

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**REPORT and CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 March 2016**

**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 CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended 31 March 2016**

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**MELVILLE HOUSING ASSOCIATION LIMITED**

**EXECUTIVES AND ADVISERS**

**Year ended 31 March 2016**

**BOARD:**

Mr R Anderson (Chairman)\*  
Mrs G Gourlay (Vice Chairman)  
Mr B Christie CA (Treasurer)  
Mrs N McNeill (Secretary)\*  
Mr P Bellamy  
Mr P Cameron  
Mrs H Ferguson (appointed 9 September 2015)  
Mr J Hackett  
Mr S Jamieson (appointed 9 September 2015)  
Mrs E Kasiera  
Mr W McAleece \* (deceased 29 June 2016)  
Mr A Morrison (resigned 9 September 2015)  
Mr A Murphy  
Mrs C Quinn  
Mr G Scobie  
Mrs B Shearer

\* Also Board members of Ironmills Developments Limited

**SECRETARY:**

Mrs N McNeill

**SENIOR OFFICERS AND  
KEY MANAGEMENT  
PERSONNEL**

Mr A Noble, Chief Executive Officer  
Ms M MacDonald, Director of Finance & Housing Services  
Mr I Slamin, Director of Property Services

**REGISTERED OFFICE:**

The Corn Exchange  
200 High Street  
Dalkeith  
EH22 1AZ

**AUDITORS:**

Chiene + Tait LLP  
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 Co-operative and Community  
Benefit Societies Act 2014  
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**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**REPORT OF THE BOARD**

**For the year ended 31 March 2016**

The Board of Melville Housing Association Limited presents the group report and the audited financial statements for the year ended 31 March 2016.

**Principal activities**

The Association was formed on 9 February 1994 and is registered under the Co-operative and Community Benefit Societies Act 2014 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 affordable rented accommodation. At 31 March 2016, the Association held 1,958 units for social rent and 11 units for letting to Ironmills. Ironmills continued to develop mid market rental opportunities.

**Objectives**

Melville is finalising its business plan 2016-2021 and further details are provided in the section below headed *Future Developments*. The performance for 2015/16 was measured against the Association's objectives as set out in its business plan 2010-2015 which was approved by the Board 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.

**Staff and Board**

- To develop and support a highly skilled and effective staff team.
- To recruit, retain, support and develop skilled Board 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 into their homes and live peaceably with their neighbours.

The following paragraphs set out how Melville has performed during the year ended 31 March 2016 against these objectives.

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**REPORT OF THE BOARD**

## **Operating and Financial Review**

### **Introduction**

The financial statements have been prepared, for the first time, in accordance with the Statement of Recommended Practice for registered social housing providers 2014 (SORP 2014), issued by the National Housing Federation, and under Financial Reporting Standard (FRS) 102.

During the year we invested £4m in property maintenance and refurbishment and completed the first phase of a 28 unit development in Bilston, Midlothian. Our rental turnover increased by 1.85% in line with our annual inflationary rent increase of 1.9%. Our total turnover was boosted by the release of £2.5m of Housing Association Grant (HAG) and Heritage Lottery Fund (HLF) grants recognised as income for the first time under the new accounting regime. These grants represent contributions to capital and were applied to the refurbishment of our new offices and in the aforementioned development in Bilston. We returned a surplus of £4.2m compared with a deficit of £7.5m (restated, see note 24) in prior year, again boosted by the aforementioned grant release to income.

Throughout the year we maintained high levels of customer satisfaction (94%).

### **Housing and Support Services**

We continued to focus on the management of arrears and voids and the excellent work of our Tenancy Support and Money Advice services provided by CHAI (Community Help and Advice Initiative) who support people and communities across Edinburgh and the Lothians. We also continued our 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 has been affected by welfare reforms. Despite this, arrears improved during the year due to the provision of additional discretionary housing payments made available by the Scottish Government. Our current non technical tenant arrears were 2.98% of rental income at 31 March 2016 compared with 3.04% for the year ending 31 March 2015. National benchmarking information for net arrears is no longer available.

#### *Lettings*

During the year, 122 of our properties became available for let compared with 114 in 2015. On average, we took 9 days to relet properties compared with 14 days in 2015. This was better than our target of 11 days and represented very good performance in comparison with the Annual Return on the Charter (ARC) Scottish average of 36.9 days. (Source: ARC data 2014/15).

Income lost on empty properties was 0.16% of rental income (2015, 0.18%), better than our target of 0.2%. The Scottish average rent lost on empty properties was 1.1%. (Source: ARC data 2014/15).

#### *Tenancy Support and Money Advice*

Our tenancy support and money advice services originally established in 2008 with support from The Big Lottery, are now delivered by CHAI. The aim of the tenancy support service is to help tenants become established in their new homes, reducing tenancy failures and helping to build stable, sustainable communities. Our Money Advice Service provides services such as personal budgeting, debt consolidation and debt management. During the year we provided tenancy support and money advice services to 97 tenants.

During the year, only 3 tenancies failed to last one year representing 2.68% of new tenancies. In 2008, the year before we commenced our support service, almost 25% of new tenancies failed within one year.

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**REPORT OF THE BOARD**

**Housing and Support Services (contd.)**

*Welfare Advice Services*

During the year our welfare advice services helped tenants access £539k in unclaimed benefit monies which will have long term benefits for the individuals and families, helping them to sustain their homes.

We were delighted to have been granted an extension to our funding from the Scottish Legal Aid Board to fund an additional welfare adviser post for a further 18 months until September 2016. This has enabled us to support tenants during welfare reform changes and the roll out of Universal Credit.

**Growth**

*Housing Stock*

In the five years to 31 March 2016, we have invested almost £31m of Housing Association Grant (HAG) and private investment monies in new properties, providing 207 additional homes through our new build and rehabilitation programme.

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.

*Financial strength*

We have continued to develop and implement our value for money strategy and have made significant financial savings through staff restructuring and tendering of major contracts. We have continued with the phasing in of our new harmonised rent structure and now have 77% of our rents fully harmonised. These actions and other cost savings have meant we were again able to offer a low increase on our rents for 2016-17 of 1.5%. We will continue to review our financial plans to support the provision of a quality service with affordable rents, while being mindful of sustaining the financial viability of the organisation.

**Asset Management**

*Housing Stock*

During the year we invested £4m in property maintenance and improvements, underlining our commitment to maintaining the standard of our existing properties. We carried out a range of planned and cyclical programmes in the year, including replacing 140 bathrooms, fitting 115 new kitchens and replacing 87 heating systems.

All except one of our gas service visits due throughout the year were completed within time. During 2015/16, we successfully tendered our gas servicing contract and were able to continue our previous high quality service at a significantly reduced cost.

With Energy Company Obligation (ECO) funding totalling £77,000 and private finance investment of £638,000 we were able to complete a project to externally insulate 120 no-fines properties in the Mayfield area of Dalkeith. We were also successful with a bid for HEEPS Cashback funding amounting to £202,500 from the Scottish Government to externally insulate our 45 Canadian timber properties in Forth, South Lanarkshire. Melville contributed £250,000 to this project.

To date we have externally insulated over 450 properties representing almost three quarters of our non-traditional built (no-fines/BISF) housing stock, making a significant contribution to our objective to provide sustainable, energy efficient homes. We will continue to explore all possible means to enable us to insulate our remaining non traditional built stock.

From April 2014, our response repairs service has been delivered by Novus Property Solutions. This change has resulted in significant financial savings and also improvements to our service including the provision of two hour appointment slots.

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**REPORT OF THE BOARD**

*Housing Stock (contd.)*

We employ an occupational therapist in partnership with Midlothian Council, to assist those tenants who may benefit from physical help in their homes in the form of equipment and/or adaptations. We invested £104k in medical adaptations during the year, funded by grants received from the Scottish Government.

*Financial Assets*

Through active treasury management and in accordance with our treasury management policy, we have minimised our loan drawdowns, keeping interest costs as low as possible. We take third party advice on all of our new loans to ensure best terms, and update our cash flow forecasts each month to ensure ongoing liquidity. Any surplus cash is invested in interest-bearing accounts.

*New office accommodation*

With grants of £1.6m from the Heritage Lottery Fund (HLF) and £0.1m from Historic Scotland we have converted the Dalkeith Corn Exchange into new office accommodation for Melville and have provided additional space for community use, in particular the Dalkeith Museum which will be managed by the Dalkeith History Society. The HLF is also funding the costs to employ 2 part time heritage officers for 3 years. They are now organising and holding various activities throughout Midlothian to promote an interest in heritage matters.

We are extremely grateful to the Heritage Lottery Fund, Historic Scotland, Midlothian Council, Midlothian Voluntary Action, Dalkeith Townscape Heritage Initiative, Dalkeith History Society and the Royal Bank of Scotland for their support in enabling us to undertake this project.

**Relationships**

We firmly believe that as well as our core landlord and development responsibilities, we have a wider role to play in the communities in which we operate. Over the past year, we have contributed to and participated in a number of community-based projects including:

- Making a £200 donation to the Arniston Rangers Cherokees. Melville's donation allowed this under-8s football team from Gorebridge to buy vital first aid equipment.
- Donating £500 to local junior football club Easthouses Lily. The money allowed the club to upgrade existing facilities at their Newbattle complex.
- Contributing to Midlothian Voluntary Action's Christmas Toy Drop for struggling local families.
- The redevelopment of the Penicuik Y (YMCA/YWCA) all-weather sports facility. We have been closely involved with this now-completed project, developed on land owned by Melville and leased to the Y at no cost.
- Making a £200 donation to Midlothian Cycling Club, encouraging physical activity in the local area.
- Donating £200 to Midlothian Madness men's basketball team for new team kit.
- A contribution in December to the Mayfield & Easthouses Development Trust Christmas Lights appeal.
- Melville staff raised almost £2,000 during the year by holding fundraising events for a number of charities including Edinburgh Sick Kids Friends Foundation and MacMillan Cancer Support (Coffee Morning).
- Continuing to provide support and assistance to the Midlothian Foodbank, promoting their work through our communication channels and receiving public and staff donations at our reception in Dalkeith.
- Providing work experience placements for local school children as well as occasional workplace training for college students.
- Promoting and encouraging interest in local history and heritage through the work of our two Lottery-funded Heritage Officers.

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**REPORT OF THE BOARD**

**Staffing**

During the year, we employed on average 32 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. All staff, including key management personnel are remunerated based on job grades which were independently appraised in 2012 and approved by the Board. Job grades will be appraised again during 2016/17.

**Governance**

Our Board can have a maximum of 15 members elected at the Annual General meeting. Some members also serve on our Audit Committee. Each Board member holds one fully paid share of £1 in Melville Housing Association. The Board is responsible for the governance, strategies, and policies of the Association. New Board members participated in a structured induction training programme during the year. All members are encouraged to attend relevant conferences. The Board and executive officers of the Association are listed on page 1.

Under our governance policies, all members receive an annual appraisal and skills audit, where combined Board performance, individual contribution, information requirements and future training needs are reviewed. The results of the appraisals are reported to the Board 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 Board members for their time, commitment and enthusiasm in helping the Association achieve its aims and objectives.

**FUTURE DEVELOPMENTS**

**EU Referendum**

On 23 June 2016, the Government held a UK wide referendum on whether the UK should remain a member of the European Union. The Referendum result was 52% in favour of leaving the European Union. Melville Housing Association has no political view on the results of the Referendum but is aware that there will be repercussions for the UK's economy and social policy, which will in turn have an impact on many aspects of our business and on our tenants. The Board will monitor the impact of the changes arising from the Referendum and will develop any strategies necessary to ensure we continue to operate in the best interests of our tenants, other customers and our staff.

**Welfare Reform**

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

The application of Universal Credit and the direct payment of housing benefits to tenants will 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.

**Funding for development opportunities**

We completed a 28 unit flatted development for rent in Bilston in May 2016. This has provided much needed one and two bed properties. We negotiated a substantial discount of over 19% below market valuation for the development on the basis that the HAG subsidy benchmark was only £54,926 per unit and the developer was under an affordable housing planning obligation to develop these units for a registered social landlord. This ensured the financial viability of the project.

We are exploring options for further small developments in the Midlothian area with the support of the Scottish Government and Midlothian Council.



**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**REPORT OF THE BOARD**

**FUTURE DEVELOPMENTS (contd.)**

**Providing quality homes and services**

In December 2015, the Board ratified the key priorities for the organisation for the next three years. This will be developed to provide Melville's five year business strategy and plan for 2016-2021. We remain committed to investing in our services, housing, tenants and staff to ensure we can continue to deliver a quality, affordable service. We will in particular focus on the promotion of financial and digital inclusion for our tenants, growing our stock base, investing in our existing stock, and working towards 2020 EESSH targets. We will work with our tenants and in particular our tenant representatives to improve our services, design new initiatives and develop plans to engage with local communities to build the capacity of tenants and residents and address financial challenges and fuel poverty initiatives.

**CREDIT PAYMENT POLICY**

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 Statement of Comprehensive Income.

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 are 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 below, under 'Surplus for the year and transfers'.

*Pension Reserve*

For the year ended 31 March 2016 the Lothian Pension Scheme actuary has informed the Association that its share of the pension deficit amounts to £1,166k (2015: £2,137k) and this is shown on the Statement of Financial Position.

*Revaluation Reserve*

All of Melville's housing properties in ownership as at 31 March 2015 were re-valued at that date by Jones Lang Lasalle (JLL) and changes in value were shown in the revaluation reserve. Following the implementation of FRS102, £23.5m was transferred out of the revaluation reserve and into the revenue reserve (note 24). 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 Statement of Comprehensive Income. Where these deficits are reversed in subsequent revaluations, those surpluses are also recognised. Our next housing stock revaluation will be in April 2018.

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**REPORT OF THE BOARD**

**RESERVES (Contd.)**

*Reserves Policy*

Melville has a history of reinvesting any surpluses in improving and growing its housing stock. This means the majority of its reserves are tied up in property and not available as cash. The Association maintains a level of cash adequate to meet the day to day needs of the business.

**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 Board meetings.

**SURPLUS FOR THE YEAR AND TRANSFERS**

The results for the Group are shown in the Statement of Comprehensive Income on page 14. The surplus for the Group is £4.2m (2015: restated deficit of £7.5m). The Group's accumulated reserves are increased by a £148k transfer from the Pensions Reserve. The surplus plus transfers result in a £4.3m increase in the Group Revenue Reserves at 31 March 2016 (2015: increase of £2.9m after restatement). Our subsidiary company, Ironmills Developments Limited, returned an operating surplus of £6,176 during the year to 31 March 2016 (2015: operating surplus of £4,809).

**STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS**

The Board 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 Board and executive officers have confirmed that they have taken all the steps that they ought to have taken as Board 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 BOARD**



**N McNeill**  
**Secretary**

The Corn Exchange  
200 High Street  
Dalkeith  
Midlothian  
EH22 1AZ

**Date:** 10 August 2016

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**STATEMENT OF RESPONSIBILITIES OF THE BOARD**

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

The Co-operative and Community Benefit Societies Act 2014 and social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association at the balance sheet date, and of its income and expenditure for the year ended on that date.

In preparing these financial statements, the Board 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 and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business; and
- prepare a Statement on Internal Financial Control.

The Board 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 Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – December 2014. The Board is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

**BY ORDER OF THE BOARD**

*Norma McNeill*

**N McNeill**  
**Secretary**

10 August 2016

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**FINANCIAL STATEMENTS for the year ended 31 March 2016**  
**INTERNAL FINANCIAL CONTROL**

The Board 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 Board'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 Board 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 Board;
- The Board receives an annual report from its 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 audit reports.

The effectiveness of the Association's system of internal financial control has been reviewed during the year ended 31 March 2016, 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 the Audit Committee has satisfied itself that the Association has an adequate framework of risk management and internal controls systems. The key risks identified by this assessment were changes arising from welfare reforms. As noted above the Association has taken steps to mitigate this.

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 BOARD**



**N McNeill**  
**Secretary**

10 August 2016

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MELVILLE HOUSING ASSOCIATION LIMITED**



We have audited the consolidated financial statements of Melville Housing Association Limited for the year ended 31 March 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Reserves, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows 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 the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association, and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Board and the auditor**

As explained more fully in the Statement of Responsibilities of the Board set out on page 9, the Board 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**

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Association's and Group's affairs as at 31 March 2016 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 requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010, and the Determination of Accounting Requirements - December 2014.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MELVILLE HOUSING ASSOCIATION LIMITED – (Continued)**



**Matters on which we are required to report by exception**

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

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

*Chiene + Tait LLP*

**CHIENE + TAIT LLP  
Chartered Accountants and Statutory Auditor  
61 Dublin Street  
Edinburgh  
EH3 6NL**

19 August 2016

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

**REPORT BY THE AUDITOR TO THE MEMBERS OF  
MELVILLE HOUSING ASSOCIATION LIMITED  
ON CORPORATE GOVERNANCE MATTERS**



In addition to our audit of the Financial Statements, we have reviewed your statement on page 10 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

**Basis of Opinion**

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

**Opinion**

In our opinion the Statement on Internal Financial Control on page 10 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through enquiry of certain members of the Board and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Board's Statement on Internal Financial Control appropriately reflects the association's compliance with the information required by the relevant Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls.

**CHIENE + TAIT LLP**  
**Chartered Accountants and Statutory Auditors**  
**61 Dublin Street**  
**Edinburgh**  
**EH3 6NL**

19 August 2016

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

**MELVILLE HOUSING ASSOCIATION LIMITED**

**CONSOLIDATED STATEMENT of COMPREHENSIVE INCOME**

**Year ended 31 March 2016**

		<b>Group</b>		<b>Association</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Note</b>	<b>£'000</b>	<b>Restated £'000</b>	<b>£'000</b>	<b>Restated £'000</b>
<b>TURNOVER</b>	3	10,910	8,219	10,907	8,213
Operating costs	3	(5,030)	(4,984)	(5,033)	(4,983)
Other income		-	-	-	-
<b>OPERATING SURPLUS</b>	3	5,880	3,235	5,874	3,230
Profit on disposal of fixed assets		114	106	114	106
Interest receivable		2	1	2	1
Interest payable and financing costs	6	(1,597)	(1,576)	(1,597)	(1,576)
Movement in fair value of financial instruments		(229)	(4,084)	(229)	(4,084)
Decrease in valuation of housing properties		-	(5,206)	-	(5,206)
<b>SURPLUS/(DEFICIT) BEFORE TAX</b>		4,170	(7,524)	4,164	(7,529)
Taxation		(1)	-	-	-
<b>SURPLUS/DEFICIT FOR THE YEAR</b>		4,169	(7,524)	4,164	(7,529)
Actuarial gain/(loss) in respect of pension schemes	17	1,119	(706)	1,119	(706)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		5,288	(8,230)	5,283	(8,235)

All results derive from continuing activities. Comparative figures have been restated to reflect the adoption of FRS 102 and the Housing SORP 2014.

The notes on pages 19 to 36 form part of these financial statements.



**MELVILLE HOUSING ASSOCIATION LIMITED**

**CONSOLIDATED STATEMENT of CHANGES IN RESERVES**

**Year ended 31 March 2016**

	Share capital £'000	Revaluation reserve £'000	Revenue reserve £'000	Pension reserve £'000	Total reserves £'000	Restricted funds £'000	Unrestricted funds £'000
Restated balance at 1 April 2015	-	-	17,537	(2,137)	15,400	-	15,400
Surplus for the year	-	-	4,169	1,119	5,288	1562	3,726
Transfer from pensions reserve to revenue reserve	-	-	148	(148)	-	-	-
<b>Balance at 31 March 2016</b>	-	-	<b>21,854</b>	<b>(1,166)</b>	<b>20,688</b>	<b>1,562</b>	<b>19,126</b>

The restricted funds represent grants received from the Historic Lottery fund and from Historic Scotland to fund the purchase and refurbishment of the Corn Exchange building in Dalkeith.

The notes on pages 19 to 36 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT of FINANCIAL POSITION

At 31 March 2016

		Group		Association	
		2016	2015	2016	2015
			Restated		Restated
	Note	£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Social housing properties	8	60,303	57,100	60,303	57,100
Other tangible fixed assets	8	4,066	1,145	4,066	1,145
		<u>64,369</u>	<u>58,245</u>	<u>64,369</u>	<u>58,245</u>
<b>CURRENT ASSETS</b>					
Trade and other debtors	10	1,187	556	1,195	555
Cash and cash equivalents		1,243	2,646	1,235	2,638
		<u>2,430</u>	<u>3,202</u>	<u>2,430</u>	<u>3,193</u>
<b>CREDITORS: Amounts falling due within one year</b>		<u>(3,336)</u>	<u>(3,122)</u>	<u>(3,336)</u>	<u>(3,108)</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(906)</u>	<u>80</u>	<u>(906)</u>	<u>85</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>63,463</u>	<u>58,325</u>	<u>63,463</u>	<u>58,330</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	12	(41,609)	(40,788)	(41,609)	(40,788)
<b>PROVISIONS FOR LIABILITIES</b>					
Pension liability	17	(1,166)	(2,137)	(1,166)	(2,137)
<b>NET ASSETS</b>		<u>20,688</u>	<u>15,400</u>	<u>20,688</u>	<u>15,405</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	13	-	-	-	-
Revenue reserve		20,292	17,537	20,292	17,542
Restricted reserve		1,562	-	1,562	-
Pension reserve		(1,166)	(2,137)	(1,166)	(2,137)
		<u>20,688</u>	<u>15,400</u>	<u>20,688</u>	<u>15,405</u>

The comparative figures have been restated to reflect the adoption of FRS 102 and the Housing SORP 2014. The financial statements were approved and authorised for issue by the Board on 10 August 2016.

 R Anderson Chairman

 B Christie Treasurer

 N McNeill Secretary

The notes on pages 19 to 36 form part of these financial statements.

**MELVILLE HOUSING ASSOCIATION LIMITED****CONSOLIDATED STATEMENT of CASH FLOWS**

Year ended 31 March 2016

	Note	2016 £'000	2015 Restated £'000
<b>Net cash inflow from operating activities</b>	<b>i</b>	<b>3,787</b>	<b>3,926</b>
<b>Cash flow from investing activities</b>			
Purchase of tangible fixed assets		(6,422)	(2,363)
Proceeds from sale of tangible fixed assets		248	223
Grants received		1,916	1,012
Interest received		2	1
		<u>(4,256)</u>	<u>(1,127)</u>
<b>Cash flow from financing activities</b>			
Interest paid		(1,522)	(1,493)
New secured loans		750	-
Repayments of borrowings		(162)	(171)
		<u>(934)</u>	<u>(1,664)</u>
<b>Net change in cash and cash equivalents</b>		<b>(1,403)</b>	<b>1,135</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>2,646</b>	<b>1,511</b>
<b>Cash and cash equivalents at end of the year</b>		<b>1,243</b>	<b>2,646</b>
<b>Components of cash and cash equivalents</b>			
Cash at bank and in hand		92	95
Short term deposits		1,151	2,551
		<u>1,243</u>	<u>2,646</u>

The notes on page 18 form part of the Statement of Cash Flows.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the STATEMENT of CASH FLOWS

Year ended 31 March 2016

i CASHFLOW FROM OPERATING ACTIVITIES

	2016	2015
	£'000	Restated £'000
<b>Surplus/(Deficit) for the year</b>	4,169	(7,524)
<b>Adjustments for non-cash items:</b>		
Depreciation for tangible fixed assets	955	824
(Increase)/decrease in trade and other debtors	(571)	59
(Decrease)/increase in trade and other creditors	(21)	(236)
Decrease in valuation of housing	-	5,206
Movement in fair value of financial instruments	229	4,084
Pension costs less contributions payable	148	137
Gain on disposals of tangible fixed assets	(114)	(106)
	<u>626</u>	<u>9,968</u>
<b>Adjustments for investing or financing activities:</b>		
Government grants utilised in the year	(2,533)	(36)
Interest payable	1,527	1,519
Interest received	(2)	(1)
	<u>(1,008)</u>	<u>1,482</u>
<b>Net cash generated from operating activities</b>	<u>3,787</u>	<u>3,926</u>

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS**  
**Year ended 31 March 2016**

**1 General Information**

Melville Housing Association Limited is registered under the Co-operative and Community Benefit Societies Act 2014 and is a housing association registered with the Scottish Housing Regulator under the Housing (Scotland) Act 2010. The principal activity is the provision and management of affordable rented accommodation. The registered office is The Corn Exchange, 200 High Street, Dalkeith, EH22 1AZ. The Association is a Public Benefit Entity.

**2 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

**a) Accounting basis**

The financial statements of the group and association are prepared in accordance with applicable accounting standards and in accordance with the accounting requirements included within the Determination of Accounting Requirements 2014, and under the historic cost convention, modified for the revaluation of housing properties held for letting. The financial statements have also been prepared, for the first time, in accordance with the Statement of Recommended Practice for registered social housing providers 2014 (SORP 2014), issued by the National Housing Federation, and under Financial Reporting Standard (FRS) 102. There were no material departures from that standard.

The transition to FRS 102 and SORP 2014 has resulted in a number of changes in accounting policies to those used previously. The nature of these changes and their impact on the figures reported in the comparative period are explained in note 24.

**b) 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 2016. Profits or losses on intra-group transactions are eliminated in full in accordance with FRS 102.

**c) Going concern**

The financial statements have been prepared on a going concern basis. The Board 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, which is stated net of value added tax, represents rental and service charge income receivable, fees receivable and 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**

Social housing stock and Mid Market Rent properties are held at valuation and are assessed annually by the Association, and formally valued by an external valuer every three years in line with the conditions of the Association's loan arrangements. Any material movements are adjusted through the Statement of Comprehensive Income as appropriate.

**f) Fixed Assets – social housing stock (contd.)**

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 statement of comprehensive income.

Other fixed assets are initially stated at cost.

**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.

Useful economic lives for identified components are as follows:

<b>Component</b>	<b>Useful economic life</b>
Structure	80 -100 years
Windows and external doors	30 years
Kitchens	15 years
Bathrooms	25 years
Central heating and boilers	20 years

Impairment reviews are carried out where there is considered to be an indicator of impairment, in accordance with Financial Reporting Standard 102.

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 statement of comprehensive income.

## **2 Accounting Policies (Continued)**

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 buildings	- over 100 years
Office Improvements	- over 100 years
Office Ventilation System	- over 10 years
Fixtures, fittings and equipment	- over 3 to 10 years

Where heritable properties are acquired and developed, no depreciation is charged until development is complete.

### **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 22.

Where HAG received contributes to the capital cost of housing property, which is held at valuation, it is recognised as income in the Statement of Comprehensive Income when new build properties are completed or the capital work is carried out. HAG receivable is held as deferred income on the Statement of Financial Position until any performance conditions are satisfied.

Grant funding received in respect of revenue expenditure is recognised as income in the same period to which it relates.

HAG and other grants are repayable under certain circumstances, primarily following sale of property, but will normally be restricted to net proceeds of sale. Any grant that is repayable is accounted for as a liability on disposal of the property. Where a disposal is deemed to have taken place for accounting purposes, but the repayment conditions have not been met in relation to the HAG, the potential future obligation to repay is disclosed as a contingent liability.

### **i) Pensions**

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

### **j) 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 102 the deficit is disclosed on the face of the statement of financial position.

### **k) Operating leases**

Rentals paid under operating leases are charged to the statement of comprehensive income as they are incurred.

**2 Accounting Policies (Continued)**

**l) Financial Instruments**

Loan finance provided to the Association are for the purposes of FRS102 defined as basic financial instruments and measured at amortised cost. The Association has entered into variable to fixed interest rate swap contracts in respect of these loans to manage its exposure to interest rate cash flow risk on its variable debt. These derivatives are measured at fair value at each reporting date. Changes in the fair value of the derivatives are recognised in the statement of comprehensive income.

**m) Significant accounting judgements and estimates**

Preparation of the financial statements requires significant judgements and estimates to be made at times. Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts where required, or as appropriate to other factors. The following are the areas in which significant accounting judgements and estimates are considered to exist:

- (i) Valuation of property, plant and equipment (fixed assets)
- (ii) Useful lives of property, plant and equipment (fixed assets)
- (iii) The main components of housing properties and their useful lives
- (iv) Recoverable amount of rental and other trade receivables (debtors)
- (v) The obligations under the Association's defined benefit pension scheme
- (vi) The measurement of the recoverable amount of assets for impairment reviews and the calculation of depreciated replacement cost
- (vii) Valuation of the Association's interest rate swaps



MELVILLE HOUSING ASSOCIATION LIMITED  
 NOTES to the FINANCIAL STATEMENTS (continued)  
 Year ended 31 March 2016

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

	GROUP				ASSOCIATION			
	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2016 £'000	Restated Operating Surplus 2015 £'000	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2016 £'000	Restated Operating Surplus 2015 £'000
Affordable letting activities (Note 4)	9,146	(4,855)	4,291	3,230	9,146	(4,855)	4,291	3,230
Other activities (Note 5)	1,764	(175)	1,589	5	1,761	(178)	1,583	-
Total	10,910	(5,030)	5,880	3,235	10,907	(5,033)	5,874	3,230
Total for previous reporting period (Restated)	8,219	(4,984)	3,235		8,213	(4,983)	3,230	

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS (continued)**  
**Year ended 31 March 2016**

**4. Particulars of turnover, operating costs and operating surplus or deficit from affordable letting activities – Association**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>Restated £'000</b>
Rent receivable net of service charges	8,019	7,873
Service charges	56	56
Gross income from rents and service charges	<u>8,075</u>	<u>7,929</u>
Less voids	(13)	(14)
Net income from rents and service charges	<u>8,062</u>	<u>7,915</u>
Grants released from deferred income (see note 11)	971	36
Revenue grants from the Scottish Ministers	113	91
Other revenue grants	-	-
Total turnover from affordable letting activities	<u>9,146</u>	<u>8,042</u>
Management and maintenance administration costs before increase in pension provision	2,250	2,315
Increase in pension provision	<u>78</u>	<u>80</u>
Management and maintenance administration costs after increase in pension provision	2,328	2,395
Service costs	53	51
Planned and cyclical maintenance including major repairs costs	545	656
Reactive maintenance costs	977	884
Bad debts – rents and service charges	35	47
Depreciation of social housing	917	779
Operating costs for affordable letting activities	<u>4,855</u>	<u>4,812</u>
Operating surplus for affordable letting activities	<u>4,291</u>	<u>3,230</u>

All income is derived from General Needs housing provision.

5. 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) 2016 £'000	Operating surplus or (deficit) 2015 £'000
Other activities	-	1,678	83	1,761	-	178	1,583	-
<b>Total from other activities</b>	-	1,678	83	1,761	-	178	1,583	-
<b>Total from other activities for the previous reporting period</b>	-	107	64	171	-	171	-	-

Particulars of Turnover, operating costs and operating surplus or deficit from other activities – 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) 2016 £'000	Operating surplus or (deficit) 2015 £'000
Other activities	-	1,678	86	1,764	-	175	1,589	-
<b>Total from other activities</b>	-	1,678	86	1,764	-	175	1,589	-
<b>Total from other activities for the previous reporting period</b>	-	107	64	171	-	166	-	-

Other Revenue Grants of £1,429k and £56k (2015: £46k) were received from the Heritage Lottery Fund to fund the refurbishment of the Corn Exchange and to fund the posts of heritage officers and related heritage activities and events.

Other Revenue Grants of £133k were received from Historic Scotland to fund the refurbishment of the Corn Exchange.

Other Revenue Grants of £60k (2015: £61k) were received from the Scottish Legal Aid Board to fund additional welfare advice services.

Other income of £83k (2015: £64k) was generated from a management and lease agreement with Ironmills Developments Ltd including a gift aided donation to Melville from Ironmills of £21k.

There are no other activities to report.

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS (continued)**  
**Year ended 31 March 2016**

**6 Interest Payable and Similar Charges**

	<b>Group</b>		<b>Association</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
On loans partly repayable after five years	1,527	Restated 1,519	1,527	Restated 1,519
Net interest costs in respect of defined benefit pension scheme (see note 17)	70	57	70	57
	<u>1,597</u>	<u>1,576</u>	<u>1,597</u>	<u>1,576</u>

**7 Taxation on Surplus for the Year**

Melville Housing Association's charitable activities fall within the exemptions afforded by 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 and a charge of £658 has arisen in respect of the period to 31 March 2016.

**8 Tangible Fixed Assets – Association and Group**

	<b>Housing Properties</b>		<b>Total Housing Properties</b>	<b>Office Fixtures</b>		<b>Total</b>
	<b>Held for Development Letting</b>	<b>Programme</b>		<b>Office Buildings</b>	<b>Fittings &amp; Equipment</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost/valuation</b>						
At 1 April 2015	56,132	968	57,100	1,102	830	59,032
Additions	2,366	1,874	4,240	2,748	226	7,214
Transfers	1,421	(1,421)	-	-	-	-
Disposals	(219)	-	(219)	-	(489)	(708)
<b>At 31 March 2016</b>	<b>59,700</b>	<b>1,421</b>	<b>61,121</b>	<b>3,850</b>	<b>567</b>	<b>65,538</b>
<b>Depreciation</b>						
At 1 April 2015	-	-	-	-	787	787
Provided in year	917	-	917	4	34	955
Disposals	(99)	-	(99)	-	(474)	(573)
<b>At 31 March 2016</b>	<b>818</b>	<b>-</b>	<b>818</b>	<b>4</b>	<b>347</b>	<b>1,169</b>
<b>Net book value</b>						
At 31 March 2016	58,882	1,421	60,303	3,846	220	64,369
At 31 March 2015	56,132	968	57,100	1,102	43	58,245

**8 Tangible Fixed Assets – Association and Group (Continued)**

Included within housing properties held for letting are 11 mid market rent units which were valued at 31 March 2015 at £662k.

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

All Housing properties held for letting as at the 31 March 2015 were valued by an external valuer as at 31 March 2015 in accordance with our Accounting Policies (see note 1f). Housing Properties held for letting that were acquired or developed after 1 April 2012 were valued for the first time as at 31 March 2015.

The valuation was carried out by Jones Lang Lasalle (JLL), 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 2015 valuation the assumed real discount rate was between 6.0% and 6.25% for LSVT stock (2012, 6.25%), 6.5% for mid market rent stock and between 5.75% and 6% for all other, non-LSVT, stock (2012, 5.75% and 6.5%).

The historic cost for all housing stock properties at 31 March 2016 was £78,739,581.

Historic Scotland holds a standard security over a historic building carried at a value of £3,850,033 (2015: £1,102,020) within office buildings in respect of their grant funding.

Works to existing properties during the year comprised of the following:	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Charged to income and expenditure</b> (Note 4)	1,522	1,540
<b>Capitalised</b> - Replacement of components and improvements	2,460	1,200
<b>Total</b>	3,982	2,740

**9 Investments**

The Association owns one share in Ironmills Developments Limited at a cost of £1 (2015: £1).

**10 Debtors**

	<b>Group</b>		<b>Association</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Gross rental debtors	325	325	324	324
Less bad debt provision	(155)	(157)	(155)	(157)
	170	168	169	167
Due from subsidiary company	-	-	8	-
Other debtors	239	218	239	218
Less bad debt provision	(126)	(113)	(126)	(113)
Prepayments and accrued income	904	283	905	283
	1,187	556	1,195	555

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS (continued)**  
**Year ended 31 March 2016**

**11 Creditors: Amounts falling due within one year**

	<b>Group</b>		<b>Association</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade creditors	493	211	493	211
Other taxes and social security costs	27	30	27	30
Loans payable within one year	167	167	167	167
Other creditors	-	14	-	-
Accruals	1,603	1,071	1,603	1,071
Deferred income	779	1,336	779	1,336
Rents in advance	267	293	267	293
	<b>3,336</b>	<b>3,122</b>	<b>3,336</b>	<b>3,108</b>

	<b>HAG</b>		<b>Other</b>		<b>Total</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Deferred income – Group and Association</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deferred income at 1 April 2015	956	-	380	244	1,336	244
Additional income received	583	956	1,393	136	1,976	1,092
Released to statement of comprehensive income	(770)	-	(1,763)	-	(2,533)	-
Deferred income at 31 March 2016	<b>769</b>	<b>956</b>	<b>10</b>	<b>380</b>	<b>779</b>	<b>1,336</b>

	<b>Group</b>		<b>Association</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Deferred income to be released to the Statement of Comprehensive Income</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
In less than one year	779	858	779	858
In more than one year	-	478	-	478
	<b>779</b>	<b>1,336</b>	<b>779</b>	<b>1,336</b>

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

	<b>Group</b>		<b>Association</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Housing property loans not wholly repayable within five years	29,675	29,087	29,675	29,087
Housing property loans are repayable in instalments:				
Between one year and two years	400	400	400	400
Between two years and five years	1,200	1,200	1,200	1,200
After five years	28,075	27,487	28,075	27,487
	<b>29,675</b>	<b>29,087</b>	<b>29,675</b>	<b>29,087</b>
Less unamortised loan issue expenses	(104)	(108)	(104)	(108)
	<b>29,571</b>	<b>28,979</b>	<b>29,571</b>	<b>28,979</b>
Derivative financial instruments (note 21)	12,038	11,809	12,038	11,809
	<b>41,609</b>	<b>40,788</b>	<b>41,609</b>	<b>40,788</b>

**12 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. The loans are repayable by quarterly instalments which commenced on 6 January 2013 on £3.83m, on 15 October 2022 on £16.6m, and on 15 October 2025 on £3m. The remaining £6.25m 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 with a range between 0.25% and 1.9%.

Interest rate swap contracts have been entered into as follows:

- £10m is fixed at 6.67% 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.

**13 Share Capital**

	<b>Association</b>	
	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Shares of £1 each		
At 1 April 2015	126	123
Issued in year	5	7
Cancelled in year	(8)	(4)
At 31 March 2016	123	126

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.

**14 Reconciliation of Movement in Accumulated Reserves**

The Heritage Lottery fund provided a grant of £1,219k during the year to 31 March 2016, to part fund our refurbishment of the Corn Exchange and £57k to fund the post of heritage officers and related heritage activities. Funds received have been accounted for as restricted funds during the year and have been applied in accordance with the terms of the grant.

The Scottish Legal Aid Board provided a grant of £60k during the year to 31 March 2016 to fund additional welfare advice services. Funds received have been accounted for as restricted funds during the year, and have been applied in accordance with the terms of the grant.

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS (continued)**  
**Year ended 31 March 2016**

**15 Employees**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs during year		
Wages and salaries	1,105	1,238
Social security costs	93	103
Other pension costs	289	184
	<u>1,487</u>	<u>1,525</u>

	<b>No.</b>	<b>No.</b>
The average number of staff employed by the Association during the year were	<u>32</u>	<u>35</u>

The average full time equivalent number of persons employed by the Association during the year were	<u>29</u>	<u>31</u>
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Key management personnel are defined as the members of the Board, the Chief Executive and any other person reporting directly to the Chief Executive or the Board whose total emoluments, excluding pension contributions, exceed £60,000 per year. Details are as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Aggregate emoluments, excluding pension contributions, payable to key management personnel	221,564	282,145
Pension contributions payable to key management personnel	39,688	44,823
Total emoluments	<u>261,252</u>	<u>326,968</u>

The number of key management personnel whose emoluments were above £60,000 for the year was:

	<b>2016</b>	<b>2015</b>
£70,000 to £80,000*	-	2
£80,000 to £90,000*	<u>3</u>	<u>2</u>

\* The bands presented include pension contributions

The emoluments of the Chief Executive, excluding pension contributions, were as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Aggregate emoluments, excluding pension contributions	80,246	78,325
Pension contributions	14,712	12,710
Total emoluments	<u>94,958</u>	<u>91,035</u>

The Chief Executive is an ordinary member of the Association's pension scheme described in note 17. No enhanced or special terms apply to his membership and he has no other pension arrangements to which the Association contributes.

There were contractual payments of £nil made to senior officers of the organisation in respect of redundancy (2015: £13,456).

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Total expenses reimbursed insofar as not chargeable to UK Income Tax		
- Chief Executive	<u>32</u>	<u>154</u>
- Board	<u>1,109</u>	<u>1,843</u>

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



**16 Auditor's Remuneration**

	2016 £	2015 £
The remuneration of the auditors (including expenses and VAT for the year) was as follows:		
Audit services	11,138	10,520
Non-audit services	3,090	-
	<u>14,228</u>	<u>10,520</u>

**17 Pension Obligations**

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

The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the Board on the advice of the actuaries. In the intervening years the actuaries review the progress of the scheme and prepare an interim valuation for the purposes of reporting under FRS 102 as at the end of March.

The performance of the scheme has been reported under FRS 102 as amended.

Principal actuarial assumptions at the balance sheet date:

	2016 % p.a.	2015 % p.a.
Discount rate	3.5	3.2
Future salary increases	4.2	4.3
Future pension increases	2.2	2.4
The expected return on assets	<u>3.5</u>	<u>3.2</u>

The total pension charge for the year was £288,505. At 31 March 2016 £20,499 was due to be paid over to the pension scheme (2015: £26,726). The agreed employer contribution rate from 1 April 2016 is 19.5% (2015: 19.5%).

The group expects to contribute £201,158 to its defined benefit pension plans in 2016/17.

	2016 %	2015 %
The major categories of plan assets as a percentage of stated plan assets are as follows:		
Equities	67	69
Bonds	20	17
Property	9	8
Cash	<u>4</u>	<u>6</u>

MELVILLE HOUSING ASSOCIATION LIMITED  
 NOTES to the FINANCIAL STATEMENTS (continued)  
 Year ended 31 March 2016

17 Pension Obligations (Continued)

Changes in the fair value of plan assets, defined benefit obligation and net liability

	Assets £'000	Obligations £'000	Year ended 31 March 2016 Net liability £'000	Year ended 31 March 2015 Net liability £'000
Fair value of employer assets	6,954	-	6,954	6,093
Present value of funded liabilities	-	(9,091)	(9,091)	(7,387)
<b>Opening Position as at 31 March 2015</b>	<b>6,954</b>	<b>(9,091)</b>	<b>(2,137)</b>	<b>(1,294)</b>
Service cost				
Current service cost	-	(309)	(309)	(319)
Past service cost (including curtailments)	-	(62)	(62)	-
<b>Total Service Cost</b>	<b>-</b>	<b>(371)</b>	<b>(371)</b>	<b>(319)</b>
Net Interest				
Interest income on plan assets	225	-	225	265
Interest cost on defined benefit obligation	-	(295)	(295)	(322)
<b>Total net interest</b>	<b>225</b>	<b>(295)</b>	<b>(70)</b>	<b>(57)</b>
<b>Total defined benefit cost recognised in income and expenditure</b>	<b>225</b>	<b>(666)</b>	<b>(441)</b>	<b>(376)</b>
Cashflows				
Plan participants contributions	71	(71)	-	-
Employer contributions	293	-	293	239
Benefits paid	(216)	216	-	-
<b>Expected closing position</b>	<b>7,327</b>	<b>(9,612)</b>	<b>(2,285)</b>	<b>(1,431)</b>
Re-measurements (actuarial losses)				
Changes in demographic assumptions	-	-	-	(332)
Changes in financial assumptions	-	930	930	(1,019)
Other experience	-	67	67	195
Return on assets excluding amounts included in net interest	122	-	122	450
<b>Total re-measurements recognised in Other comprehensive income</b>	<b>122</b>	<b>997</b>	<b>1,119</b>	<b>(706)</b>
Fair value of plan assets	7,449	-	7,449	6,954
Present value of funded liabilities	-	(8,615)	(8,615)	(9,091)
<b>Closing position as at 31 March 2016</b>	<b>7,449</b>	<b>(8,615)</b>	<b>(1,166)</b>	<b>(2,137)</b>

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS (continued)**  
**Year ended 31 March 2016**

**18 Capital Commitments**

As at 31 March 2016, the Association had the following capital commitments:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Committed not contracted*	-	973
Contracted for less certified*	-	4,239

\* Funded by Heritage Lottery Funding, Historic Scotland grants, Housing Association Grants, and loan finance.

**19 Other Financial Commitments**

At 31 March 2016, the Group and Association had total commitments under non-cancellable operating leases as detailed below:

	<b>Land &amp; Buildings</b>	
	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Leases expiring: -		
Within one year	-	48
Within two to five years	-	-
After more than five years	-	-
	<hr/>	<hr/>
	<b>Other leases</b>	
	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Leases expiring: -		
Within 1 year	-	-
Within two to five years	4	5

**20 Related Party Transactions and subsidiary company**

During the year, 4 members of the Board rented property from the Association on standard terms, as applicable to all tenants. The members are not able to use their position to their advantage. In the year, rent and service charges payable totalled £16,698, and at the year end the arrears balance in relation to these members was £nil.

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 11 properties to Ironmills (lease charge of £36,880) to be rented out at Mid Market Rent. The Association also charged Ironmills £23,545 in respect of management of these properties.

During the year, Ironmills Developments Limited repaid £4,247 of the intercompany balance owing to the Association, reducing amounts due from the subsidiary company at the year end to £nil. Ironmills agreed to gift aid surpluses of £20,980 to the Association and this payment was outstanding as at 31 March 2016. The Association collects rental receipts on behalf of Ironmills and at the end of the year was holding £13,514 in receipts owing to Ironmills. Ironmills and Melville have netted these amounts and the balance is shown as a debtor of £7,466 in the Association's financial statements.

**21 Derivative financial instruments**

Derivative financial instruments comprise interest rate swaps which are measured at fair value as provided by the Association's lender RBS plc, and as set out in note 12.

**22 Contingent liabilities**

Housing Association Grants (HAG) received in respect of all properties owned at 31 March 2016 amounted to £31,399k. HAG remains legally repayable to the Scottish Government in certain circumstances.

Other grants attributable to Office Buildings comprise grant funding awarded by Historic Scotland and the Heritage Lottery Fund for the development of a historic building. Under the terms of the awards, amounts received may be repayable in certain circumstances such as the disposal of the building.

**23 Unit Numbers**

	<b>Association</b>	
	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
General Needs	1,958	1,949
Mid market rent	11	11
	<u>1,969</u>	<u>1,960</u>

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.

**24 Prior year adjustments following adoption of FRS 102**

**(i) Financial instruments**

The Association was not previously required to recognise derivative financial instruments on the Balance Sheet. Instead the effects of the instruments were recognised in income and expenditure on settlement. FRS 102 requires derivative financial instruments to be recognised at fair value, when the entity becomes party to the contractual provisions of the instrument. Accordingly at transition on 1 April 2014 a liability of £7.7m was recognised and a loss of £4.1m was recognised for the year ended 31 March 2015. A liability of £11.8m was recognised at that date.

**(ii) Holiday pay accrual**

Prior to the adoption of FRS 102, no provision was made for holiday pay earned but not taken before the year end. FRS 102 requires the cost of short term compensated absences to be recognised when employees render the service that increases their entitlement. Consequently a holiday pay provision of £31k was made in the year ended 31 March 2015.

**(iii) Debt with a payment plan**

In line with SORP 2014 all debt balances with a repayment plan in place at the year end have been measured at the present value of the future payments discounted to a market rate of interest applicable to similar debt instruments. This has resulted in no adjustment to our debt balances.

**24 Prior year adjustments following adoption of FRS 102 (contd.)**

**(iv) Recognition of grant income**

Previously, capital grant received was netted off against the cost of housing properties. In line with the Housing SORP 2014 and FRS 102, grant received by the Association is now recognised as income in line with the performance model. Grant received in advance of the satisfaction of any performance conditions is held within creditors as deferred income. In the statement of financial position, this has resulted in an increase in the carrying value of the Development Programme within Housing Properties, and of deferred income balances in creditors of £956,000 in the year to 31 March 2015. Income receivable of £36,000 during the year to 31 March 2015 in relation to completed developments has been restated to be included within turnover for 31 March 2015. Cumulative HAG received to 31 March 2014 of £7,602,000 in relation to completed developments has been transferred to revenue reserves as at 1 April 2014.

These changes to how we account for grants increases the annual depreciation charge.

**(v) Recognition of grant income – impact on revaluation and revenue reserves.**

Social housing stock and mid-market rent properties are held at valuation and assessed annually by the Association in accordance with our Accounting Policies (see note 1f). The valuation is carried out on the basis of Existing Use Value for Social Housing (EUV-SH). Prior to SORP 2014, the revaluation has compared the EUV-SH value with the net cost of the asset; net after the deduction of HAG grants received. As noted above, SORP 2014 requires that HAG should not be netted against the cost of the asset and therefore historic revaluation gains and losses have been restated to recognise this change in accounting policy. This resulted in £23,491,000 being transferred from revaluation reserves to revenue reserves as at 1 April 2014. This change in accounting policy resulted in previously reported property revaluation gains becoming losses, and the resulting deficit on revaluation reserves of £8,855,000 was also transferred to revenue reserves.

**(vi) Property revaluations**

As a result of the change in accounting treatment of HAG, as noted above, previously stated revaluation gains recognised in the Statement of Total Recognised Surpluses and Deficits during the year to 31 March 2015 of £2,431,000, and decreases in valuation of housing properties of £5,206,000 are recognised in the restated Consolidated Statement of Comprehensive Income for the same period.

**(vii) Other Grant Income**

Grant income received from Heritage Lottery Fund for the purchase and development of Office Buildings had previously been offset against the cost of the asset. This treatment is no longer permitted under SORP 2014 or FRS 102. The performance method has been adopted to account for these grants, in accordance with FRS102 and as such, accumulated grants receivable as at 31 March 2015 of £380,000 have been transferred to deferred income, until such time as performance conditions are met.

**(viii) Pensions adjustment**

As a result of the adoption of FRS102, the calculation of the return on employer assets has been amended, leading to an increase of £111,000 in the reported net interest cost of the scheme for the year to 31 March 2015, offset by a reduction in the reported actuarial loss for the year of the same amount.

**24 Prior year adjustments following adoption of FRS 102 (contd.)**

**(viii) Reconciliations**

The adjustments noted above resulted in the following restatements for the Group:

<b>Restated statement of financial position</b>	<b>31 March 2015</b>	<b>1 April 2014</b>
	<b>£'000</b>	<b>£'000</b>
Original net assets	27,209	23,753
Recognition of fair value of derivative financial instruments at 1/4/14	(7,725)	(7,725)
Movement in fair value of derivative financial instruments to 31/3/15	(4,084)	-
Restated net assets	<u>15,400</u>	<u>16,028</u>

<b>Restated statement of comprehensive income</b>	<b>31 March 2015</b>
	<b>£,000</b>
Original surplus at 31 March 2015	1,841
Movement in fair value of derivative financial instruments	(4,084)
Recognition through Statement of Comprehensive Income of HAG received in year for completed developments	36
Decrease in valuation of housing properties at 31 March 2015 due to change in treatment of HAG	(5,206)
Revision to calculation of return on pension scheme assets under FRS102	(111)
Restated deficit at 31 March 2015	<u>(7,524)</u>

The adjustments noted above resulted in the following restatements for the Association:

<b>Restated statement of financial position</b>	<b>31 March 2015</b>	<b>1 April 2014</b>
	<b>£'000</b>	<b>£'000</b>
Original net assets	27,214	23,763
Recognition of fair value of derivative financial instruments at 1/4/14	(7,725)	(7,725)
Movement in fair value of derivative financial instruments to 31/3/15	(4,084)	-
Restated net assets	<u>15,405</u>	<u>16,038</u>

<b>Restated statement of comprehensive income</b>	<b>31 March 2015</b>
	<b>£'000</b>
Original surplus at 31 March 2015	1,836
Movement in fair value of derivative financial instruments	(4,084)
Recognition through Statement of Comprehensive Income of HAG received in year for completed developments	36
Decrease in valuation of housing properties at 31 March 2015 due to change in treatment of HAG	(5,206)
Revision to calculation of return on pension scheme assets under FRS102	(111)
Restated deficit at 31 March 2015	<u>(7,529)</u>

**25 Post balance sheet events**

Following the year end, a valuation of the Association's interest rate swap contracts as set out in notes 12 and 21 was obtained. This showed that the fair value of the swap contracts had increased from £12m at 31 March 2016 to £13.3m at 30 June 2016, primarily as a result of a reduction in long term forecast interest rates following the UK voting to leave the EU in June. No adjustment has been made to the 31 March 2016 financial statements in respect of this as it occurred subsequent to the year end.