35)	(76)	(35)	(76)
Reserve at 31 March 2013	8,502	6,720	8,518	6,739

15 Pension Reserve

	Group		Association	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
At 1 April 2012	(683)	(453)	(683)	(453)
From Revenue Reserve (note 14)	35	76	35	76
Actuarial loss	(337)	(306)	(337)	(306)
Reserve at 31 March 2013 (note 19)	(985)	(683)	(985)	(683)

16 Reconciliation of Movement in Accumulated Reserves

	Group		Association	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
At 1 April 2012	21,417	19,664	21,436	19,681
Surplus for the year before gain on revaluation of properties and actuarial surplus on pension scheme	1,452	1,125	1,449	1,127
Gain on revaluation of property	-	934	-	934
Actuarial loss in pension scheme	(337)	(306)	(337)	(306)
Accumulated reserves at 31 March 2013	22,532	21,417	22,548	21,436

The Big Lottery provided a grant of £98,347 during the year to 31 March 2013 to assist Melville in providing support to new tenants; a project called New Beginnings. The entire Big Lottery grant was fully spent as at 31 March 2013 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 2013

17 Employees

	2013	2012
	£'000	£'000
Staff costs during year		
Wages and salaries	1,229	1,131
Social security costs	105	95
Other pension costs	199	232
Temporary staff costs	-	21
	<u>1,533</u>	<u>1,479</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	4
Housing Services	13	10
Property & Lettings	11	11
Development	3	3
	<u>39</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>35</u>	<u>32</u>
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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 2013

17 Employees (Continued)

	2013 £	2012 £
Aggregate emoluments including pension contributions of £55,921 (2012: £43,264) payable to Directors	323,986	245,843

The emoluments of the Chief Executive, excluding pension contributions, were £76,693 (2012: £75,083).

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

	2013	2012
£70,000 to £80,000*	3	2

* 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 £16,121 (2012: £16,166)

	2013 £	2012 £
Total expenses reimbursed insofar as not chargeable to UK Income Tax		
- Chief Executive	108	153
- Management Committee	2,185	1,214

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

18 Auditor's Remuneration

	2013 £	2012 £
The remuneration of the auditors (including expenses and VAT for the year) was as follows:		
Audit services	10,082	9,594
Non-audit services	-	840
	10,082	10,434

MELVILLE HOUSING ASSOCIATION LIMITED**NOTES to the FINANCIAL STATEMENTS (Continued)**

Year ended 31 March 2013

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:

	2013	2012
	£'000	£'000
Present value of funded obligations	(6,474)	(5,260)
Fair value of plan assets	5,489	4,577
	<u>(985)</u>	<u>(683)</u>
Unrecognised past service cost	-	-
Deficit	<u>(985)</u>	<u>(683)</u>
Net liability	<u>(985)</u>	<u>(683)</u>
Amounts in the balance sheet		
Liabilities	(985)	(683)
Assets	-	-
Net liability	<u>(985)</u>	<u>(683)</u>

The amounts recognised in income and expenditure are as follows

	2013	2012
	£'000	£'000
Current service cost	236	191
Interest on obligations	256	254
Expected return on plan assets	(271)	(293)
Past service cost	-	-
Total	<u>221</u>	<u>152</u>
Actual return on plan assets	<u>728</u>	<u>89</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

19 Pension Obligations (Continued)

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

	2013	2012
	£'000	£'000
Actual return less expected return on pension scheme assets	457	(204)
Experience surplus and deficits arising on the scheme liabilities	-	-
Changes in financial assumptions underlying the present value of the scheme liabilities	(794)	(102)
Actuarial loss in pension plan	(337)	(306)
Increase/(decrease) in irrecoverable surplus from membership fall and removal of Pension surplus from the Balance Sheet	-	-
Actuarial deficit recognised in STRSD	(337)	(306)
Cumulative actuarial losses	(1,027)	(690)

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

	2013	2012
	£'000	£'000
Opening defined benefit obligation	5,260	4,527
Service cost	236	191
Interest cost	256	254
Contributions by members	81	72
Actuarial losses/(gains)	792	290
Past services gains	-	-
Benefits paid	(151)	(74)
Closing defined benefit obligation	6,474	5,260

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

19 Pension Obligations (Continued)

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

	2013	2012
	£'000	£'000
Opening fair value of plan assets	4,577	4,074
Expected return	271	293
Actuarial gains / (losses)	455	(16)
Contributions by employer	256	228
Contributions by members	81	72
Benefits paid	(151)	(74)
Closing fair value of plan assets	<u>5,489</u>	<u>4,577</u>

The group expects to contribute £254,000 to its defined benefit pension plans in 2013/14.

	2013	2012
	%	%
The major categories of plan assets as a percentage of stated plan assets are as follows:		
Equities	79	79
Bonds	8	8
Property	9	11
Cash	<u>4</u>	<u>2</u>

Principal actuarial assumptions at the balance sheet date:

	2013	2012
	% p.a.	% p.a.
Discount rate	4.5	4.8
Future salary increases	5.1	4.8
Future pension increases	2.8	2.5
The expected return on assets	<u>5.3</u>	<u>5.8</u>

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

Defined benefit pension plans	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(6,474)	(5,260)	(4,527)	(5,182)	(2,764)
Plan assets	5,489	4,577	4,074	3,721	2,558
Surplus/(deficit)	(985)	(683)	(453)	(1,461)	(206)
Experience adjustments on plan liabilities	457	(204)	-	-	583
Experience adjustments on plan assets	<u>455</u>	<u>(16)</u>	<u>(69)</u>	<u>747</u>	<u>(1,283)</u>

The total pension charge for the year was £241,590. At 31 March 2013 £28,958 was due to be paid over to the pension scheme (2012: £26,784). The agreed employer contribution rate from 1 April 2013 is 17.1% plus a fixed annual payment of £57,600. (2012: 17.1% plus a fixed annual payment of £57,600).

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Continued)

Year ended 31 March 2013

20 Capital Commitments and Contingent Liabilities & Gains

As at 31 March 2013, the Association had the following capital commitments:

	2013 £'000	2012 £'000
Contracted for less certified	1,066	3,760
Authorised not yet contracted for	-	-
	<hr/>	<hr/>

These commitments will be funded by private finance.

21 Other Financial Commitments

At 31 March 2013, the Group and Association was committed to making the following payments during the next year in respect of operating leases

	Land & Buildings	
	2013 £'000	2012 £'000
Leases expiring: -		
Within two to five years	57	57
After five years	-	-
	<hr/>	<hr/>

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 let 12 properties to Ironmills (lease charge of £29,509) to be rented out at Mid Market Rent. The Association also charged Ironmills £19,593 in respect of management of these properties.

During the year, Ironmills Developments Limited repaid £10,186 of the intercompany balance due to the Association. Amounts due from the subsidiary company at the year end are provided in note 9. A payment plan is in place to pay by instalments the full amounts due by or before April 2016.

23 Unit Numbers

	Association	
	2013 No.	2012 No.
General Needs	1,937	1,851
Mid market rent	12	-
	<hr/>	<hr/>
	1,949	1,851

One property, comprising 6 self-contained flats has been included as 6 individual units in the number of properties to comply with the Registered Social Landlords Accounting Requirements (Scotland) Order 2007 Order definition.

