

PRIVATE AND CONFIDENTIAL



SCOTTISH BORDERS HOUSING ASSOCIATION

FINANCIAL STATEMENTS

For the year ended 31st March 2010

"Created by tenants for tenants, SBHA is an independent Housing Association serving communities in the Scottish Borders by providing quality, affordable homes".

**Registered as a Scottish Charity – No. SC030751
Registered under the Industrial and Provident Societies Act 1965 - Registered Number – 2573R(s)
Scottish Housing Regulator – Registered Number 313**

Financial Statements for the year ended 31st March 2010

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Board of Management, Executive Officers and Advisers

Board of Management

Kenneth Gunn - Chair (Re-elected as Councillor Vice-Chair, 28.09.09, elected Chair 22.03.10)

Robert McVittie - Tenant Vice-Chair (Re-elected as Tenant Vice-Chair 28.09.09)

Tenant

Kathleen Beaton
Marlen Jones (Founding Member, re-elected 28.09.09)
Robert McVittie
Robert Pearson (Stepped down 28.09.09)
Phae Turnbull
Ethel Munro (Elected 28.09.09)

Council

Zandra Elliot
Kenneth Gunn
John Paton-Day
Sandy Scott

Independent

Oliver Angus (Founding Member, re-elected 28.09.09)
Graham Easton (Elected 28.09.09)
Ian MacDonald
David Pye
David Richardson (Stepped down 28.09.09)
Roger Trueman (Resigned 04.11.09)

Co-optees

Ray Licence (Co-opted 28.09.09)
Alexander McKie (Resigned 04.09.09)

Secretary to the Association

Janice Cambridge Chief Executive

Board of Management, Executive Officers and Advisers (continued)

Directors

Peter Logan	Director of Finance and Corporate Services (Appointed February 2005)
Sue Parker	Director of Housing Services (Appointed July 2002)
Duncan Mackay	Director of Technical Services (Resigned January 2009, left April 2009)
Julia Mulloy	Director of Technical Services (Appointed March 2009)

External Auditor

Baker Tilly UK Audit LLP
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Internal Auditor

Findlay & Company
Chartered Accountants
11 Dudhope Terrace
Dundee
DD3 6TS

Solicitors

Harper Macleod
The Ca'd'oro
45 Gordon Street
Glasgow
G1 3PE

Bankers

Lloyds TSB Scotland plc
120 George Street
Edinburgh
EH2 4LH

Registered Office:

South Bridge House
Whinfield Road
Selkirk
TD7 5DT

Industrial and Provident Society Registered Number

2573R(s)

Scottish Charity Registered Number

SC030751

The Scottish Housing Regulator Registered Number

313

REPORT OF THE BOARD OF MANAGEMENT AND OPERATING AND FINANCIAL REVIEW

The Board of Management of Scottish Borders Housing Association Ltd ("the Association" or "SBHA") has pleasure in submitting its report and the Financial Statements for the year ended 31st March 2010. Included within this document is the Operating and Financial Review ("OFR") which aims to give the reader of these Financial Statements a clear understanding of the business of SBHA, and its current and anticipated performance.

SECTION 1 – SBHA

1.0 PRINCIPAL ACTIVITIES

- 1.1 Scottish Borders Housing Association is a not-for-profit housing association, registered with the Scottish Housing Regulator, i.e. a "Registered Social Landlord", and operating in the Scottish Borders area, excluding Berwickshire. The Association is a registered Charity, No. SC030751.
- 1.2 SBHA is the parent company in a group structure which also incorporates Scottish Borders Building Services (SBBS), which is currently dormant. In 2009, SBHA set up another subsidiary within the group, called SBHA Plus. As at March 2010, SBHA Plus's principal project has been the refurbishment, fitting out and staffing of a project in Galashiels for young single people with particular needs. SBHA Plus is also intended to be the 'vehicle' for progressing other projects and activities which are key to achieving SBHA's core corporate objectives for the upcoming 5 years and beyond. Neither SBBS nor SBHA Plus are charities. Due to immateriality, the results of SBHA Plus have not been consolidated into these Financial Statements. The subsidiary results are disclosed at Note 14.
- 1.3 In the year ended 31st March 2010, the Association's principal activities directly reflected the Objectives defined in its constitution, namely the provision of housing and housing-related services for people in need. The financial year 2009-10 was SBHA's seventh full year in operation, and as in the previous six years, the Association's core housing functions were carried out alongside a process of continuing change and development.

SECTION 2 - OPERATING AND FINANCIAL REVIEW 2009-10: PART 1 (OPERATIONAL)

1.0 CONTENT OF OPERATIONAL REVIEW

- 1.1 This OFR presents in narrative form a summary of the business performance of SBHA during the year, along with a note of emerging trends, areas of pressure, and actions proposed to ensure the Association remains a stable, viable and adequately resourced business.
 - (a) The financial results for the year are set out in the Income and Expenditure Account on Page 16 of these Financial Statements.
 - (b) The Board of Management ensures appropriate and detailed scrutiny of its operational and financial activities, via a wide range of reports and performance indicators presented to SBHA's Board and Sub-Committees during the course of the year.

2.0 BACKGROUND TO THE ASSOCIATION

- 2.1 SBHA was established originally in July 2000 by Scottish Borders Council ("the Council"), as the intended "receiving landlord" in a whole-stock transfer from the Council, and first registered as an Industrial and Provident Society in December 2000, at which time its Charitable status was also granted. On receiving full registration with Communities Scotland (now the Scottish Housing Regulator) on 3rd March 2003, SBHA took over ownership of 6,728 properties, which has now been reduced to 5,874, primarily through Right to Buy transactions.
- 2.2 Of the 5,874 properties currently owned, over 3,000 are estimated to be still subject to the Right to Buy, either the "full" Right To Buy or the "modernised" version.
- 2.3 The housing stock contains a range of construction types, aged between 500+ years old in the historical areas of Jedburgh, to less than one year old (Bobby Johnstone Green, Selkirk). There are no high-rise properties, and the great majority of properties are flats. House condition is variable, depending on the investment policies of the former District Council landlords, but has levelled up significantly in the years of SBHA's ownership.
- 2.4 SBHA is governed by a Board of Management comprising one third Tenants, one third Council nominees (Scottish Borders Council), and one third independent community representatives. There is also scope for up to 3 Co-optees on the Board. As at 31st March 2010, one Council nominee, one Independent and two Co-optee places were unfilled.
- 2.5 SBHA's governance also includes 3 specialist Sub-Committees, namely Housing Services, Technical Services, and Audit and Compliance. The Association's Staffing structure largely mirrors its governance arrangements, in that there are two front line service departments (Technical Services and Housing Services) which deliver the services overseen by the respective specialist Sub-Committees. The workload of the Audit and Compliance Sub-Committee is derived most closely from the two corporate "back room" Departments i.e. Finance and Corporate Services, and the Chief Executive's Department (the latter primarily comprising the Human Resources, and Tenant Participation teams).
- 2.6 Scottish Borders Tenants Organisation (SBTO) is the "umbrella" Tenants representative group for SBHA's Tenants, and has an office in Selkirk, and 1 full-time employee. SBTO is funded and supported primarily by SBHA, and operates to an Annual Work Plan which is approved by SBHA's Board of Management. The SBTO is very active and maintains a high volume of business. It acts as the principal "lobby group" on behalf of SBHA's Tenants, and all proposed changes to SBHA Policies and business activities which could affect Tenants are taken through a consultation process with the SBTO.
- 2.7 During the year, SBHA consolidated its front-line services which are now delivered from SBHA-owned offices in Galashiels and Hawick. All SBHA's offices are Disability Discrimination Act-compliant, and provide modern, connected workplaces for staff located therein.

3.0 ACTIVITIES

- 3.1 Major service improvements have been put in place in the last 2-3 years, most notably the "Real time" Repairs by Appointment service provided by SBHA's maintenance workforce, based on the Opti-time work scheduling software and Cognito mobile communications. These developments have also generated considerable new capacity within the maintenance workforce, enabling it to take on greater volumes of SBHA's Planned Maintenance Programme with resultant efficiencies and savings in labour costs and VAT.

- 3.2 Up till March 2010, SBHA provided a Sheltered Housing Warden service, employing at one point 18 full and part-time wardens, but this service was ended by the Association due to insufficient Supporting People grant income being received from Scottish Borders Council, and the resultant losses incurred.
- 3.3 Over 2008-09, SBHA also brought to an end the loss-making Caretaking service which had been put in place by the former Etrick and Lauderdale District Council in the early 1990s. A replacement Factoring Service has been developed and is on offer, potentially via SBHA Plus, to owners within blocks where SBHA provides stair cleaning for its own Tenants.
- 3.4 SBHA's allocations system (SBHA HomeChoice) is fully automated, with round the clock registration and bidding, both on-line and by telephone. The introduction of SBHA HomeChoice, combined with the strict deadlines for void turnaround etc which are an essential component, have improved SBHA's Voids management performance in the last 18 months to the levels required by the Business Plan.
- 3.5 SBHA's Voids statistics remain skewed by over 150 empty homes in the Stonefield Regeneration Area which is a multi-tenure estate of mainly 1960s and 1970s flats in Hawick, which has taken longer to progress than anticipated, for reasons largely outwith SBHA's direct control. Good progress was achieved in 2009-10, both in completing high quality refurbishment of "pilot" blocks, and in achieving co-owners' agreement to a revised masterplan.

4.0 STATEMENT OF BOARD OF MANAGEMENT RESPONSIBILITIES

- 4.1 Legislation requires the Board of Management to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of SBHA and of the Surplus or Deficit of the Association for the year ended on that date. In preparing those 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 have been followed subject to any material departures disclosed in the Financial Statements;
 - prepare the Financial Statements on a "going concern" basis unless it is inappropriate to presume that the Association will continue in business; and
 - prepare a statement on internal financial control.
- 4.2 The Board of Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the Financial Statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007. They are 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.
- 4.3 SBHA's Board has delegated specific elements of its authority to the Association's Chief Executive, and also to three standing Sub-Committees. These are:
- **Audit and Compliance Sub-Committee** which is responsible for ensuring the Association's financial and business operations are carried out accurately, fairly, legally and with due regard to the management of risk. This Sub-Committee is also responsible for ensuring that appropriate arrangements are in place to promote economy, efficiency and effectiveness in order to enable the Board of Management to give an annual statement of assurance in respect of financial control systems.

- **Technical Services Sub-Committee** which is the specialist Sub-Committee with responsibility for delivery of the Association's Property Maintenance, Regeneration, Development, Adaptations, and Technical Compliance services to required standards, and for overseeing all technical operational matters.
- **Housing Services Sub-Committee** which is the specialist Sub-Committee with responsibility for delivery of the Association's Housing and Estates Management, Allocations, Rents, Housing Support, Factoring and Cleaning, and other related Housing Services, all to required standards.

5.0 REVIEW OF BUSINESS PLAN AND FUTURE STRATEGY

5.1 During 2008-09, SBHA undertook a comprehensive "root and branch" review of its 30-year Business Plan, which generated some changes to core assumptions, and an overall more robust, sustainable and deliverable set of future business projections.

5.2 In 2009-10, SBHA's Board participated in a strategic planning event, to assess the opportunities, flexibility, and challenges presented by the revised 30-Year Business Plan assumptions. As a result, a new strategic direction was set, which is intended to place the Association in a position whereby:

- a) high quality front-line services are delivered in a responsive, efficient and economic way, potentially using a generic Contact Centre model;
- b) SBHA, via its subsidiary SBHA Plus, is able to provide services to others, thereby spreading fixed costs and potentially generating new funds to further improve Tenant services.

5.3 Concurrent with progress towards these new initiatives, the Board directed that maximum efficiency and value for money is achieved in ongoing, established business operations. This includes extending the use of SBHA's in-house Maintenance Division to carry out Planned Maintenance works, ensuring accurate provision (and not over-provision) is made for SHQS achievement, and reviewing/modernising staff terms and conditions of employment.

5.4 Considerable progress was achieved in these areas during 2009-10, enabling further beneficial amendments to be applied to business planning assumptions at the year-end review.

6.0 SBHA'S RENTS

6.1 SBHA's objectives are for rents to be affordable, fair, and sufficient to enable the Association to meet its statutory obligations and Tenants' service expectations.

6.2 SBHA's Rent setting is derived from undertakings given to Tenants prior to the stock transfer to SBHA in 2003, when clear links to RPI were embedded. SBHA's base rent levels have only varied from these principles when specific new statutory requirements have been introduced, most notably Scottish Housing Quality Standard.

6.3 In 2009-10, the Board decided to conclude the process of harmonising rents by the end of 2010-11 (these varied significantly between the former Council areas). This will make the process of advising and explaining rent levels to Tenants more simple in future years.

7.0 MAINTENANCE OF SBHA'S ASSETS

- 7.1 Upgrading Tenants' homes to a defined standard was and remains a key promise given by SBHA and which is in the process of being delivered. The original "Borders Quality Standard" has been superseded by the statutory Scottish Housing Quality Standard, and SBHA has funding in place to achieve this, insofar as it is possible (i.e. subject to private owners' agreement), by the deadline of 2015.
- 7.2 In the year 2009-10, SBHA completed the final tranche of a 100% independent Stock Condition Survey, the data from which underpins SBHA's Planned Maintenance Programme and the related Business Plan provisions.
- 7.3 SBHA was not set up to be a 'developing' RSL, but has from time to time taken advantage of opportunities to add to its stock. In 2009-10, SBHA acquired 1 new 3-bedroom house at Bobby Johnstone Green, Selkirk, as a result of owning a small portion of a larger site developed by Eildon HA.
- 7.4 SBHA's day-to-day and void house repairs are carried out by the Association's Maintenance Division, which again performed above expectations and reported a £39,051 surplus after distribution, as well as high measured Tenant Satisfaction levels.

8.0 KEY PERFORMANCE INDICATORS 2009-10

- 8.1 SBHA records and monitors at Board level, 8 key areas of performance covering rental income (Arrears) and levels of void houses, repairs completed within target timescales, the percentage of SBHA-owned properties achieving Scottish Housing Quality Standard, the volume of Right to Buy Sales, Loan Facility covenants, and Staffing performance. The out-turn performance across these categories is noted in the undernoted table.

PERFORMANCE	TARGET	ACTUAL 2009-10	VARIANCE	TARGET 2010-11
Total Current Arrears	<£650,000	£797,000	+ £147,000	<£800,000
Voids as a % of Total Stock (excludes properties held)	3.60%	3.37%	- 0.23%	3.92%
Routine Repairs Completed within Target – Average across the 4 categories (Emergency; Urgent; Routine/ Urgent; Routine)	95.8%	97.9%	+ 2.15%	98.5%
Non Lettable Voids	50	205	+ 155	80
SBHA properties achieving Scottish Housing Quality Standard	-	20.1% of Total Stock	-	34% of Total Stock
Number of Right to Buy Sales	40	25	- 15	35
Net Debt per Unit	£4,794	£4,584	- £210	£5,539
Loan to Value Ratio	105.0%	180%	+ 75%	105%
Staff Turnover	< 8%	6.61%	- 1.39%	<6%
Staff Attendance	> 97%	89.6%	- 7.4%	>97%

- 8.2 Generally, performance across these areas is acceptable or good, although a notable exception is the Arrears position which exceeded the year's target by £147,000. This is considered to be, in part, a result of the wider economic situation but also the fact that 2009-10 was the second and final year of a significant rent increase applied in order to accumulate sufficient funds for SBHA to achieve Scottish Housing Quality Standard within the statutory 2015 deadline.
- 8.3 Staff attendance, at 89.6%, was also materially lower than target. This arose primarily due to the swine flu outbreak, severe winter weather, and an increased volume of long-term sickness absences. Historically, SBHA's staff attendance levels have been very high, and they are anticipated to return to previous levels in 2010-11.
- 8.4 The reported Net Debt per Unit at the year end was within the approved 5% tolerance level agreed with SBHA's funders.

9.0 EMPLOYEES

- 9.1 The ability of the Association to meet its objectives and commitments towards Tenants is dependent on both the contribution and quality of all its employees. The Association shares information on its objectives, progress and activities through regular Training, Departmental meetings, and through the Staff Newsletter and specific written communications to all staff on decisions taken at Board of Management and Sub-Committee level.
- 9.2 SBHA is committed to equal opportunities. Levels of staff turnover, sickness absence, ethnic mix and gender and age profile are closely monitored and benchmarked against available peer group statistics on a regular basis. The Association's staff turnover rates are in line with industry averages.

10.0 HEALTH AND SAFETY

- 10.1 The Board of Management is aware of its responsibilities on all matters relating to health and safety. The Association has prepared a Health and Safety Policy and provides detailed ongoing staff training and education on health and safety matters. A Health and Safety Plan for SBHA has recently been developed.

11.0 RAISING STANDARDS

- 11.1 SBHA has complied with the requirements of Chapter 10 of the SFHA 'Raising Standards' publication throughout the year in all material respects.

SECTION 3 - OPERATING AND FINANCIAL REVIEW 2009-10: PART 2 (FINANCIAL)

1.0 FUNDING

- 1.1 SBHA is totally debt funded and the funding required to expedite the transfer referred to in Section 2, Para. 2.1 of these Financial Statements is provided by Lloyds TSB Scotland ('The Funder') in the form of a loan facility which was increased from £40m to £40.8m during the year, to allow for the construction of a new build depot/office facility for the Maintenance Division. The facility is split between £33.8m at fixed rates and £7m at variable rates based on LIBOR ('London Inter Bank Offered Rate').

In accordance with the provision of loan facilities of this nature, the Funder requires a 30-year Business Plan to be produced and approved at the end of each Financial Year. In addition, the Scottish Housing Regulator requires a Five-Year Financial Projection to be produced and updated annually.

1.2 At 31st March 2010, SBHA complied fully with all its Loan Covenants.

1.3 As part of the re-negotiation of the Loan Facility referred to in Para 1.1 of Section 3 above, the calculation of the Net Debt per unit Covenant was altered in SBHA's favour to take account of cash balances and to allow for a 5% tolerance. These measures minimise the likelihood of a similar future occurrence. All Covenants have been complied with at 31st March 2010. Loans are now split between current and long term (Notes 16 and 17).

2.0 INCOME AND EXPENDITURE ACCOUNT 2009-10

2.1 Annual Turnover increased from £16m to £16.59m during the year, an increase of 4.0%. The principal source of turnover for the Association is rental income and related service charges. Although the weekly average rent for an SBHA residential property increased by RPI + 3.5% + £0.45 at 1st April 2009, this was counteracted by the loss of 26 properties primarily through Right to Buy sales during the ensuing year. The 'Rent Guarantee', which limited SBHA's ability to increase rental income, expired in 2007-08. With effect from 1st April 2010, all rents for SBHA properties are 'harmonised'.

2.2 Rent loss through void properties (houses and garages) amounted to 3.64% of gross rent receivable during the year (for 2008-09 the comparable figure was 4.07%). Reducing this level of loss is a high priority for the business and challenging but achievable ongoing targets are set. The full introduction of Choice Based Lettings during the year contributed to the reduction in void losses above and is expected to continue to reduce the level of void losses in 2010-11.

2.3 Operating Costs decreased from £13.3m to £12.4m during the year, a decrease of 8.3%. The primary reason for this was a reduction in Maintenance costs, both Reactive and Planned, with the majority of the shortfall now planned to be spent in 2010-11.

2.4 Gain on sale of housing properties fell from £481,998 to £216,970 during the year. This was entirely due to a reduction in the number of houses sold under Right to Buy legislation.

2.5 Interest receivable (excluding interest on Pension Scheme) fell sharply during the year due to lower amounts available for deposit and lower interest rates caused by the worldwide 'Credit Crunch'. Interest payable and related charges stayed relatively level however, as the majority of the Association's borrowings are subject to Fixed Interest rates and any reduction in interest rates subject to variable rates was counteracted by an increase in the amount borrowed.

2.6 The net impact of paragraphs 2.1 and 2.3 - 2.5 above was a surplus for the year of £3.3m (for 2008-09, there was a surplus of £1.88m). Surpluses are expected to continue whilst the policy of capitalising Planned Maintenance costs is applied.

3.0 BALANCE SHEET AT 31st MARCH 2010

3.1 At 31st March 2010 and 2009, the Association showed a negative Balance Sheet where liabilities, including the Local Government Pension Scheme liability, exceeded assets. Excluding the pension liability, the Association would have shown a positive Balance Sheet at both of the dates above and this is in part due to the implementation of the Capitalisation and Depreciation policy in 2009 in accordance with which expenditure on properties owned, where it is deemed to extend the useful life of the property, is capitalised and added to the original cost of that property rather than being treated as an expense.

3.2 The Association showed net current assets at 31st March 2010 where those assets generally able to be realised within one year exceeded liabilities generally payable in the same period.

3.3 At 31st March 2010, the Association owned 5,874 properties as against 5,910 at 31st March 2009. SBHA's current Accounting Policy is to show Properties at original cost plus capitalised amounts on the Balance Sheet. An alternative policy, used by certain other Associations, is to revalue properties on an annual basis and to show the revalued amount on the Balance Sheet.

3.4 A positive Balance Sheet, excluding the pension liability referred to in Para 3.1 above, is now anticipated to continue throughout the Association's 30-year Business Plan (which is itself reviewed annually). It should be noted however that the accumulated 'reserves' are counter balanced by an increase in the cost of the Association's properties and not in cash or other type of asset.

3.5 SBHA's latest 30-year Business Plan has been approved by the Association's Funders, Lloyds TSB Scotland, and is monitored by the Scottish Housing Regulator.

4.0 TREASURY MANAGEMENT

4.1 SBHA's Treasury Management Policy was renewed and approved by the Board of Management on 23rd February 2009. It sets out the policy of the Association with regard to treasury matters including borrowing and investing. SBHA has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the "Code") as described in Section 4 of that Code and as modified in CIPFA's Treasury Management in the Public Services: Guidance Notes for Registered Social Landlords (the "Guidance Notes").

4.2 The Treasury Management Policy sets out the Association's policy concerning all of its funding or borrowing from external sources, and lending and investment of surplus funds. Authorisations for banking and transfer of funds are also covered. The use of Financial Instruments by the Association which are not linked to a loan agreement is forbidden, as is any exposure to currencies other than sterling.

5.0 PENSIONS

5.1 The Association participates in the Scottish Borders Council Pension Fund which is a statutory multi-employer defined benefit scheme. It is administered by the Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended. SBHA is an 'admitted body' of the Scottish Borders Council Pension Fund. The Pension Fund is a defined benefit scheme into which employees' and employers' contributions, and interest and dividends from investments are paid, and from which pensions, lump sums and superannuation benefits are paid out.

5.2 The actuarial method used to value the Pension Fund is known as the Projected Unit Method. The last valuation was at 31st March 2009 and, following this valuation, SBHA's employer's contributions were set at 18% of pensionable pay.

5.3 The Association continued to adopt Financial Reporting Standard (FRS) 17 in full in 2009-10 and recognised a Net Pension liability of £4,080,000 at 31st March 2010.

6.0 CONTINGENCY

6.1 At 31st March 2010, SBHA remains in legal dispute with Scottish Borders Council, as more fully described in Note 23 to the Financial Statements.

SECTION 4 - CONTROLS

1.0 BOARD OF MANAGEMENT AND EXECUTIVE OFFICERS

1.1 The Board of Management and Executive Officers are listed on pages 1 and 2.

1.2 Each Board Member holds one fully paid, non refundable share of £1 in the Association. The Board of Management have no beneficial interest in the Association's share capital. The Chief Executive and the Directors of the Association also have no beneficial interest in the Association's share capital and they act within the authority delegated by the Board of Management.

2.0 BOARD OF MANAGEMENT'S STATEMENT ON INTERNAL FINANCIAL CONTROLS

2.1 The Board of Management acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments in which it operates. These 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; and
- the safeguarding of assets against unauthorised use or disposition.

It is the Board of Management's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. The Board has delegated some authority to its Sub-Committees, all as described in the Association's Audited Financial Statements.

2.2 In particular, the Audit and Compliance Sub-Committee is responsible for advising the Board as to whether an adequate system of accounting and internal control exists, and for making recommendations for its improvement. In this, it will be advised by External and Internal Auditors and the Director of Finance and Corporate Services.

2.3 The key elements of the system may be described as the control environment, and this is represented by the following:

- The Association's newly introduced Strategic and Business Plan, which sets out its corporate priorities, the format of which follows Scottish Housing Regulator guidelines. The Plan covers a period of 5 years and is normally reviewed and approved by the Board annually in conjunction with the annual Budget mentioned below and the updated 30-year Business Plan. The Strategic and Business Plan for 2009-15 was approved on 22nd March 2010;
- The Association's Financial Regulations have been replaced by a suite of Financial Policies which were updated and approved on 20th November 2009;
- The Association's Financial Policies set out exactly how the Association's financial controls are to operate;
- A wide range of SBHA Policies deal with, amongst other things, control issues for the Corporate, Finance, Housing, Human Resources and Technical Services areas. These are approved at Board level as and when required;
- The Association's Policy on the Procurement of Goods and Services sets out limits of authority for post holders;
- A detailed Budget is set annually and approved by the Board;

- The overall Budget is divided by service area. Detailed Management Accounts are prepared monthly, both on an overall basis and by service area. Actual v Budget reports for service areas are discussed with individual Heads of Service, with a view to identifying areas where corrective action is required to prevent avoidable overspends;
- The Association's Executive Team, comprised of the Chief Executive and 3 Directors, receives and monitors the Management Accounts on a monthly basis;
- The Board is presented with a Financial Monitoring report for the Association on a quarterly basis. This report compares Actual financial results against Budget and comments on any significant variances and on whether the forecast out-turn for the year is likely to be materially different from Budget;
- The Association uses the services of an independent Internal Auditor who works to an Audit Needs Assessment programme agreed in advance by the Audit and Compliance Sub-Committee;
- The Internal Auditor carries out regular reviews of control activities and reports their findings to the relevant Manager, the Executive Team and to the Audit and Compliance Sub-Committee; and
- Risk is actively managed through the Association's Risk Management Strategy. An SBHA Corporate Risk Panel meets on a regular basis to assess Corporate Risks and reports findings to the Audit and Compliance Sub-Committee.

These arrangements are considered appropriate to the scale and range of the Association's activities and comply with the requirements contained in the Scottish Housing Regulator's Guidance and the SFHA's publication "Raising Standards in Housing".

- 2.4 The Association has identified an extensive range of Key Performance Indicators which were reported at Sub-Committee and Board of Management level throughout the year.
- 2.5 The Key Performance Indicators comparing target with actual results reported at the Board of Management cover financial matters such as loan covenants, progress towards improving housing stock to Scottish Housing Quality Standard, and staff attendance levels.
- 2.6 SBHA monitors via a Risk Management Strategy the principal risks which are deemed to pose the most acute threat to the Association in the short term and the actions required to mitigate the effect of such risks. Principal risks examined in 2009-10 included:
- The ability to recruit and retain adequate numbers of Senior Staff;
 - Major Disaster; and
 - Improper Tendering practices.
- 2.7 The Board of Management has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31st March 2010 and until the date noted below. No weaknesses were found in internal financial controls that resulted in material losses, contingencies, or uncertainties that require disclosure in the financial statements. Where weaknesses in internal financial controls are identified, appropriate remedial action is taken.

3.0 EXTERNAL AUDITORS

- 3.1 Chiene and Tait resigned as auditors as of 19th October 2009. Baker Tilly UK Audit LLP were appointed as auditors as of 14th October 2009 and have indicated their willingness to continue in office. A resolution regarding their reappointment will be proposed at the next Annual General Meeting.

By order of the Board of Management

Janice Cambridge
Janice Cambridge

Secretary

Date 29th June 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH BORDERS HOUSING ASSOCIATION

We have audited the financial statements on pages 16 to 18, which have been prepared under the accounting policies set out on pages 19 to 21.

This report is made solely to the Association's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report and for the opinion we have formed.

Respective responsibilities of the Board and auditors

The Board's responsibilities for preparing the Report of the Board of Management and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Board's Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. We also report to you if, in our opinion, a satisfactory system of internal control over transactions has not been maintained, if the Association has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report of the Board of Management and consider whether it is consistent with the audited financial statements. The other information comprises only the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Association's affairs as at 31 March 2010 and of its surplus for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 7 to the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
139 Fountainbridge
Edinburgh EH9 3QG

Date:

7 July 2010

Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the Board's statement on pages 11 to 12 concerning the Registered Social Landlord's compliance with the information required by the section on Internal Financial Control within SFHA's publication 'Raising Standards in Housing'.

Basis of Opinion

We carried out our review having regard to the Bulletin 1999/5 issued by the Auditing Standards Board. The Bulletin does not require us to review the effectiveness of the Registered Social Landlord's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non-compliance.

Opinion

In our opinion the statement on Internal Financial Control on pages 11 to 12 has provided the disclosures required by the section on Internal Control within the SFHA's publication "Raising Standards in Housing" and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
139 Fountainbridge
Edinburgh EH9 3QG

Date:

7 July 2010

INCOME AND EXPENDITURE ACCOUNT for the year ended 31st MARCH 2010

	Note	2010 £	2009 £
Turnover	2	16,591,376	15,952,717
Operating Costs	2	(12,441,017)	(13,316,528)
Operating Surplus	2,7	4,150,359	2,636,189
Gain on sale of housing properties/land	6	216,970	481,998
Interest receivable	8	2,053	123,283
Interest payable and similar charges	9	(1,366,969)	(1,366,358)
Surplus for the Year	19	3,002,413	1,875,112

The results for the year relate wholly to continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2010 £	2009 £
Surplus for the Year prior to Pension Scheme Surplus		2,887,413	1,659,112
Movements in Pension Scheme Surplus	19b	115,000	216,000
Surplus for the Year		3,002,413	1,875,112
Pension Scheme Actuarial (Loss)	19b	(3,173,000)	(1,224,000)
Total Recognised Gains/(Losses) since last Annual Report		(170,587)	651,112

The notes on pages 19 to 36 form part of these Financial Statements

BALANCE SHEET as at 31st MARCH 2010

	Note	2010 £	2009 £
Fixed Assets			
Housing Properties – Depreciated Costs	12	29,454,098	26,747,787
Capital Grants	12	(982,906)	(516,153)
		<u>28,471,192</u>	<u>26,231,634</u>
Other Fixed Assets	13	1,973,093	2,124,754
		<u>30,444,285</u>	<u>28,356,388</u>
Investment in Subsidiary Company	14	<u>1</u>	<u>-</u>
Current Assets			
Stock of Materials		86,296	111,171
Debtors	15	1,686,026	1,422,550
Cash at Bank and in Hand		1,977,130	907,908
		<u>3,749,452</u>	<u>2,441,629</u>
Creditors: Amounts falling due within one year	16	(2,645,220)	(30,125,710)
Net Current Assets/(Liabilities)		<u>1,104,232</u>	<u>(27,684,081)</u>
Total Assets less Current Liabilities		<u>31,548,518</u>	<u>672,307</u>
Creditors: Amounts falling due after more than one year	17	(27,988,800)	-
Net Assets excluding Pension (Liability)		<u>3,559,718</u>	<u>672,307</u>
Net Pension (Liability)	21	(4,080,000)	(1,022,000)
Net Liabilities including Pension (Liability)		<u>(520,282)</u>	<u>(349,693)</u>
Capital and Reserves			
Share Capital	18	250	252
Revenue Reserve	19	3,559,468	672,055
Pension (Deficit)	19	(4,080,000)	(1,022,000)
Total Capital and Reserves		<u>(520,282)</u>	<u>(349,693)</u>

The Board of Management approved these Financial Statements and authorised them for issue on 21st June 2010 and they were signed on their behalf by:

Kenneth Gunn

Chair.....

David Pye

Board Member.....

Janice Cambridge

Secretary.....

The notes on pages 19 to 36 form part of these Financial Statements

CASH FLOW STATEMENT for the year ended 31st MARCH 2010

	Note	2010 £	2009 £
Net Cash Inflow from operating activities	20(i)	4,937,896	2,755,602
Returns on Investment and Servicing of Finance			
Interest Received		2,053	14,283
Interest Paid		(1,300,970)	(1,366,357)
Net Cash Outflow from returns on investments and servicing of finance		(1,298,917)	(1,352,074)
Capital Expenditure			
Capitalisation of Improvement Costs		(3,232,890)	(3,322,181)
Purchase of Housing Properties		(254,438)	(195,276)
Other Capital Grants		466,753	206,519
Purchase of other fixed assets		(128,871)	(451,804)
Sale of Properties/Land		328,394	676,178
Net Cash Outflow from Capital Expenditure		(2,821,052)	(3,086,564)
Investment in Subsidiary Company		(1)	-
Net Cash Inflow /(Outflow) before use of Liquid Resources and Financing		817,926	(1,683,036)
Financing			
Net Loan advances received		27,575,000	4,080,000
Loan principal repayments		(27,323,702)	(1,531,002)
Shares issued		8	17
Shares Redeemed		(10)	(14)
Net Cash Inflow from Financing		251,296	2,549,001
Increase in Cash during year	20(ii)	1,069,222	865,965

The notes on pages 19 to 36 form part of these Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered by The Financial Services Authority.

The Financial Statements have been prepared in compliance with the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007 and the Statement of Recommended Practice (SORP), 'Accounting by Registered Social Landlords' 2008.

A summary of the principal accounting policies of the Association is set out below:-

- (a) **Accounting Basis:** These Financial Statements are prepared under the historical cost convention.
- (b) **Turnover:** Turnover represents:
- Rental and Service Charge income (net of voids); and
 - Fees and other types of income as shown in Note 4.
- (c) **Consolidation:** The Association has two wholly owned subsidiaries, as follows:-
- Scottish Borders Building Services Limited ("SBBS"); and
 - SBHA Plus Limited.

Consolidated Financial Statements are not prepared on the grounds that the Association has exemptions granted by the Financial Services Authority from the preparation of Group accounts required to be prepared under Section 13 of the Friendly and Industrial Provident Societies Act, 1968. The grounds on which exemptions have been granted are:-

- For SBBS, consolidation would be impractical and of no real value to the Members of the Society. SBBS is currently a dormant company.
 - For SBHA Plus Limited, consolidation is not necessary in view of the insignificant amounts involved and would not be beneficial to the users of the Financial Statements.
- (d) **Finance:** The Financial Statements have been prepared on the basis that the capital expenditure will be grant aided, funded by loans, met out of reserves, or met from proceeds of sales.
- (e) **Investments:** Long term investments are classified as fixed assets. Subsidiary undertakings are stated at cost in the Balance Sheet.
- (f) **Loans:** Loans and overdrafts are advanced by private lenders under the terms of the individual mortgage deeds in respect of each property or housing scheme. Advances are available only in respect of those schemes which have been given approval by The Scottish Housing Regulator.
- (g) **Revenue Grants:** Where revenue grants have been received in respect of revenue expenditure, they are credited to the Income and Expenditure Account in the same period as the expenditure to which they relate.

(h) **Fixed Assets - Housing Land and Buildings:** Properties included in housing properties include garages and garage sites and are stated at cost less any capital grants received. The cost of such properties includes where applicable the following:

- cost of acquiring land and buildings;
- improvement/development expenditure including applicable overheads;
- premium paid over valuation at date of purchase;
- where applicable, interest charged on the loans raised to finance scheme development.

Improvement costs are capitalised to the extent that they are attributable to specific schemes and where such costs add value or enhance the economic life of the property. All other maintenance expenditure is written off in the Income and Expenditure account in the year in which it is incurred.

(i) **Stock of Materials:** Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less further costs to completion and disposal.

(j) **Depreciation - Housing and Garage Properties:**

Financial Reporting Standard (FRS) 15 requires all assets to be depreciated over their estimated economic life, taking account of any residual value of the assets. Housing properties are considered to have a high residual value, and a useful life of 30 years. The depreciation charge is therefore immaterial and no charge has therefore been made.

The Association's housing related assets, which have estimated useful lives of less than 30 years, are written off evenly over their expected useful lives as follows:

- | | | |
|--------------------------------|---|----------|
| • Insulation | - | 20 years |
| • Roofing | - | 50 years |
| • Central Heating | - | 20 years |
| • Windows/Doors | - | 20 years |
| • Soliums/Drainage/Foundations | - | 30 years |

Where no charge for depreciation is made, an impairment review should be carried out on an annual basis. Such a review has been performed and this shows that the value of the properties under FRS 11 exceeds the carrying value in the Financial Statements.

Depreciation - Other Fixed Assets: The Association's assets are written off evenly over their expected useful lives as follows:

- | | | |
|-------------------------------------|---|------------------------------------|
| • Head Office | - | 50 years |
| • Area Offices | - | 10 years |
| • Tenant Improvements | - | over the initial term of the lease |
| • Furniture and fittings | - | 5 years |
| • Office Equipment and Info Systems | - | 4 years |
| • Plant | - | 4 years |
| • Motor Vehicles | - | 4 years |

A full year's depreciation is charged on these assets in the year of purchase, but no charge is made in the year of disposal.

(k) **Cyclical Repairs and Maintenance:** Due to the number of properties held, the Association has a regular programme of repairs and maintenance and charges actual costs incurred to the Income and Expenditure account.

- (l) **Major Repairs:** On the basis of being debt funded, the Association does not make provision for future Major Repairs but completes such works in line with an agreed Programme within a 30 year plan.
- (m) **Lease Obligations:** Rentals paid under operating leases are charged to the Income and Expenditure account on a straight line basis.
- (n) **Value Added Tax:** The Association is VAT registered. However, a large proportion of its income, namely rents, is exempt for VAT purposes and therefore gives rise to a partial exemption calculation. Expenditure as a result is shown inclusive of VAT.
- (o) **Pensions:** The Association contributes to a Defined Benefit Pension Scheme and retirement benefits to employees of the Association are funded by contributions from all participating employers and employees in the Scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the Association taken as a whole.

The Association has adopted FRS 17 "Retirement Benefits" in full since 2006.

- (p) **Service Charge Equalisation:** Any surplus or deficit made in charging for the provision of services to tenants and factored properties is written off to the Income and Expenditure account in line with the practice previously adopted by Scottish Borders Council.
- (q) **Sales of Properties:** Sales of properties are reflected at historic cost net of accumulated depreciation.
- (r) **Taxation:** The Association is a registered charity and is generally not subject to Corporation Tax, either on its income or on any capital gains.
- (s) **Going Concern:** The Board of Management consider on an annual basis the appropriateness of preparing the Association's Financial Statements on a going concern basis. Matters which are taken into account in this process include:
 - The prevailing economic climate, both international and local and its impact if any on the Association's viability.
 - The Financial Position of the Association and the impact if any of perceived weaknesses on the Association's viability.
 - The short, medium and long term Financial prospects resulting from the modeling exercise carried out annually in updating the Association's 30 year Business Plan including sensitivity analyses and independent verification of key underlying assumptions.

In the absence of any fundamental shortcomings raised as a result of the above exercise the Board of Management will consider the going concern assumption underlying the preparation of the Association's Financial Statements to be appropriate.

2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT

	Note	Turnover £	Operating Costs £	Operating Surplus £	2009 £
Social Lettings	3	16,191,907	(11,975,746)	4,216,161	2,599,051
Other Activities	4	399,469	(465,271)	(65,802)	37,138
Total for 2010		16,591,376	(12,441,017)	4,150,359	2,636,189
Total for 2009		15,952,717	(13,316,528)	2,636,189	

3. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM SOCIAL LETTING ACTIVITIES

	General Needs Housing £	Supp. Housing Accommodation £	Total £	Restated 2009 £
Rent Receivable net of Service Charges	15,169,002	635,277	15,804,279	14,945,388
Service Charges	104,220	104,153	208,373	243,961
Gross Income from Rents and Service Charges	15,273,222	739,430	16,012,652	15,189,349
Less Operational Voids	(182,899)	(22,838)	(205,737)	(254,606)
Net Income from Rents and Service Charges	15,090,323	716,592	15,806,915	14,934,743
Grants from Scottish Ministers	366,910	18,082	384,992	498,386
Total Turnover from Social Letting activities	15,457,233	734,674	16,191,907	15,433,129
Management and Maintenance Administration costs	4,525,043	262,635	4,787,678	4,838,157
Service Costs	197,675	134,443	332,118	272,285
Planned and Cyclical Maintenance including major repairs costs	2,298,055	122,357	2,420,412	3,086,318
Reactive Maintenance costs	3,384,783	180,218	3,565,001	4,124,989
Bad Debts, Rents and Service Charges	201,627	8,761	210,388	240,317
Depreciation of Social Housing Properties	639,718	20,431	660,149	272,012
Operating Costs for Social Letting activities	11,246,901	728,845	11,975,746	12,834,078
Operating Surplus for Social Lettings for 2010	4,210,332	5,829	4,216,161	2,599,051
Operating Surplus for Social Lettings for 2009	2,594,291	4,760	2,599,051	

SBHA owns no other accommodation except for General and Supported Housing Accommodation. 2008-09 has been restated to show a correction in the allocation of stores supplies from Reactive to Planned Maintenance costs.

4. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM OTHER ACTIVITIES

	Supporting People Income	Other Income	Total Turnover	Other Operating Costs	Operating Surplus/ (Deficit)	Operating Surplus/ (Deficit) 2009
	£	£	£	£	£	£
Other Agency/Management Services	-	13,809	13,809	(26,235)	(12,426)	(18,308)
Factoring	-	12,461	12,461	(23,634)	(11,173)	(2,907)
Support Activities	113,989	-	113,989	(318,938)	(204,949)	(168,114)
Other Activities	-	259,210	259,210	(96,464)	162,746	226,467
Total from other activities 2010	113,989	285,480	399,469	(465,271)	(65,802)	37,138
Total from other activities 2009	113,989	405,599	519,588	(482,450)	37,138	

In line with paragraph 12.2 of the Registered Social Landlords Accounting Requirements (Scotland) Order 2007, there are no amounts falling under Grants from Scottish Ministers and Other Revenue Grants for 2009-10 and the previous accounting period of 2008-09, which require disclosure.

There are no activities in the category "Other Activities" which have turnover or costs amounting to more than £250k.

5. HOUSING STOCK

The number of units of accommodation in management at the period end was:

	2010	2009
General Needs	5,510	5,545
Supported Housing	293	293
Homeless Lets	45	44
Commercial Lets	26	28
	<u>5,874</u>	<u>5,910</u>

Stock movements during the year: The overall reduction of 36 properties during the year is due to 25 Right to Buy sales, 1 private sale of an unlettable house, 5 houses converted to offices, 3 units lost through conversion into larger units and 4 demolitions. Two houses were purchased under the Mortgage to Rent scheme.

There are no units owned by the Association but managed by external organisations.

6. SALES OF HOUSING PROPERTIES AND LAND

	2010 £	2009 £
Gross Proceeds	952,262	2,282,789
Income Share due to Scottish Borders Council	(603,899)	(1,568,340)
Legal Costs of Sales	(24,967)	(34,360)
Net Proceeds	<u>323,396</u>	<u>680,089</u>
Less Asset Cost, less Depreciation	(106,426)	(198,091)
Gain on Sale	<u><u>216,970</u></u>	<u><u>481,998</u></u>

The gain on sale of 26 houses and 16 miscellaneous small areas of land is after deductions of sums payable to Scottish Borders Council totalling £603,899. £149,153 of this amount is included in creditors due within one year, as stated in Note 16. Future income foregone relating to the current year's sales is £275,675.

7. OPERATING SURPLUS

Operating surplus is stated after charging:

	2010 £	2009 £
Depreciation	<u>937,567</u>	<u>593,609</u>
External auditors remuneration:		
Audit Service	19,975	20,100
Non Audit Service	999	575
	<u>20,974</u>	<u>20,675</u>
Internal Auditors Remuneration	<u><u>11,855</u></u>	<u><u>14,768</u></u>

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2010 £	2009 £
Interest Receivable	2,053	14,283
Other Interest on Pension Scheme	-	109,000
	<u>2,053</u>	<u>123,283</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £	2009 £
Loan Interest	1,271,777	1,286,155
Right to Buy Retention Interest	-	50,597
Non-utilisation Fees	18,192	27,106
Arrangement Fees	11,000	2,500
Interest on Pension Scheme	66,000	-
	<u><u>1,366,969</u></u>	<u><u>1,366,358</u></u>

10. DIRECTORS' EMOLUMENTS

10.1 The Directors are defined as the members of the Board of Management, the Chief Executive and any other person reporting directly to the Chief Executive or directly to the Board and whose total emoluments exceed £60,000 per year. No emoluments were paid to any member of the Board of Management during the year.

	2010 £	2009 £
Aggregate emoluments payable to Directors (including Pension Contributions)	362,699	361,506
Emoluments payable to highest paid Director (excluding pension contributions)	81,127	77,002
Pension contributions payable to Directors whose total emoluments (excluding pension contributions) were £60,000 or more	35,164	27,882

The number of Directors (including the highest paid Director) who received emoluments (excluding pension contributions) were:

	2010	2009
£60,000 - £70,000	2	1
£70,001 - £80,000	1	1

10.2 During the year 4 Directors (2008-09, 4 Directors) participated in the Association's defined benefit pension scheme. The Chief Executive Officer is an ordinary member of the Association's pension scheme. No enhancements or special terms apply to membership and she has no other pension arrangements to which the Association contributes.

	2010 £	2009 £
Total expenses reimbursed to Directors and Board Members as not chargeable to UK income tax	3,643	4,058

11. EMPLOYEES

11.1 Staff costs (including Directors) and numbers during the year were as follows:

	2010 £	2009 £
Wages and Salaries	4,720,326	4,513,000
Social Security Costs	325,636	314,825
Pension costs	646,535	617,281
	<u>5,692,497</u>	<u>5,445,106</u>

	2010	2009
Average number employed during the year (full time equivalents)	<u>204</u>	<u>199</u>

12. TANGIBLE FIXED ASSETS: HOUSING PROPERTY

	Housing for Let 2010 £	Housing for Let 2009 £
Cost		
At 1 st April 2009	28,885,373	25,565,183
Additions	3,509,306	3,523,501
Disposals	(123,982)	(203,311)
Transfers to Other Fixed Assets	(21,978)	-
At 31 st March 2010	<u>32,248,719</u>	<u>28,885,373</u>
Accumulated Depreciation		
At 1 st April 2009	(2,137,586)	(1,869,540)
Charge for Year	(662,032)	(274,090)
On Disposals	4,997	6,044
At 31 st March 2010	<u>(2,794,621)</u>	<u>(2,137,586)</u>
Capital Grants		
At 1 st April 2009	(516,153)	(132,000)
Awarded during Year	(466,753)	(384,153)
At 31 st March 2010	<u>(982,906)</u>	<u>(516,153)</u>
Net Book Value		
At 1 st April 2009	<u>26,231,634</u>	<u>23,563,643</u>
At 31 st March 2010	<u>28,471,192</u>	<u>26,231,634</u>

- 12.1 Total expenditure on major works to existing properties was £5,084,904 (2008-09 £5,978,123). £2,152,104(2008-09 £2,655,942) was charged to the Income and Expenditure Account and £2,932,800 (2008-09 £3,322,181) was capitalised.
- 12.2 Capital grants were received from Scottish Borders Council (see note 23 – Related Parties), The Scottish Government, and Scottish Gas.
- 12.3 The Association's Housing property was independently valued as at 31st March 2010 at £51,150,000 (Fifty One Million, One Hundred and Fifty Thousand Pounds) by Countrywide Housing Solutions.
- 12.4 Countrywide Housing Solutions is a general practice firm providing surveying and valuation services around the UK. The valuer is independent and their valuation is at 31st March 2010 on the Existing Use Value for Social Housing basis.
- 12.5 The value reported has been made in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards.
- 12.6 It should be noted that future growth in both capital and rental values may not occur and values can fall as well as rise.
- 12.7 This valuation provides a loan collateral cover of 186% compared to the 105% required by the lender.
- 12.8 There were capital commitments at the year end of £346,370 (2009: £511,130).

13.0. TANGIBLE FIXED ASSETS: OTHER FIXED ASSETS

Cost	Office Premises	Tenant Improvements	Furniture & Fittings	Office Equip & Information Systems	Plant	Motor Vehicles	Total
	£	£	£	£	£	£	£
At 1 st April 2009	1,982,383	46,403	147,190	1,201,893	20,514	2,306	3,400,689
Additions	19,182	-	4,323	83,388	-	-	106,893
Transfer from Housing Properties	21,978	-	-	-	-	-	21,978
At 31 st March 2010	2,023,543	46,403	151,513	1,285,281	20,514	2,306	3,529,560
Depreciation							
At 1 st April 2009	(226,722)	(30,356)	(92,835)	(914,979)	(8,737)	(2,306)	(1,275,935)
Charge for the year	(91,061)	(6,433)	(27,245)	(151,290)	(4,503)		(280,532)
At 31 st March 2010	(317,783)	(36,789)	(120,080)	(1,066,269)	(13,240)	(2,306)	(1,556,467)
Net Book Value							
At 31 st March 2009	1,755,661	16,047	54,355	286,914	11,777	-	2,124,754
At 31 st March 2010	1,705,760	9,614	31,433	219,012	7,274	-	1,973,093

There were no capital commitments at the year end (2009: £nil)

14. INVESTMENT IN SUBSIDIARY

	2010 £	2009 £
Cost	<u>1</u>	<u>-</u>
14.1 This relates to SBHA Plus Limited, a wholly owned subsidiary of the Association incorporated in July 2009. The Association holds 1 ordinary £1 share in its subsidiary.		
14.2 The objectives of SBHA Plus Ltd include the carrying on of business as a general commercial company with an emphasis on housing related activities.		
14.3 The income of the company in 2009-10 was £38,259 with costs of £37,631 resulting in a surplus for the year of £628. The net assets of the company as at 31 March 2010 were £629.		
14.4 The Association also owns 100% of Scottish Borders Building Services Ltd, a company which is currently dormant.		

15. DEBTORS

	2010 £	2009 £
Gross Arrears of Rent and Service Charges	1,330,241	1,239,431
Provision for Doubtful Debts	(736,032)	(712,961)
	<u>594,209</u>	<u>526,470</u>
Other Debtors*	384,560	212,591
Prepayments and Accrued Income	677,190	683,489
Amount due from Subsidiary Company	30,067	-
	<u>1,686,026</u>	<u>1,422,550</u>

* Other debtors as at 31st March 2010 include £156,567 receivable from Scottish Borders Council as per Note 23 - Related Parties.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £	2009 £
Accruals	766,515	726,708
Rent in Advance	363,383	360,842
Trade Creditors	1,071,351	864,233
Right to Buy Receipts due to Scottish Borders Council	149,153	211,455
Other Creditors	76,324	75,193
Other Taxes and Social Security	132,094	125,679
Bank Loans (Note 17)	86,400	27,761,600
	<u>2,645,220</u>	<u>30,125,710</u>

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

	2010 £	2009 £
Bank Loans	<u>27,988,800</u>	<u>-</u>
Analysis of duration of loan tranches:		
Repayable between one and two years	86,400	-
Repayable between two and five years	259,200	-
Repayable in five years or more	<u>27,643,200</u>	<u>-</u>
	<u>27,988,800</u>	<u>-</u>

17.1 In agreement with SBHA's funders, Lloyds TSB plc, the Loan Facility is advanced and repaid in line with the Association's Business Plan. The loan is tranching to allow borrowing to be spread across a variety of interest rates and facilities. The loan is secured by way of standard securities or other charges on the Association's housing land and buildings and a first legal charge over 0.75 hectares at South Bridge Street, Selkirk.

17.2 As at 31st March 2010, £28,075,200 (100%) of the loan was at fixed rates for a period of one year or more. For the year ended 31st March 2009, due to a breach of the loan covenant, net debt per unit, all loans outstanding were classified in creditors falling due within one year. The average rate of interest on all borrowings for the year ended 31st March 2010 was 4.54% (2009 5.11%).

18. SHARE CAPITAL

	2010 £	2009 £
Shares of £1 issued and fully paid:		
Active Shares at 31 st March 2009	252	249
Relinquished during the period	(10)	(14)
Issued during the period	8	17
Active Shares at 31 st March 2010	<u>250</u>	<u>252</u>

18.1 Each Member of the Association holds one share of £1 in the Association. These shares carry no rights to dividends 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 a Members' meeting.

19. RESERVES

	2010 £	2009 £
a) Revenue Reserve		
At 1 st April 2009	672,055	(987,056)
Surplus for the Year	2,887,413	1,659,112
At 31 st March 2010	<u>3,559,468</u>	<u>672,055</u>

The total surplus for the year amounts to £3,002,413 of which £115,000 relating to a surplus on the pension reserve, is disclosed in Note 19(b).

	2010 £	2009 £
b) Pension Reserve		
At 1 st April 2009	(1,022,000)	118,000
Change in Basis of Asset Valuation (see below)		(132,000)
Surplus in Year	115,000	216,000
Actuarial Loss in Year	(3,173,000)	(1,224,000)
At 31 st March 2010	<u>(4,080,000)</u>	<u>(1,022,000)</u>

19.1 The Pension Reserve represents the Association's share of the (deficit) that exists within the pension scheme of which it is a member, in accordance with FRS 17 calculations. Assets are now valued on a bid value rather than mid market value basis.

20. CASH FLOW

(i) Reconciliation of Operating Deficit to Operating Cashflows

	2010 £	2009 £
Operating Surplus	4,150,359	2,636,189
Increase in Bad Debt provision	89,847	11,285
Depreciation	937,567	587,565
Demolitions written off	12,559	3,035
Pension Adjustment – Management	(181,000)	(107,000)
Increase/(Decrease) in Stock	24,875	(13,827)
(Increase) in Debtors	(353,323)	(208,801)
Increase/(Decrease) in Creditors	257,012	(152,844)
	<u>4,937,896</u>	<u>2,755,602</u>

20. CASH FLOW (Cont)

(ii) Reconciliation of Net Cash Flow to increase in Net Debt

	2010	2009
	£	£
Increase in Cash in the Year	1,069,222	865,965
Net Cash received from New Loans	(27,575,000)	(4,080,000)
Loan Repaid during the year	27,261,400	86,400
Reduction in SBC Right to Buy Income Share	62,302	1,444,602
Movement in Net Debt	817,924	(1,683,033)
Net Debt at 1 st April 2008	(27,065,147)	(25,382,116)
Movement in Debt in the year	817,924	(1,683,033)
Net debt at 31st March 2009	(26,247,223)	(27,065,147)

(iii) Analysis of Changes in Net Debt

	2010	Movement	2009
	£	£	£
Cash and Short Term Deposits	1,977,130	1,069,222	907,908
Debt due within one year	(235,553)	27,737,502	(27,973,055)
Debt due after one year	(27,988,800)	(27,988,800)	-
Total	(26,247,223)	817,924	(27,065,147)

21. PENSION COMMITMENT

21.1 The pension cost charge for the year amounted to £646,535 (2009 - £617,281). At 31st March 2010, the Association had pension contributions outstanding amounting to £65,248 (2009 - £67,428). SBHA participates in the Scottish Borders Council Pension Fund which is a statutory multi-employer defined benefit scheme. It is administered by the Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended. The Association is an admitted body of the Scottish Borders Council Pension Fund. The Pension Fund is a defined benefit scheme into which employees' and employers' contributions, and interest and dividends from investments are paid and from which pensions, lump sums and superannuation benefits are paid out.

21.2 Employees' contributions are fixed by statute for SBHA employees. According to the following scale:

Pensionable Salary	% Payable
£0 - £18,000	5.5
£18,001 - £22,000	7.25
£22,001 - £30,000	8.50
£30,001 - £40,000	9.50
£40,001 - £130,000	12.00

21. PENSION COMMITMENT (Cont)

21.3 Employer's contributions currently stand at 18% based on the pensionable salary of the previous year.

21.4 Employer's basic contributions are assessed each three years by an actuary and are fixed to ensure the fund remains solvent and in a position to meet its future liabilities. The actuarial method used is known as the Projected Unit Method.

21.5 In accordance with Financial Reporting Standard 17 on retirement benefits, the Fund's actuaries undertook a pension expense calculation as at 31st March 2010. This calculation was based on rolling forward valuation data as of 31st March 2009 to 31st March 2010 on the basis of a number of financial assumptions. The projected unit method of valuation was used to calculate the service cost. The main financial assumptions used included:

Assumptions as at 31 st March	2010 %
Price increases	3.9
Salary increases	5.4
Pension increases	3.9
Discount rate	5.5

21.6 The expected return on assets is based on the long-term future expected investment for each asset class as at 31st March 2010.

21.7 Assumed life expectancies from age 65 are:-

		Years
Retiring today	Males	18.62
	Females	21.54
Retiring in 20 years	Males	19.54
	Females	22.46

Assets (Employer)	31.03.10	31.03.09
Equities	79%	71%
Gilts	6%	8%
Other Bonds	8%	10%
Property	5%	6%
Cash	2%	5%
Total	100%	100%

21. PENSION COMMITMENT (Cont)

Net Pension Liability as at	31st March 2010 £'000	31st March 2009 £'000	31st March 2008 £'000	31st March 2007 £'000	31st March 2006 £'000
Fair Value of Scheme assets	16,180	10,531	13,152	13,414	12,244
Present value of Funded obligation	(20,260)	(11,553)	(13,034)	(13,611)	(13,057)
Net Pension (Liability)	(4,080)	(1,022)	118	(197)	(813)

21.8 Assets are valued on a bid value basis for March 2010 and 2009 rather than the previously used mid market basis, as used for 2008. Prior year comparatives have not been restated using estimated bid values, as the change to bid value basis has an immaterial impact on the Association's Financial Statements. A net liability of £14,000 would have been recognised in the year ended 31st March 2008, rather than a net pension asset of £118,000.

Amount recognised in Income & Expenditure Account	31st March 2010 £'000	31st March 2009 £'000
Current Service Cost	409	509
Expected return on scheme assets	(725)	(933)
Interest on obligation	791	824
Loss/(Gain) on curtailments and settlements	51	-
Total	526	400
Actual return on scheme assets	4,896	(2,785)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	31st March 2010 £'000	31st March 2009 £'000
Opening Defined Benefit Obligation	11,553	13,034
Service Cost	409	509
Interest Cost	791	824
Actuarial Losses (gains)	7,344	(3,074)
Losses/(Gains) on curtailments	51	-
Estimated Benefits paid net of transfers in	(94)	68
Contributions by Scheme participants	206	192
Closing Defined Benefit Obligation	20,260	11,553

21. PENSION COMMITMENT (Cont)

Reconciliation of opening and closing balances of the fair value of Scheme assets	31st March 2010 £'000	31st March 2009 £'000
Opening fair value of Scheme assets	10,531	13,020
Expected return on Scheme assets	725	933
Actuarial gains (losses)	4,171	(4,297)
Contributions by employer including unfunded pensions	641	616
Contributions by Scheme participants	206	192
Estimated benefits paid net of transfers in including unfunded pensions	(94)	67
Fair value of Scheme assets at end of period	16,180	10,531

Projected pension expense for year to 31st March 2011

	Year to 31 st March 2011 £000's
Service cost	842
Interest cost	1,140
Return on assets	(1,193)
Total	789
Employer Contributions	569

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31st March 2010.

22. OPERATING LEASE COMMITMENTS

22.1 At 31st March 2010, the Association had aggregate annual commitments under non cancellable operating leases as set out below:-

	2010		2009	
	Plant & Equipment £	Land & Buildings £	Plant & Equipment £	Land & Buildings £
Expiring within 1 year	57,818	31,640	37,855	-
Expiring within 2 – 5 years	215,649	12,956	257,235	44,578
	273,467	44,596	295,090	44,578

23. CONTINGENCIES

23.1 As at 31st March 2010, SBHA has a legal claim outstanding against Scottish Borders Council ('The Council'), relating to the accuracy of the information input to the calculation of the purchase price for the housing stock at the time of transfer, 3rd March 2003.

23.2 The Council has appointed a firm of lawyers to represent its interests and the claim has been subject to extensive discussions and negotiations between the Council lawyers and SBHA's legal advisers during the year. Expert witness reports have been produced to inform these negotiations and it is anticipated that progress towards settlement will be made during 2010-11.

23.3 SBHA's legal advice indicates that the Claim has a reasonable chance of being resolved in favour of the Association. Nonetheless, the Financial Statements and SBHA's 30-year Business Plan make no assumption that any monies will be received from this process. All legal costs deemed likely to be incurred in association with the Claim have been budgeted for.

24. RELATED PARTIES

24.1 SBHA Plus Ltd, a company incorporated in Scotland in July 2009, is a related party by virtue of being a wholly owned subsidiary of SBHA. SBHA Plus Ltd is controlled by a Board of Directors which is appointed by the Board of Management of SBHA and which contains three Directors of SBHA including David Pye who is the Chair in addition to Oliver Angus and Rob McVittie.

24.2 Peter Logan, the Director of Finance and Corporate Services of SBHA until his retirement on 11th May 2010, was also the Secretary of SBHA Plus Ltd.

24.3 A Service Level Agreement between SBHA and SBHA Plus Ltd took effect on 1st April 2010.

24.4 During the year ended 31st March 2010 SBHA recharged SBHA Plus Ltd the sum of £36,021 representing costs incurred in connection with Wider Role activities. At the year end there was £30,067 due from SBHA Plus (Note 15).

24.5 Scottish Borders Building Services Limited (SBBS Ltd), a company incorporated in Scotland, is a related party by virtue of being a wholly owned subsidiary of SBHA. SBBS Ltd is controlled by its own Board of Directors which is appointed by the Board of Management of SBHA. SBBS Ltd was dormant during the year to 31st March 2010.

24.6 Janice Cambridge, the Secretary and Chief Executive Officer of SBHA, is also the Secretary of SBBS Ltd.

24.7 Oliver Angus who was Chairman of the Board of Management of SBHA for part of 2009-10 was also a Director of SBBS Ltd during the year but held no shares in the company.

24.8 There was no trading between SBHA and SBBS Ltd during the years ended 31st March 2009 or 2010.

24.9 SBHA promotes and supports the active participation of its Tenants and their local communities in the Association's activities, and in influencing decision-making. This is achieved by means of a grant to the Scottish Borders Tenants Organisation (SBTO) which in 2009-10 amounted to £49,000, as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2009-10, the Association's total expenditure on Tenant Participation was £91,970.

24.10 The Board Members listed as Tenants on page 1 plus the Chair (until 1st March 2010) held tenancies of SBHA properties during the year. The tenancies are subject to normal commercial terms and conditions and do not allow the Board Members concerned to use their position to any advantage.

- 24.11 Mrs Zandra Elliot is also the Company Secretary of J & R Elliot Ltd, one of the Association's suppliers. All transactions with this supplier are carried out at arms length and the Board Member is not in a position to influence trading terms. During the year ended 31st March 2010, SBHA purchased building services valued at £232,065 from J & R Elliot Ltd and owed an amount of £24,250 at the year end 31st March.
- 24.12 During the year ended 31st March 2010, SBHA had grants receivable of £156,657 from Scottish Borders Council.

25. LEGISLATIVE PROVISIONS

- 25.1 The Association is incorporated under the Industrial and Provident Societies Act 1965.