

**MELVILLE HOUSING ASSOCIATION LIMITED**  
**REPORT and CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 March 2021**

**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 2021**

**CONTENTS**

**Page**

<b>1</b>	Executives and advisers
<b>2</b>	Report of the Board
<b>10</b>	Statement of responsibilities of the Board
<b>11</b>	Internal financial control - Board Statement
<b>12</b>	Report of the Independent Auditor
<b>15</b>	Report of the Independent Auditor on Corporate Governance matters
<b>16</b>	Consolidated statement of comprehensive income
<b>17</b>	Consolidated statement of changes in reserves
<b>18</b>	Consolidated statement of financial position
<b>19</b>	Consolidated statement of cash flows
<b>21</b>	Notes to the financial statements

# MELVILLE HOUSING ASSOCIATION LIMITED

## EXECUTIVES AND ADVISERS

Year ended 31 March 2021

### BOARD:

Ms C Quinn (Chair)  
Mr D Bond (Vice Chair)  
Mrs B Shearer (Secretary)  
Mr G Alexander  
Ms L Stang  
Ms D Bogdanovic  
Mr P Cameron  
Mr A Dougherty  
Ms H Johnston  
Ms C Marshall  
Ms C Moore  
Mr T Powell  
Mr D Takhar

### SENIOR OFFICERS AND KEY MANAGEMENT

Mr J McMorrow, Chief Executive Officer

### 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 Ca'd'oro, 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**

### **REPORT OF THE BOARD**

**For the year ended 31 March 2021**

The Board of Melville Housing Association Limited presents the group report and the audited financial statements for the year ended 31 March 2021.

#### **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 2021, the Association held 2,032 units for social rent and 11 units for letting to Ironmills. Ironmills continued to develop mid market rental opportunities.

#### **Objectives**

The Association's objectives are set out in its business plan 2016-2021 which was approved by the Board in October 2016. The headline objectives are set out below:

- Deliver high quality housing, support and repairs services to our customers.
- Grow our business in a financially sound and controlled manner to help meet housing need.
- Manage our assets effectively and efficiently, demonstrating value for money.
- Demonstrate high standards for governance and staff management, including compliance with our statutory and regulatory frameworks.
- Make a difference in the communities in which we operate, working effectively with our current and future customers and partner organisations.

In 2018, following a review of the business plan the Board also committed to exploring ways to improve the environmental impact of the services delivered with a particular focus on reducing carbon emissions.

The following paragraphs set out how Melville has performed during the year ended 31 March 2021 against these objectives.

### **OPERATING AND FINANCIAL REVIEW**

#### **COVID-19**

On 23rd March 2020, the UK Government put in place measures to restrict the movements of the UK population as a control mechanism to deal with the COVID-19 pandemic crisis. Melville had previously closed its office to the public on 13<sup>th</sup> March as most staff were already working from home. As of 23<sup>rd</sup> March 2020, all staff were working from home and during this financial year, we have continued the working from home arrangements. Contractor services were stopped for a period and we mainly undertook emergency work and some urgent non-emergency work.

As a result, we have underspent on our planned programmes during the year but anticipate that we will catch up during 2021/22. Likewise, development programmes stopped for a period and work eventually resumed during the year and we have managed to build 12 new homes during the period.

The overall impact on the business as a direct consequence of the pandemic is that we have built up additional cash reserves much of which will be used in 2021/22 as we bring our programmes up to date.

Despite the pandemic impacting our communities, we have seen a reduction in overall arrears and we will be monitoring the longer term impact during 2021/22 as we anticipate that the true impact on our tenants, the economy, and some external costs (materials) will not fully materialise until later.



## MELVILLE HOUSING ASSOCIATION LIMITED

### REPORT OF THE BOARD (continued)

For the year ended 31 March 2021

#### General overview

During the year we invested £3.2m in property maintenance and refurbishment, and £2.4m in developing new properties. Our annual rental income increased by 1.5% due to the annual inflationary increase of 1.5%.

We returned an operating surplus after interest payable and receivable of £2.5m compared with a surplus of £2m in the prior year. Throughout the year we maintained high levels of customer satisfaction (86%).

#### Housing and Housing Support Services

##### *Housing 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 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*, online via our website and Facebook pages, and personalised advisory meetings, visits and phone calls to all affected tenants.

##### *Lettings*

During the year, 100 of our properties became available for let compared with 73 in 2020. On average, we took 17 days to relet properties compared with 12 days in 2020. This was just above our target of 15 days and still represents very good performance given the delays caused by the pandemic and is strong in comparison with the Annual Return on the Charter (ARC) Scottish average of 31.8 days. (Source: ARC data 2019/20).

Income lost on empty properties was 0.2% of rental income (2020: 0.11%), better than our target of 0.25%. The Scottish average for rent lost on empty properties was 0.9%. (Source: ARC data 2019/20).

##### *Rent arrears*

Our current non technical tenant arrears were 2.14% of rental income at 31 March 2021 compared with 2.87% for the year ending 31 March 2020. The implementation of new income management strategies resulted in an improvement in our overall performance despite the negative impact of Covid-19, welfare reform, in particular the roll out of Universal Credit. ARC comparison data on non technical tenant arrears is not available.

##### *Tenancy Support and Money Advice*

The aim of our 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 support with personal budgeting, debt consolidation and debt management. During the year we provided tenancy support and money advice services to 88 tenants .

During the year, our tenancy sustainment has remained high this year with 94.52% tenancies being sustained during 2020/21 compared to an average of 89% (ARC 2019/20 data).

##### *Welfare Advice Services*

During the year our welfare advice services helped tenants access £778k in unclaimed benefit monies which will have long term benefits for the individuals and their families, helping them to sustain their homes.

#### Asset Management and Value for Money

##### *Housing Stock*

During the year we invested £3.2m 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, including replacing 31 bathrooms, fitting 110 new kitchens, renewing 32 roofs and replacing 62 heating systems.

## MELVILLE HOUSING ASSOCIATION LIMITED

### REPORT OF THE BOARD (continued)

For the year ended 31 March 2021

These numbers, particularly the bathrooms, were lower than our planned replacement levels due to the various COVID-19 lockdowns preventing access and many contractors furloughing staff for long periods of time.

We invested £73k in medical adaptations during the year, funded by grants received from the Scottish Government, and completed 62 adaptations. This helped people of all ages affected by an impairment, to continue to live independently in their own homes.

#### *Value for Money*

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 also now completed the full harmonisation of our rents. These actions and other cost savings have meant we were again able to offer a low increase on our rents for 2021-22 of 1%. We will continue to review our financial plans which enable the provision of a quality sustainable service with affordable rents, while being mindful of sustaining the financial viability of the organisation.

We have an active group of tenant representatives who meet at least three times a year undertaking activities which include a review of our performance and our Annual Report to Tenants, discussing value for money ideas and giving input on ways to improve our service. The group also actively reviews our financial results with a particular focus on how Melville invests and spends its rental income.

#### *Sustainability*

Melville is committed to developing its services to achieve net-zero status to support climate change target but mainly to provide better services for our tenants. The Board considered this strategy last financial year to include specific actions to research sustainable development and maintenance programmes, improve the energy efficiency of our office space and to play our part in changing behaviours in support of the climate change agenda. Actions to date include a resource efficiency review of our office, building on our experience of installing air source heat pumps instead of traditional gas heating systems, repurposing used carpet tiles and providing them free of charge to tenants, and rolling out an E-car club scheme with funding from the Energy Savings Trust.

#### *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 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.

### **Making a difference in our communities**

We strongly believe that as well as our core responsibilities to existing and future tenants Melville has a much wider role to play in our communities. On a day-to-day basis we work closely with these communities through the services we deliver and are well placed to provide further focussed support. Over the past year staff across all areas of the organisation, have contributed to these activities which have included:

#### *Tackling poverty*

- We continued to provide support and assistance to local foodbanks, including:
  - making a cash donation of £500 to the Gorebridge Foodbank in December
  - donating £500 to the Dalkeith Storehouse Christmas appeal



## MELVILLE HOUSING ASSOCIATION LIMITED

### REPORT OF THE BOARD (continued)

For the year ended 31 March 2021

#### *Fundraising and supporting community organisations*

- Raising over £900 for our nominated staff charity, St David's Bradbury Day Centre, through regular monthly events including raffles, bake sales, dress down days and sponsored events
- Continuing to promote the work of local youth charity Y2K including:
  - making a £500 donation to help with day-to-day running costs
  - providing free admin support to help keep down costs
- Contributing to the Mayfield & Easthouses Development Trust Christmas Lights appeal in December
- Promoting the work of tenants, Board members, local charities and community groups through our social media channels and our Voice newsletter

#### *Delivering safer, more attractive and more sustainable communities*

- Working with contractors to provide no-cost flooring to a further 12 Melville households, saving over 4,000 carpet tiles sourced from office refurbishments ending up in landfill with pro bono support from our main repairs contractor Novus. With restrictions easing, we have started working through a waiting list to provide flooring to more of our tenants.
- Working with Novus to take excess paint and distribute it to tenants, free of charge
- Working with Scottish Fire and Rescue to promote fire safety, with a particular emphasis on common stairs
- Continuing to promote the *Make a Stand campaign* to raise awareness of, and to take action to support victims of domestic abuse
- Encouraging recycling through our Voice newsletter and in the office to Melville staff
- Continuing to run our annual garden competition as a way of recognising tenants who look after their gardens and keep local neighbourhoods looking attractive

#### *Digital events, skills and employability*

- Promoting and supporting the development of digital skills among staff, tenants and Board members

#### *Health awareness*

- Continuing to provide, support and maintain a public access defibrillator as part of a local life-saving network

## GOVERNANCE AND STAFFING

### 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. The Board and executive officers of the Association are listed on page 1.

New Board members receive formal induction training to develop their knowledge and understanding of their role to help them to participate effectively in the performance of their duties, and all members are encouraged to attend relevant conferences and training events. 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.

The Board meets at least annually to consider and update (where necessary) the strategic direction of the organisation. During this time, the Board also receives updates and training on governance matters.



## **MELVILLE HOUSING ASSOCIATION LIMITED**

### **REPORT OF THE BOARD (continued)**

**For the year ended 31 March 2021**

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.

#### **Staffing**

During the year, we employed 31 staff (26 full time equivalents). 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 and individual 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 2020 and approved by the Board.

#### **FUTURE DEVELOPMENTS**

##### **COVID-19**

We had previously indicated that we anticipated that the COVID-19 crisis would have a significant impact on our communities and the full impact is still in our opinion to be realised. Although we had anticipated negative impacts on our finances during the year these have not materialised however we will continue to monitor the impact on our tenants, our finances next financial year and beyond and we will review the affect of this on future plans of the organisation.

##### **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. On 28 March 2017, the Scottish Government backed the First Minister's call for a second Independence Referendum in Scotland. Several years on, considerable uncertainty remains on the outcome for both events. Melville Housing Association has no political view on these events 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 continue to monitor the impact of the changes arising from these events 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 application of Universal Credit and the direct payment of housing costs to tenants continues to bring challenges as many tenants find themselves unable to pay their rent due to the way in which Universal Credit is administered in particular the time taken to receive benefit payments following a claim. This has an impact on rent collection strategies and arrears management. We believe the review undertaken during the previous year to review and refresh our arrears management practices, add extra resources to deal with rent collections as well as to provide advice and support to tenants, has had a very positive impact on our performance; however we anticipate a deterioration in that position when the full impacts of the COVID-19 crisis flows through the economy. We will therefore continue to monitor our tenancy sustainment, arrears, bad debts and cash flow as we navigate both the continued roll out of Universal Credit and the COVID-19 crisis.

##### **Development plans and opportunities**

During the year, we completed development of 10 out of 26 properties in Bilston with Taylor Wimpey with the remainder due to be completed by July 2021. We have a conditional contract for a further 30 properties on the same site for 2021/22. The Mayfield development noted in last year's financial statements which was due to complete in November 2020, and deliver a further 20 properties, has unfortunately been delayed until September 2021. We determined the employment of the developer in February 2020 under the terms of the contract because of consistent levels of non-performance. On 17 November 2020, the Association successfully defended an adjudication process brought against us by the developer following determination of employment.



## **MELVILLE HOUSING ASSOCIATION LIMITED**

### **REPORT OF THE BOARD (continued)**

**For the year ended 31 March 2021**

#### **FUTURE DEVELOPMENTS (continued)**

We are reviewing our outline plans to develop over 100 properties over the next 3 years and we have secured loan finance to fund a number of these properties. We will examine whether we will secure additional loan finance, as required, for the remainder. These will be completed with the support of the Scottish Government and Midlothian Council.

The housing market, particularly in Midlothian, continues to remain buoyant with an increase of 31% in the population anticipated between 2021 and 2041. Midlothian continues to see record levels of grant funding being spent and proposed for future years. It remains to be seen if the Affordable Housing Supply Programme target of 50,000 units, 35,000 of these being for social rent, has been achieved, however, Melville remains well placed to assist with the delivery of this and proposals for a new target.

#### **Environmental impact**

We are passionate about developing our sustainability strategy to contribute to the net-zero target for Scotland by 2045. This will include setting a definition or base-line for a net-zero property, gathering data on all of our properties to measure performance against that base line, addressing any issues with the fabric of our properties, and ensuring the use of homes is optimised providing advice to tenants on energy usage, smart meters and utility switching. We will also research the requirements to ensure all new build properties are built to net-zero standards. We will continue with our influencing strategies on food waste and energy usage.

#### **Governance**

In line with the Scottish Housing Regulator's Regulatory Framework, the Board will continue to develop and strengthen its governance role, including recruiting new members to add to the range of skills on the Board.

The Board adapted to the restrictions on movement and social distancing requirements imposed as a result of the COVID-19 crisis by holding meetings by video conference call. The Board agreed and monitored actions to be taken through their regular planned meetings as well as shorter update meetings during the duration of the crisis.

#### **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 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 is 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 BOARD (continued)

For the year ended 31 March 2021

#### 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 2021 the Lothian Pension Scheme actuary has informed the Association that its share of the pension deficit amounts to £1,903k (2020: £1,491k) and this is shown in the statement of financial position.

##### *Revaluation Reserve*

All of Melville's housing properties in ownership as at 31 March 2021 were re-valued at that date by Jones Lang LaSalle (JLL) and changes in value were shown in the revaluation reserve. 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 March 2024.

##### *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 bi-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 16. The surplus for the Group is £10m (2020: £0.9m). The Group's accumulated reserves are decreased by a £0.2m transfer from the Pensions Reserve. The surplus less transfers result in a £9.8m increase in the Group Revenue Reserves at 31 March 2021 (2020: increase of £1.6m). Our subsidiary company, Ironmills Developments Limited, returned an operating surplus of £5.2k (after which gift aid of £5.2k will be made to the Association) during the year to 31 March 2021 (2020: operating surplus of £5.2k, after which gift aid of £5.2k was made to the Association).

#### KEY RISKS

The Association regularly reviews and assesses the risks faced by the organisation in all areas of its works. The Association uses a risk register to record identified risks and these are reviewed regularly and action taken as appropriate.

Key risk themes identified are:

- Longer term COVID-19 -impact on our communities, our staff and our finances.
  - A continued focus on our tenants with continued training provided to housing staff to ensure guidance can be provided on financial support for our tenants; this in addition to our 2 welfare benefit advisors and support from CHAI (tenancy support and money advice).
  - Continual review of our cash planning including weekly updates to ensure that we have sufficient cash to meet the needs of the business against a back-drop of possible increasing arrears.
  - Review of return to work plans to re-open the office with a gradual possible blended return to the office.
- Tenant safety (gas inspections and air quality of homes) – annual gas inspections are completed and action is taken quickly to address any air quality issues



**MELVILLE HOUSING ASSOCIATION LIMITED**

**REPORT OF THE BOARD (continued)**

**For the year ended 31 March 2021**

- Impact of welfare reform – see notes above for actions to mitigate impact of welfare reform
- Loss of key staff/board experience – management restructuring to improve resilience and support for senior team and ongoing monitoring of Board recruitment needs and Board development with developed succession planning
- Maintaining a high quality service – see sections above on how we delivered our corporate strategy aims
- IT and cyber security - we provide our staff with regular training and advice on IT security and cyber awareness. During the previous year we upgraded our IT infrastructure which has further enhanced security, resilience and efficiency of our systems and we also considering cyber-security accreditation. During the year we will undertake a further review our IT Strategy

The Board is satisfied that adequate policies, procedures and controls are in place to mitigate these risks as far as possible.

**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**



11 Aug 2021

The Corn Exchange, 200 High Street, Dalkeith, Midlothian, EH22 1AZ

**MELVILLE HOUSING ASSOCIATION LIMITED**

**REPORT OF THE BOARD (continued)**

**For the year ended 31 March 2021**

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 – February 2019. 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**



11. Aug 2021



## MELVILLE HOUSING ASSOCIATION LIMITED

### INTERNAL FINANCIAL CONTROL

The year ended 31 March 2021

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 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 2021, 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.

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**



11 - Aug - 2021

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



**Opinion**

We have audited the consolidated financial statements of Melville Housing Association Limited (the 'Association') for the year ended 31 March 2021 which comprise the Consolidated and Association Statement of Comprehensive Income, the Consolidated and Association Statement of Financial Position, the Consolidated and Association Statement of Changes in Reserves, the Consolidated and Association Statement of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's and the Group's affairs as at 31 March 2021 and of the Association's and the Group's 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 – February 2019.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

**Other information**

The Board is responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



**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.

**Responsibilities of the Board**

As explained more fully in the Statement of the Board's Responsibilities set out on page 10, the Board members (who are also the Trustees of the Association for the purposes of charity law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Group's and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We gained an understanding of the legal and regulatory framework applicable to the charitable company and considered the risk of acts by the charitable company which were contrary to the applicable laws and regulations, including fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements. Our tests included, but were not limited to:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- agreement of the financial statement disclosures to underlying supporting documentation;
- enquires of the senior management;
- review of Board meeting minutes throughout the period and since the year end;
- review of legal correspondence and invoices; and
- review of manual adjustments made in coming to the financial statements to identify any unusual adjustments.

**Auditor's responsibilities for the audit of the financial statements (continued)**

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the Association's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.



8 / 9 / 2021



**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 11 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 11 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 Group 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.



8 / 9 / 2021

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of COMPREHENSIVE INCOME

Year ended 31 March 2021

	Note	Group		Association	
		2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>TURNOVER</b>	3	9,457	9,414	9,457	9,415
Operating costs	3	(5,696)	(5,947)	(5,696)	(5,948)
<b>OPERATING SURPLUS</b>	3	3,761	3,467	3,761	3,467
Profit on disposal of fixed assets		70	100	70	100
Interest receivable		1	5	1	5
Interest payable and financing costs	6	(1,548)	(1,621)	(1,548)	(1,621)
<b>OPERATING SURPLUS after profit on disposal of fixed assets and interest payable &amp; receivable</b>		2,284	1,951	2,284	1,951
Movement in fair value of financial instruments		2,062	(1,030)	2,062	(1,030)
Reversal of revaluation losses		5,680	-	5,680	-
<b>SURPLUS BEFORE TAX</b>		10,026	921	10,026	921
Taxation		-	-	-	-
<b>SURPLUS FOR THE YEAR</b>		10,026	921	10,026	921
Actuarial gain/(loss) in respect of pension schemes	17	(240)	706	(240)	706
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		9,786	1,627	9,786	1,627

All results derive from continuing activities.

The notes on pages 21 to 35 form part of these financial statements.



MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of CHANGES IN RESERVES

Year ended 31 March 2021

	Share capital £'000	Revaluation reserve £'000	Revenue reserve £'000	Pension reserve £'000	Total reserves £'000	Restricted funds £'000	Unrestricted funds £'000
Balance at 1 April 2020	-	-	37,718	(1,491)	36,227	-	36,227
Surplus/(loss) for the year	-	-	10,026	(240)	9,786	-	9,786
Transfer from pensions reserve to revenue reserve/restricted funds movement	-	-	172	(172)	-	-	-
<b>Balance at 31 March 2021</b>	-	-	47,916	(1,903)	46,013	-	46,013

The notes on pages 21 to 35 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of FINANCIAL POSITION

At 31 March 2021

		Group		Association	
	Note	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>FIXED ASSETS</b>					
Social housing properties	8	84,929	77,072	84,929	77,072
Other tangible fixed assets	8	3,730	3,822	3,730	3,822
		<u>88,659</u>	<u>80,894</u>	<u>88,659</u>	<u>80,894</u>
<b>CURRENT ASSETS</b>					
Trade and other debtors	10	369	390	374	394
Cash and cash equivalents		2,792	2,651	2,787	2,647
		<u>3,161</u>	<u>3,041</u>	<u>3,161</u>	<u>3,041</u>
<b>CREDITORS: Amounts falling due within one year</b>	11	<u>(5,539)</u>	<u>(5,308)</u>	<u>(5,539)</u>	<u>(5,308)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(2,378)</u>	<u>(2,267)</u>	<u>(2,378)</u>	<u>(2,267)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		86,281	78,627	86,281	78,627
<b>CREDITORS: Amounts falling due after more than one year</b>	12	(38,365)	(40,909)	(38,365)	(40,909)
<b>PROVISIONS FOR LIABILITIES</b>					
Pension liability	17	(1,903)	(1,491)	(1,903)	(1,491)
<b>NET ASSETS</b>		<u>46,013</u>	<u>36,227</u>	<u>46,013</u>	<u>36,227</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	13	-	-	-	-
Revenue reserve		47,916	37,718	47,916	37,718
Pension reserve		(1,903)	(1,491)	(1,903)	(1,491)
		<u>46,013</u>	<u>36,227</u>	<u>46,013</u>	<u>36,227</u>

The financial statements were approved and authorised for issue by the Board on 11 Aug 2021.



The notes on pages 21 to 35 form part of these financial statements.



MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT of CASH FLOWS

Year ended 31 March 2021

	Note	Group		Association	
		2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>Net cash inflow from operating activities</b>	i	5,340	5,387	5,339	5,340
<b>Cash flow from investing activities</b>					
Purchase of tangible fixed assets		(3,572)	(4,413)	(3,572)	(4,413)
Proceeds from sale of tangible fixed assets		70	100	70	100
Grants received		334	1,766	334	1,766
Interest received		1	5	1	5
		<u>(3,167)</u>	<u>(2,542)</u>	<u>(3,167)</u>	<u>(2,542)</u>
<b>Cash flow from financing activities</b>					
Interest paid		(1,548)	(1,621)	(1,548)	(1,571)
New secured and unsecured loans		-	-	-	-
Repayments of borrowings		(484)	(484)	(484)	(484)
		<u>(2,032)</u>	<u>(2,105)</u>	<u>(2,032)</u>	<u>(2,055)</u>
<b>Net change in cash and cash equivalents</b>		141	740	140	743
<b>Cash and cash equivalents at beginning of the year</b>		2,651	1,911	2,647	1,904
<b>Cash and cash equivalents at end of the year</b>		<u>2,792</u>	<u>2,651</u>	<u>2,787</u>	<u>2,647</u>
<b>Components of cash and cash equivalents</b>					
Cash at bank and in hand		209	344	204	340
Short term deposits		2,583	2,307	2,583	2,307
		<u>2,792</u>	<u>2,651</u>	<u>2,787</u>	<u>2,647</u>

The notes on page 20 form part of the statement of cash flows.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the STATEMENT of CASH FLOWS

Year ended 31 March 2021

i CASHFLOW FROM OPERATING ACTIVITIES

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>Surplus/(Deficit) for the year</b>	10,026	921	10,026	921
<b>Adjustments for non-cash items:</b>				
Depreciation for tangible fixed assets	1,435	1,359	1,435	1,359
(Increase)/decrease in trade and other debtors	21	200	20	203
(Decrease)/increase in trade and other creditors	-	(10)	-	(10)
Movement in fair value of financial instruments	(2,062)	1,030	(2,062)	1,030
Pension costs less contributions payable	172	259	172	259
Carrying amount of tangible fixed asset disposals	46	12	46	12
Reversal of revaluation losses	(5,680)	-	(5,680)	-
	(6,068)	2,850	(6,068)	2,853
<b>Adjustments for investing or financing activities:</b>				
Government grants written back/(utilised) in the year	(165)	-	(165)	-
Interest payable	1,548	1,621	1,548	1,571
Interest received	(1)	(5)	(1)	(5)
	1,382	1,616	1,382	1,566
<b>Net cash generated from operating activities</b>	<b>5,340</b>	<b>5,387</b>	<b>5,339</b>	<b>5,340</b>

ANALYSIS OF CHANGES IN NET DEBT

Group	2020	Cash	Non-cash	2021
	£'000	flows £'000	changes £'000	£'000
Long-term borrowings	29,461	-	(493)	28,968
Short-term borrowings	494	(484)	484	494
Total liabilities	29,955	(484)	(9)	29,462
Cash and cash equivalents	(2,651)	(141)	-	(2,792)
Total net debt	27,304	(625)	(9)	26,670
<b>Association</b>	<b>2020</b>	<b>Cash</b>	<b>Non-cash</b>	<b>2021</b>
	<b>£'000</b>	<b>flows</b>	<b>changes</b>	<b>£'000</b>
Long-term borrowings	29,461	-	(493)	28,968
Short-term borrowings	494	(484)	484	494
Total liabilities	29,955	(484)	(9)	29,462
Cash and cash equivalents	(2,647)	(140)	-	(2,787)
Total net debt	27,308	(624)	(9)	26,675



# MELVILLE HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS

Year ended 31 March 2021

### 1 General Information

Melville Housing Association Limited is registered under the Co-operative and Community Benefit Societies Act 2014 and is a social landlord 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 including Financial Reporting Standard 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* (FRS 102), the Statement of Recommended Practice for Social Housing Providers 2019 and the Determination of Accounting Requirements – February 2019. The financial statements have been prepared under the historic cost convention, modified to include certain items at fair value. There were no material departures from that standard.

#### b) Group financial statements - 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 2021. 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, in particular taking into consideration the longer term impact of COVID-19, 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 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.

# MELVILLE HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

### 1 General Information (continued)

#### f) Fixed Assets (continued)

Social Housing 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.



## MELVILLE HOUSING ASSOCIATION LIMITED

### NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

#### 2 Accounting Policies (continued)

##### g) Depreciation (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 Enhancements	- over 100 years
Office Ventilation System	- over 10 years
Office 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.

**MELVILLE HOUSING ASSOCIATION LIMITED**

**NOTES to the FINANCIAL STATEMENTS (continued)**

Year ended 31 March 2021

**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

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

	GROUP				ASSOCIATION			
	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2021 £'000	Operating Surplus 2020 £'000	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2021 £'000	Operating Surplus 2020 £'000
Affordable letting activities (Note 4)	9,337	(5,591)	3,746	3,450	9,337	(5,591)	3,746	3,450
Other activities (Note 5)	120	(105)	15	17	120	(105)	15	17
<b>Total</b>	<b>9,457</b>	<b>(5,696)</b>	<b>3,761</b>	<b>3,467</b>	<b>9,457</b>	<b>(5,696)</b>	<b>3,761</b>	<b>3,467</b>
Total for previous reporting period	9,414	(5,947)	3,467		9,415	(5,948)	3,467	



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

Year ended 31 March 2021

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

	2021 £'000	2020 £'000
Rent receivable net of service charges	9,055	8,910
Service charges	56	55
	<hr/>	<hr/>
Gross income from rents and service charges	9,111	8,965
Less voids	(19)	(10)
	<hr/>	<hr/>
Net income from rents and service charges	9,092	8,955
Grants released from deferred income (see note 11)	165	-
Revenue grants from Scottish Ministers	80	101
Other revenue grants	-	148
	<hr/>	<hr/>
Total turnover from affordable letting activities	9,337	9,204
	<hr/>	<hr/>
Management and maintenance administration costs before increase in pension provision	2,220	2,219
Increase in pension provision	136	209
	<hr/>	<hr/>
Management and maintenance administration costs after increase in pension provision	2,356	2,428
Service costs	65	60
Planned and cyclical maintenance including major repairs costs	910	982
Reactive maintenance costs	943	912
Bad debts – rents and service charges	(24)	83
Depreciation of social housing	1,341	1,289
	<hr/>	<hr/>
Operating costs for affordable letting activities	5,591	5,754
	<hr/>	<hr/>
Operating surplus for affordable letting activities	3,746	3,450

All income is derived from General Needs housing provision.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

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) 2021 £'000
Other activities	-	-	120	120	-	105	15
<b>Total from other activities</b>	<b>-</b>	<b>-</b>	<b>120</b>	<b>120</b>	<b>-</b>	<b>105</b>	<b>15</b>
<b>Total from other activities for the previous reporting period</b>	<b>-</b>	<b>108</b>	<b>103</b>	<b>211</b>	<b>-</b>	<b>(194)</b>	<b>17</b>

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) 2021 £'000
Other activities	-	-	120	120	-	105	15
<b>Total from other activities</b>	<b>-</b>	<b>-</b>	<b>120</b>	<b>120</b>	<b>-</b>	<b>105</b>	<b>15</b>
<b>Total from other activities for the previous reporting period</b>	<b>-</b>	<b>108</b>	<b>102</b>	<b>210</b>	<b>-</b>	<b>(193)</b>	<b>17</b>

**Association** - Other income of £70k was generated from a management and lease agreement with Ironmills Development Ltd. A gift aided donation of £5k was also received from Ironmills. Further trading income of £46k was generated from room hire, the lease of commercial office space to a third party, and furlough receipts as a result of the COVID-19 pandemic.

**Group** – Other income of £74k was generated from the rental of 11 mid market rent units managed by Ironmills. Other trading income of £46k as above.



MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

6 Interest Payable and Similar Charges

	Group		Association	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
On loans partly repayable after five years	1,512	1,571	1,512	1,571
Net interest costs in respect of defined benefit pension scheme (see note 17)	36	50	36	50
	<u>1,548</u>	<u>1,621</u>	<u>1,548</u>	<u>1,621</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 £nil has arisen in respect of the period to 31 March 2021.

8 Tangible Fixed Assets – Association and Group

	Housing Properties Held for Letting £'000	Development Programme £'000	Total Housing Properties £'000	Office Buildings £'000	Office Fixtures Fittings & Equipment £'000	Total £'000
<b>Cost/valuation</b>						
At 1 April 2020	75,638	3,881	79,519	3,839	712	84,070
Additions	1,188	2,367	3,555	-	17	3,572
Transfers	500	(500)	-	-	-	-
Disposals	(53)	-	(53)	-	-	(53)
Gain on revaluation	1,908	-	1,908	-	-	1,908
At 31 March 2021	<u>79,181</u>	<u>5,748</u>	<u>84,929</u>	<u>3,839</u>	<u>729</u>	<u>89,497</u>
<b>Depreciation</b>						
At 1 April 2020	2,447	-	2,447	228	501	3,176
Provided in year	1,333	-	1,333	56	53	1,442
Disposals	(7)	-	(7)	-	-	(7)
Revaluation adjustment	(3,773)	-	(3,773)	-	-	(3,773)
At 31 March 2021	<u>-</u>	<u>-</u>	<u>-</u>	<u>284</u>	<u>554</u>	<u>838</u>
<b>Net book value</b>						
At 31 March 2021	<u>79,181</u>	<u>5,748</u>	<u>84,929</u>	<u>3,555</u>	<u>175</u>	<u>88,659</u>
At 31 March 2020	<u>73,191</u>	<u>3,881</u>	<u>77,072</u>	<u>3,611</u>	<u>211</u>	<u>80,894</u>

# MELVILLE HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

### 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 2021 at £700k (2018: £678k).

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

All Housing properties held for letting as at the 31 March 2021 (except for those developed since 1 April 2021) were valued by an external valuer as at 31 March 2021 in accordance with our Accounting Policies (see note 1f). The next valuation will be carried out in 2024.

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 2021 valuation the assumed real discount rate was between 6.0%-6.5% for the LSVT with the more modern, post LSVT stock, assuming a real discount rate of between 5.75 and 6.25%), For the mid market rent stock JLL have applied a real discount rate of 6.5% and for all other, non-LSVT, stock a range of between 6.0% and 6.5%).

The historic cost for all housing stock properties at 31 March 2021 was £97,240,568.

Historic Scotland holds a standard security over a historic building carried at a value of £3,556,000 (2020: £3,611,000) within office buildings in respect of their grant funding.

Works to existing properties during the year comprised of the following:	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Charged to income and expenditure (Note 4)</b>	1,952	1,954
<b>Capitalised - Replacement of components and improvements</b>	1,188	1,922
<b>Total</b>	<u>3,140</u>	<u>3,876</u>

### 9 Investments

The Association owns one share in Ironmills Developments Limited at a cost of £1 (2020: £1).

### 10 Debtors

	<b>Group</b>		<b>Association</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Gross rental debtors	255	315	255	315
Less bad debt provision	(151)	(182)	(151)	(182)
	<u>104</u>	<u>133</u>	<u>104</u>	<u>133</u>
Due from subsidiary company	-	-	5	4
Other debtors	281	276	281	276
Less bad debt provision	(159)	(163)	(159)	(163)
Prepayments and accrued income	143	144	143	144
	<u>369</u>	<u>390</u>	<u>374</u>	<u>394</u>

**MELVILLE HOUSING ASSOCIATION LIMITED**

**NOTES to the FINANCIAL STATEMENTS (continued)**

**Year ended 31 March 2021**

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

	<b>Group</b>		<b>Association</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade creditors	431	453	431	453
Other taxes and social security costs	29	32	29	32
Loans payable within one year	494	494	494	494
Accruals	859	788	859	788
Deferred income	3,401	3,232	3,401	3,232
Rents in advance	325	309	325	309
	<u>5,539</u>	<u>5,308</u>	<u>5,539</u>	<u>5,308</u>

	<b>HAG</b>	
	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred income – Group and Association</b>		
Deferred income at 1 April 2020	3,232	1,466
Additional income received	334	1,766
Released to statement of comprehensive income	(165)	-
Deferred income at 31 March 2021	<u>3,401</u>	<u>3,232</u>

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred income to be released to the statement of comprehensive income – Group and Association</b>		
In less than one year	3,401	3,232
In more than one year	-	-
	<u>3,401</u>	<u>3,232</u>

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

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Group and Association</b>		
Housing property loans not wholly repayable within five years	<u>28,968</u>	<u>29,461</u>
Housing property loans are repayable in instalments:		
Between one year and two years	494	494
Between two years and five years	4,801	1,480
After five years	<u>23,673</u>	<u>27,487</u>
	28,968	29,461
Less unamortised loan issue expenses	(119)	(129)
	<u>28,849</u>	<u>29,332</u>
Deferred income (note 11)	-	-
Derivative financial instruments (note 21)	9,516	11,577
	<u>38,365</u>	<u>40,909</u>



## MELVILLE HOUSING ASSOCIATION LIMITED

### NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

#### 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 31 August 2016 on £7m, and will commence on 15 October 2022 on £16.6m, and on 15 October 2025 on £3m. Interest is currently charged quarterly on variable rate loans at LIBOR plus mandatory costs and margins with a range between 0.25% and 2%.

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.

Included in creditors are non interest bearing loans of £636k which were received from the Energy Savings Trust to fund external wall insulation (EWI) and heating replacement programmes in Easthouses and Penicuik. These loans are repayable in equal monthly instalments over 10 years. We have estimated that the fair value of these loans is £600k.

#### 13 Share Capital

	Association	
	2021	2020
	£	£
Shares of £1 each		
At 1 April 2020	119	120
Issued in year	4	2
Cancelled in year	(56)	(3)
At 31 March 2021	<u>67</u>	<u>119</u>

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 Unit Numbers

	Association	
	2021	2020
	No.	No.
General Needs	2,032	2,021
Mid market rent	11	11
	<u>2,043</u>	<u>2,032</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 definition.

**MELVILLE HOUSING ASSOCIATION LIMITED**

**NOTES to the FINANCIAL STATEMENTS (continued)**

**Year ended 31 March 2021**

**15 Employees**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs during year		
Wages and salaries	1,117	1,085
Social security costs	120	115
Other pension costs	240	218
	<u>1,477</u>	<u>1,418</u>

	<b>No.</b>	<b>No.</b>
The average number of staff employed by the Association during the year were	<u>31</u>	<u>29</u>
The average full time equivalent number of persons employed by the Association during the year were	<u>26</u>	<u>26</u>

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 and who have authority and responsibility for directing and controlling the activities of the Association. Details are as follows:

	<b>2021</b>	<b>2020</b>
	<b>£</b>	<b>£</b>
Aggregate emoluments, excluding pension contributions, payable to key management personnel	158,376	167,725
Pension contributions payable to key management personnel	34,385	34,844
Total emoluments	<u>192,761</u>	<u>202,569</u>

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

	<b>2021</b>	<b>2020</b>
	<b>No.</b>	<b>No.</b>
£100,000 to £105,000*	-	1
£95,000 to £100,000*	-	1
£90,000 to £95,000*	-	-
£85,000 to £90,000*	1	-
£80,000 to £85,000*	<u>1</u>	<u>-</u>

\* The bands presented include pension contributions

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

	<b>2021</b>	<b>2020</b>
	<b>£</b>	<b>£</b>
Aggregate emoluments, excluding pension contributions	93,070	86,472
Pension contributions	20,121	18,134
Total emoluments	<u>113,192</u>	<u>104,606</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.

# MELVILLE HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

### 15 Employees (continued)

	2021	2020
	£	£
Total expenses reimbursed insofar as not chargeable to UK Income Tax:		
Chief Executive	-	348
Board	251	3,369

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

### 16 Auditor's Remuneration

	2021	2020
	£	£
The remuneration of the auditors (including expenses and VAT for the year) was as follows:		
Audit services	11,160	10,740
Non-audit services	2,000	870
	<u>13,160</u>	<u>11,610</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, based on the latest available report dated 28 May 2021.

Principal actuarial assumptions at the balance sheet date:

	2021	2020	2019
	% p.a.	% p.a.	% p.a.
Discount rate	2.0	2.3	2.4
Future salary increases	3.4	3.5	4.2
Future pension increases	2.9	1.9	2.5
The expected return on assets	<u>2.0</u>	<u>2.3</u>	<u>2.4</u>

The total pension charge for the year was £240,330. At 31 March 2021, £24,343 was due to be paid over to the pension scheme (2020: £24,977). The agreed employer contribution rate from 1 April 2021 is 23.3% (2020: 23.2%).



MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

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 2021 Net liability £'000	Year ended 31 March 2020 Net liability £'000
Fair value of employer assets	9,786	-	9,786	10,172
Present value of funded liabilities	-	(11,277)	(11,277)	(12,110)
<b>Opening Position as at 31 March 2020</b>	<b>9,786</b>	<b>(11,277)</b>	<b>(1,491)</b>	<b>(1,938)</b>
Service cost				
Current service cost	-	376	(376)	(426)
Past service cost (including curtailments)	-	-	-	-
<b>Total Service Cost</b>		<b>376</b>	<b>(376)</b>	<b>(426)</b>
Net Interest				
Interest income on plan assets	226	-	226	244
Interest cost on defined benefit obligation	-	262	(262)	(294)
<b>Total net interest</b>	<b>226</b>	<b>262</b>	<b>(36)</b>	<b>(50)</b>
<b>Total defined benefit cost recognised in income and expenditure</b>	<b>226</b>	<b>638</b>	<b>(412)</b>	<b>(476)</b>
Cash flows				
Plan participants contributions	71	71	-	-
Employer contributions	240	-	240	217
Benefits paid	(220)	(220)	-	-
<b>Expected closing position</b>	<b>10,103</b>	<b>11,766</b>	<b>(1,663)</b>	<b>(2,197)</b>
Re-measurements (actuarial losses)				
Changes in demographic assumptions	-	(550)	550	-
Changes in financial assumptions	-	2,620	(2,620)	1,350
Other experience	(322)	(769)	447	54
Return on assets excluding amounts included in net interest	1,383	-	1,383	(698)
<b>Total re-measurements recognised in Other Comprehensive Income</b>	<b>1,061</b>	<b>1,301</b>	<b>(240)</b>	<b>706</b>
<b>Fair value of plan assets</b>	<b>11,164</b>	<b>-</b>	<b>11,164</b>	<b>9,786</b>
<b>Present value of funded liabilities</b>	<b>-</b>	<b>13,067</b>	<b>(13,067)</b>	<b>(11,277)</b>
<b>Closing position as at 31 March 2021</b>	<b>11,164</b>	<b>13,067</b>	<b>(1,903)</b>	<b>(1,491)</b>

**MELVILLE HOUSING ASSOCIATION LIMITED**

**NOTES to the FINANCIAL STATEMENTS (continued)**

**Year ended 31 March 2021**

**17 Pension Obligations (continued)**

**Changes in the fair value of plan assets, defined benefit obligation and net liability (continued)**

The group expects to contribute £241,000 to its defined benefit pension plans in 2021/22.

	2021	2020
	%	%
The major categories of plan assets as a percentage of stated plan assets are as follows:		
Equities	73	75
Bonds	12	11
Property	7	8
Cash	8	6

**18 Capital Commitments**

As at 31 March 2021, the Association had the following capital commitments:

	2021	2020
	£'000	£'000
Contracted for less certified*	1,304	2,427

\* Funded by Housing Association Grants and loan finance.

**19 Other Financial Commitments**

At 31 March 2021, the Group and Association had total commitments under non-cancellable operating leases as detailed below:

	Operating leases	
	2021	2020
	£'000	£'000
Leases expiring:		
within 1 year	5	6
within two to five years	7	11

## MELVILLE HOUSING ASSOCIATION LIMITED

### NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2021

#### 20 Related Party Transactions and subsidiary company

During the year, two 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.

During the year, two 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. Income received during the year amounted to £8,676 (2020: £8,548). At the year end there were no amounts owing to Melville from these members.

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 £45,617) to be rented out at Mid Market rents. The Association also charged Ironmills £23,545 in respect of management of these properties.

During the year, Ironmills agreed to gift aid surpluses of £5,273 (2020: £5,233) to the Association and this payment was outstanding as at 31 March 2021.

#### 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 2021 amounted to £38,895,000. 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.