

**PRIVATE AND CONFIDENTIAL**



**SCOTTISH BORDERS HOUSING ASSOCIATION**

**FINANCIAL STATEMENTS**

**For the year ended 31<sup>st</sup> March 2011**

*"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 31<sup>st</sup> March 2011**

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## **Board of Management, Executive Officers and Advisers**

### **Board of Management**

Ray Licence – Chair	(Elected as Chair 13-09-10)
Oliver Angus	(Stood down as Chair 01-03-10)
Kenneth Gunn	(Elected as Acting Chair 01-03-10 to 13-09-10)
Kenneth Gunn - Vice-Chair	(Elected as Vice-Chair 13-09-10)
Robert McVittie	(Stood down as Vice Chair 13-09-10)

### **Tenant**

Kathleen Beaton	
Marlen Jones	
Ann Knight	(Elected 13-09-10)
Albert Williamson	(Elected 13-09-10)
Ethel Munro	
Robert McVittie	(Stood down as Tenant Member 13-09-10)
Phae Turnbull	(Stood down 13-09-10)

### **Council**

Zandra Elliot  
Kenneth Gunn  
John Paton-Day  
Sandy Scott

### **Independent**

Oliver Angus	
Ray Licence	(Stood down as Co-optee Member and elected as Independent Member 13-09-10)
Ian MacDonald	
David Pye	
David Richardson	(Elected 13-09-10)
Graham Easton	(Resigned 13-9-10)

### **Co-optees**

Audrey Johnston	(Elected 13-09-10)
Jean Rodgers	(Elected 13-09-10)

### **Secretary to the Association**

Julia Mulloy	Chief Executive (Appointed 05-01-11)
Janice Cambridge	(Resigned as Chief Executive and Secretary 31-12-10)

**Board of Management, Executive Officers and Advisers (continued)**

**Directors**

Carly Stewart	Director of Finance and Corporate Services (Appointed 01-07-10)
Peter Logan	Director of Finance and Corporate Services (Resigned 11-05-11)
Maria Lyle	Director of Housing Services (Temporary Appointment from 23-01-11 to 22-10-11)
Sue Parker	Director of Housing Services (Resigned 22-01-11)
Julia Mulloy	Director of Technical Services (Appointed to post of Chief Executive 05-01-11)

**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

<b>Industrial and Provident Society Registered Number</b>	2573R(s)
<b>Scottish Charity Registered Number</b>	SC030751
<b>The Scottish Housing Regulator Registered Number</b>	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 2011. 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 and SBHA Plus. SBHA Plus is intended to be the 'vehicle' for progressing projects and activities which are unable to be carried out by SBHA due to its charitable status. 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 2011, 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 2010-11 was SBHA's eighth full year in operation, and as in the previous seven years, the Association's core housing functions were carried out alongside a process of continuing change and development.

### **SECTION 2 - OPERATING AND FINANCIAL REVIEW 2010-11: 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 18 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 3<sup>rd</sup> March 2003, SBHA took over ownership of 6,728 properties, which has now been reduced to 5,849, primarily through Right to Buy transactions.
- 2.2 Of the 5,849 properties currently owned, approximately 2,800 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 31<sup>st</sup> March 2011, one Council nominee and one Co-optee place 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). Corporate responsibility for Health and Safety rests with the Board of Management in all aspects and this is managed via a Board Health and Safety Committee.
- 2.6 Scottish Borders Tenants Organisation (SBTO) is the "umbrella" Tenants representative group for SBHA's Tenants, and has an office in Selkirk, and SBTO and SBHA share the employment of 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 SBHA delivers front-line services from SBHA-owned offices in Galashiels and Hawick. During the year, the Maintenance Division relocated from a leased property in Selkirk to a purpose-built extension at Head Office. All SBHA's offices are Disability Discrimination Act-compliant, and provide modern, connected workplaces for staff located therein.

## **3.0 ACTIVITIES**

- 3.1 SBHA continues to deliver a high quality, responsive repairs service. Features include, freephone access to repairs reporting, real-time monitoring of performance, and an appointments system for non-emergency repairs delivered by SBHA's maintenance workforce. Efficiencies gained in recent years enabled the maintenance workforce to fulfil its strategic commitment to take on greater volumes of SBHA's Planned Maintenance Programme, with resultant efficiencies and savings in labour costs and VAT.

- 3.2 SBHA's former Sheltered Housing properties were reclassified as Amenity Housing from April 2010, communal costs being recouped through Service Charges to tenants.
- 3.3 SBHA provides a stair cleaning for its own Tenants in 59 blocks. A Factoring Service is provided to owners in these blocks and will be developed in the coming year to enable extension to other areas.
- 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 continued to improve SBHA's Voids management performance and the target levels required by the 2010-11 Budget have been exceeded.
- 3.5 SBHA's Voids statistics remain skewed by 131 empty homes in the Stonefield Regeneration Area which is a multi-tenure estate of mainly 1960s and 1970s flats in Hawick. SBHA and Waverley Housing submitted a joint business case for "solum swaps" of properties to the Scottish Government in July 2010, which if approved will allow refurbishment and demolition work to progress. SBHA has reviewed all other non-lettable voids and a range of demolitions, disposals and reconfigurations are being progressed to improve void performance. This includes the potential disposal of 21 properties at Mansfield and Eastfield Gardens, Hawick – properties with a high flood risk, requiring considerable investment; the planned demolition of Deanfield Gardens in Hawick, a low demand former sheltered housing scheme; the return of a former housing office in Peebles to general housing stock and feasibility work on the future of 3 low demand former sheltered housing schemes.
- 3.6 In March 2011, SBHA settled the ongoing legal claim against Scottish Borders Council regarding the price paid for SBHA's properties at transfer. This settlement involved a cash receipt of £250,000 and the clarification of the liabilities of Scottish Borders Council and SBHA for street lighting, roads and footpaths. For SBHA, settlement confirmed the removal of potential future maintenance costs for these assets over the life of the 30 year business plan. The cash receipt is in recognition of new liabilities not included in the transfer agreement. A 30 year programme of works for these liabilities will be developed in the forthcoming year, until then the funds will be ring fenced in designated reserves (per note 19(c), page 32)
- 3.7 This settlement is accompanied by a Concordat agreement, enabling both organisations to develop a productive working relationship and addressing common concerns and issues. Focusing on themes such as tenancy sustainment, enhancing communities through regeneration and investment, developing affordable rented housing and delivering services that add value, the Concordat supports the delivery of current strategic objectives.
- 3.8 In May 2010, SBHA held a Tenant Conference in Hawick and Galashiels to obtain feedback on operational issues such as repairs, rent arrears, using technology to access services and rent setting principles. Feedback has been and will continue to be built into relevant policy and strategies to improve performance and service delivery.
- 3.9 In January 2011, completion of the Head Office extension to include office and Depot space for the Maintenance Division, enabled the operational integration of the Maintenance Division with other areas within the Technical Service Department. As well as proving to be a modern efficient space, saving on office running costs, it has improved working relations and communications throughout the organisation.
- 3.10 The Association has undergone considerable Senior personnel changes in the current financial year. Alongside the appointment of a new Chairman, a new Chief Executive and Director of Finance and Corporate Services have been appointed and interim management arrangements are in place for Housing Management and Technical Services.

#### 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; and



- 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.
- 5.4 Considerable progress was achieved in these areas during 2010-11, with the Contact Centre model being progressed to scoping stage, following a number of site visits to other providers. A series of re-structures in Human Resources, Technical Services, Tenant Participation and Housing Services have been implemented to improve efficiency and direct resources towards business priorities.
- 5.5 The annual review of the 30 year Business Plan was undertaken in February 2011, with outcomes from the budget process and stock options for Ex Sheltered and Hard to Let properties being modelled, as approved by the Board of Management. In coming months SBHA's IT strategy will be updated and an Asset Management Strategy developed, alongside a review of the SBHA Strategic Plan, which will seek to build on the progress to date.
- 5.6 The Scottish Housing Regulator's April 2010 Regulation Plan, continued to identify SBHA as medium risk. The required commitments to achieve a full stock condition survey and improve verification of voids and rent arrears performance following the 2008-09 APSR submission were addressed in the 2009-10 APSR return.
- 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 harmonisation process was completed in April 2010. SBHA continued to provide the lowest average rent for Registered Social Landlords in the Scottish Borders area.
- 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 is in the process of being delivered. The original "Borders Quality Standard" has been superseded by the statutory Scottish Housing Quality Standard (SHQS), 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 April 2015.
- 7.2 In the year 2009-10, SBHA completed the final tranche of a full, independent Stock Condition Survey, the data from which underpins SBHA's Planned Maintenance Programme and the related Business Plan provisions. From this a 2015 SHQS plan has been developed and agreed by the Board of Management, setting out priorities and investment plans by property to ensure maximum compliance by 2015.
- 7.3 As a member of the Borders Regional Procurement Partnership the SBHA Planned Maintenance Programme is procured through a Framework Agreement. The 2010-14 Framework was successfully procured in partnership with Berwickshire Housing Association, Eildon Housing Association and Waverley Housing. This enables SBHA to employ a series of Contractors and Consultants to deliver future Planned Maintenance Programmes.

- 7.4 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. SBHA continues to work with the Borders Housing Alliance to develop the Strategic Housing Investment Programme (SHIP), and the development of new homes in the Stonefield Estate in Hawick, remains a top strategic priority for the Scottish Borders in the 2010-15 SHIP.
- 7.5 SBHA's day-to-day and void house repairs are carried out by the Association's Maintenance Division. It continues to deliver a high performing repairs service. New repairs performance standards are being implemented in 2011-12, reflecting tenant aspirations for increased levels of first-time fix and improved information on appointment times. Several weeks of freezing temperatures in the final quarter of 2011-12 resulted in a significant drop in Maintenance Division repairs and voids performance and their capacity to deliver planned maintenance programme works.
- 7.6 The introduction of Digital Pens for the inspection of repairs and voids, have reduced the level of paperwork and duplication of information and improved the processing time for ordering repairs and re-letting properties. The imminent introduction of vehicle tracking for SBHA's fleet of vehicles will enable improved resource and work planning.

#### 8.0 KEY PERFORMANCE INDICATORS 2010-11

- 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 2010-11	VARIANCE	TARGET 2011-12
<b>Total Current Arrears</b>	<£800,000	£ 851,000	<b>+£51,000</b>	<£850,000
<b>Voids as a % of Total Stock</b> (excludes properties held for Demolition)	3.92%	3.33%	<b>-0.59%</b>	3.30%
<b>Routine Repairs Completed within Target</b> – Average across the 4 categories (Emergency; Urgent; Routine/ Urgent; Routine)	98.5%	96.6%	<b>-1.9%</b>	98.5%
<b>Non Lettable Voids</b>	80	214	<b>+134</b>	56
<b>SBHA properties achieving Scottish Housing Quality Standard</b>	32%	26%	<b>-6%</b>	38%
<b>Number of Right to Buy Sales</b>	35	26	<b>-9</b>	32
<b>Net Debt per Unit</b>	£5,539	£4,131	<b>-1,408</b>	£5,588
<b>Loan to Value Ratio</b>	105%	182%	<b>+102%</b>	105%
<b>Staff Turnover</b>	<6%	11.9%	<b>+5.9%</b>	<6%
<b>Staff Attendance</b>	>97%	93%	<b>- 4%</b>	>97%

- 8.2 Generally, performance is acceptable or good, except for rent arrears and staff attendance. It should be noted across key areas - Void Loss, Repairs completed within target and Properties achieving SHQS - that severe weather affected performance in the last quarter. SBHA has developed an action plan to improve performance for any future periods of severe weather.
- 8.3 Current Tenant rent arrears amounted to £851,000 which is £51,000 above the target set. SBHA is committed to reduce rent arrears to a minimum and has recently carried out a comprehensive review of its Rent Arrears Policy and devised an Arrears Action Plan to reduce rent arrears in 2011-12. Plans focus heavily on prevention and early intervention methods based on national standards of good practice and the implementation of a rigorous and robust performance framework for the control and management of rent arrears.
- 8.4 Routine repairs completed within target have fallen by an average of 1.3% in 2010-11 compared with last financial year. As indicated above, the inclement weather brought about a high level of emergency repairs, which put pressure on the ability to carry out all non emergency repairs within targeted times. However, SBHA continues to perform in the top quartile within its peer group and has seen an encouraging improvement in this area in the years since transfer.
- 8.5 Voids have continued to exceed targets in 2010-11, even with non lettable void numbers increasing. An analysis on lettable and non lettable voids allowed for assumptions in the business plan to be changed, to reflect a more favourable position. The use of Digital Pens, allowing staff to share information remotely, accelerates the processing of Void repair work and letting of properties. It is planned that this will be further embedded in the future and procedures reviewed in order to improve efficient and effective letting of vacancies arising in SBHA's stock in order to reduce rent loss
- 8.6 Non lettable voids continue to be significantly above targeted levels. As detailed in Para. 3.5, 131 non lettable voids in the Stonefield Regeneration area cannot be progressed for demolition or modernisation until the Scottish Government approve Solum swaps with Waverley Housing Association.
- 8.7 The number of properties achieving Scottish Housing Quality Standard is 26%. Despite SBHA making considerable progress on the number of elements in properties meeting SHQS, the percentage of homes fully complying with the standard is lower than anticipated due to projects being postponed for the outlying Borders areas due to the severe inclement weather sustained throughout December 2010 to February 2011. SBHA's revised SHQS plan for 2011-12 takes into account the carry over from 2010-11 and is confident that for the remaining life of SHQS, there will be a steady rise in the level of properties achieving the standard. In late March the Scottish Housing Regulator published a redefinition of the Standard and SBHA is reviewing its plan to reflect any changes.
- 8.8 Right to Buy sales have dropped in the last few years, with this year being no exception. SBHA only receives 5% of the proceeds after costs and allowances, therefore the drop does not make a significant impact to cash flow. The positive impact of the drop in sales is the rental income streams that SBHA retains, which outweigh the capital receipt.
- 8.9 The reported Net Debt per Unit and Loan to value ratio as at 31<sup>st</sup> March 2011, were comfortably within levels agreed with our Funder.
- 8.10 Staff attendance, at 93%, was also materially lower than target. An action plan is now in place to resolve this unacceptable level, which included revising policies and procedures to reflect best practice, placing a stronger emphasis on absence management and employee engagement and the imminent purchase of an HR system to provide better recording, monitoring and promote early intervention.

- 8.11 Staff turnover saw an unprecedented increase, with much of this occurring in the senior management team. A mixture of permanent and interim arrangements have been put in place to ensure that the Association's risk to staff turnover is minimised, whilst enabling longer term business plan commitments to be met.

## **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.

## **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. In 2010-11 eleven members of SBHA staff received Institute of Occupational Safety and Health (IOSH) certification. A Health and Safety Plan for SBHA has been implemented and governance arrangements reviewed.

## **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 2010-11: 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 in 2009-10, 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 Lloyds banking group (Lloyds TSB and HBOS), undertook a major internal reorganisation during 2010-11 and subsequently centralised its Social Housing portfolio, to be managed by a London based team. SBHA was assigned a new Relationship Director in November 2010, who has met with the Executive team and provided support through the annual Business Plan renewal process.
- 1.3 At 31<sup>st</sup> March 2011, SBHA complied fully with all its Loan Covenants.

## **2.0 INCOME AND EXPENDITURE ACCOUNT 2010-11**

- 2.1 Annual Turnover decreased from £16.59m to £16.53m during the year, a decrease of 0.36%. The principal source of turnover for the Association is rental income and related service charges. Weekly rents for 2010-11 were frozen at previous year levels and a loss of 26 properties through Right to Buy sales during the ensuing year meant a small downward turn in Turnover. Outwith rental income, the Association had a decrease of £170,000 in Grants received from Scottish ministers and the cessation of the Warden service saw Supporting People grant fall from £114,000 to nil.
- 2.2 Rent loss through lettable void properties (houses and garages) amounted to 1.33% of rent receivable during the year (for 2009-10 the comparable figure was 1.28%). Reducing this level of loss is a high priority for the business and challenging but achievable ongoing targets are set. As reported earlier in para 8.5, actions are in place to ensure future performance improves.
- 2.3 Operating Costs increased from £12.44m to £12.51m during the year, an increase of 0.6%. The most significant change in costs were: Reactive maintenance costs reduced by almost 11%; Planned and Cyclical costs (revenue) increased by 25%; and the cessation in the Warden service reduced costs shown in Other Activities by £319k (77%). Note that Planned and Cyclical costs are revenue expenditure items - in 2010-11 a further £1.7m was taken to capital (£2.9m in 2009-10). When SBHA complies fully with Component Accounting in 2011-12, more of its expenditure on Planned maintenance is expected to be capitalised.
- 2.4 Gain on sale of housing properties slightly increased from £216,970 to £230,815 during the year. 26 sales were achieved in each year, however the net gain on sale per property rose by 2.3%.
- 2.5 Interest receivable (excluding interest on Pension Scheme) increased during the year due to higher amounts available for deposit. An increase in the average rate of interest from 4.54% in 2009-10 to 5.27%, alongside an increase in fixed rate loans drawdown throughout the year, meant that interest payable increased by £110,130.
- 2.6 A Pension scheme adjustment relative to Past Service gains of £1,609,000 arose in 2010-11. In accordance with FRS 17, this is treated as a gain in the Income and Expenditure Account. This gain has arisen as a result of the Governments announcement of its plans to increase future pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).
- 2.7 The net impact of paragraphs 2.1 - 2.6 above was a surplus for the year of £4.5m (for 2009-10, there was a surplus of £3.0m). Excluding the Pension scheme adjustment, surplus for the year increased by £0.1m. Surpluses are expected to continue whilst the policy of capitalising Planned Maintenance costs is applied (in adherence with Component Accounting).

## **3.0 BALANCE SHEET AT 31<sup>st</sup> MARCH 2011**

- 3.1 At 31<sup>st</sup> March 2011, the Association showed a positive Balance Sheet where assets, including the Local Government Pension Scheme liability, exceeded liabilities. This is a turnaround from 2009 and 2010 in which the Association showed a negative Balance sheet. The main change here being the substantial reduction in the Pension deficit due to reasons explained in Para 2.6. Otherwise, the achievement of a Surplus has created an increase of £2,758,507 to the Revenue Reserve. This is in part due to the continued implementation of the Capitalisation and Depreciation policy, 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 31<sup>st</sup> March 2011 where those assets generally able to be realised within one year exceeded liabilities generally payable in the same period.
- 3.3 At 31<sup>st</sup> March 2011, the Association owned 5,849 properties as against 5,874 at 31<sup>st</sup> March 2010. 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 still 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 13<sup>th</sup> December 2010. 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 31<sup>st</sup> 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 2010-11 and recognised a Net Pension liability of £776,000 at 31<sup>st</sup> March 2011.

#### **6.0 CONTINGENCY**

- 6.1 At 31<sup>st</sup> March 2011, SBHA has no contingencies.

## **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 on page 6 above.

- 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 22<sup>nd</sup> March 2010 and a review will be undertaken in the second half of 2011;
- The Association's Financial Regulations have been replaced by a suite of Financial Policies which were updated and approved on 20<sup>th</sup> 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 Budget Holders, 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, 2 Directors and 2 Heads of Service, 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".

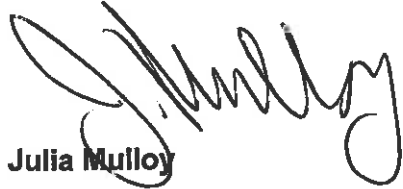
- 2.4 The Association has indentified an extensive range of Key Performance Indicators which were reported at Sub-Committee and Board of Management level throughout the year.
- 2.5 The Key Performance Indicators comparing target with actual results reported at the Board of Management cover financial 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 2010-11 included:
- Economic change impacting on SBHA;
  - 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 31<sup>st</sup> March 2011 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 Baker Tilly UK Audit LLP were appointed as auditors as of 14<sup>th</sup> 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**



**Julia Mulloy**

**Secretary**

**Date** 21/6/11

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

We have audited the financial statements of Scottish Borders Housing Association for the year ended 31 March 2011 on pages 18 to 38. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Board and auditor**

As explained more fully in the Board's Responsibilities Statement set out on page 6 the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Schedule 7 of the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

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

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 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 we require for our audit.

*Baker Tilly UK Audit LLP*

BAKER TILLY UK AUDIT LLP  
Statutory Auditor  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
EH9 3QG

Date:

8 July 2011

### Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the Board's statement on pages 13 to 14 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 13 to 14 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  
Statutory Auditor  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
EH9 3QG

Date:

8 July 2011

**INCOME AND EXPENDITURE ACCOUNT for the year ended 31<sup>st</sup> MARCH 2011**

	Note	2011 £	2010 £
<b>Turnover</b>	2	16,533,153	16,591,376
Operating Costs	2	(12,508,867)	(12,441,017)
<b>Operating Surplus</b>	2,7	4,024,286	4,150,359
Pension Scheme Adjustment to Past Service Cost	19b	1,609,000	-
Gain on sale of housing properties/land	6	230,815	216,970
Interest receivable	8	68,505	2,053
Interest payable and similar charges	9	(1,477,099)	(1,366,969)
<b>Surplus for the Year</b>	19	4,455,507	3,002,413

The results for the year relate wholly to continuing activities.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**


	Note	2011 £	2010 £
Surplus for the Year prior to Pension Scheme Surplus		3,008,507	2,887,413
(Decrease)/Increase in Pension Scheme Deficit		(162,000)	115,000
Pension Scheme Adjustment to Past Service Cost		1,609,000	-
<b>Surplus for the Year</b>		4,455,507	3,002,413
Pension Scheme Actuarial Gain/(Loss)	19b	1,857,000	(3,173,000)
<b>Total Recognised Gains/(Losses) since last Annual Report</b>		6,312,507	(170,587)


The notes on pages 21 to 38 form part of these Financial Statements

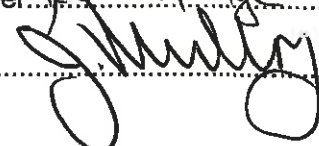
**BALANCE SHEET as at 31<sup>st</sup> MARCH 2011**

	Note	2011 £	2010 £
<b>Fixed Assets</b>			
Housing Properties – Depreciated Costs	12	30,479,583	29,454,098
Capital Grants	12	(1,019,311)	(982,906)
		<u>29,460,272</u>	<u>28,471,192</u>
Other Fixed Assets	13	2,634,801	1,973,093
		<u>32,095,073</u>	<u>30,444,285</u>
<b>Investment in Subsidiary Company</b>	14	<u>1</u>	<u>1</u>
<b>Current Assets</b>			
Stock of Materials		95,431	86,296
Debtors	15	1,509,527	1,686,026
Cash at Bank and in Hand		3,253,101	1,977,130
		<u>4,858,059</u>	<u>3,749,452</u>
Creditors: Amounts falling due within one year	16	(2,482,507)	(2,645,220)
Net Current Assets		<u>2,375,552</u>	<u>1,104,232</u>
<b>Total Assets less Current Liabilities</b>		<u>34,470,626</u>	<u>31,548,518</u>
Creditors: Amounts falling due after more than one year	17	(27,902,400)	(27,988,800)
Net Assets excluding Pension Liability		6,568,226	3,559,718
Net Pension Liability	21	(776,000)	(4,080,000)
Net Assets/(Liabilities) including Pension Liability		<u>5,792,226</u>	<u>(520,282)</u>
<b>Capital and Reserves</b>			
Share Capital	18	251	250
Revenue Reserve	19	6,317,975	3,559,468
Restricted Reserve	19	250,000	-
Pension (Deficit)	19	(776,000)	(4,080,000)
Total Capital and Reserves		<u>5,792,226</u>	<u>(520,282)</u>

The Board of Management approved these Financial Statements and authorised them for issue on 20<sup>th</sup> June 2011 and they were signed on their behalf by:

Ray Licence Chair.....

David Pye Board Member.....

Julia Mulloy Secretary.....

The notes on pages 21 to 38 form part of these Financial Statements

**CASH FLOW STATEMENT for the year ended 31<sup>st</sup> MARCH 2011**

	Note	2011 £	2010 £
<b>Net Cash Inflow from operating activities</b>	20(i)	5,138,926	4,937,896
<b>Returns on Investment and Servicing of Finance</b>			
Interest Received		19,505	2,053
Interest Paid		(1,477,099)	(1,300,970)
<b>Net Cash Outflow from returns on investments and servicing of finance</b>		(1,457,594)	(1,298,917)
<b>Capital Expenditure</b>			
Capitalisation of Improvement Costs		(1,691,420)	(3,232,890)
Purchase of Housing Properties		(60,616)	(254,438)
Other Capital Grants		36,405	466,753
Purchase of other fixed assets		(862,060)	(128,871)
Sale of Properties/Land		350,200	328,394
<b>Net Cash Outflow from Capital Expenditure</b>		(2,227,491)	(2,821,052)
Investment in Subsidiary Company		-	(1)
<b>Net Cash Inflow before use of Liquid Resources and Financing</b>		1,453,841	817,926
<b>Financing</b>			
Net Loan advances received		-	27,575,000
Loan principal repayments		(177,871)	(27,323,702)
Shares issued		19	8
Shares Redeemed		(18)	(10)
<b>Net Cash (Outflow)/Inflow from Financing</b>		(177,870)	251,296
<b>Increase in Cash during year</b>	20(ii)	1,275,971	1,069,222

The notes on pages 21 to 38 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 of materiality and the fact 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. Stock transfer Housing properties are considered to have a high residual value, and a useful life of 50 years. The depreciation charge is therefore immaterial and no charge has been made. Housing properties purchased after transfer also have a useful life of 50 years and due to their historical cost, the depreciation charge is material and so will be depreciated.

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 |
| • Solums/Drainage/Foundations | - | 30 years |
| • Regeneration Works          | - | 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 and selling costs.
- (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) **Designated Reserve:** The Association creates a designated reserve where there are monies earmarked for a specific line item of expenditure which have not been spent. Such reserves are released when the shortfall of expenditure has been caught up.
- (t) **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 internationally and locally 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 modelling 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 £	2010 £
Social Lettings	3	15,996,717	(12,402,410)	3,594,307	4,213,093
Other Activities	4	536,436	(106,457)	429,979	(62,734)
<b>Total for 2011</b>		<b>16,533,153</b>	<b>(12,508,867)</b>	<b>4,024,286</b>	<b>4,150,359</b>
<b>Total for 2010</b>		<b>16,591,376</b>	<b>(12,441,017)</b>	<b>4,150,359</b>	

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

	2011 £	2010 £
Rent Receivable net of Service Charges	15,765,182	15,804,279
Service Charges	228,968	208,373
Gross Income from Rents and Service Charges	15,994,150	16,012,652
Less Operational Voids	(212,412)	(205,737)
Net Income from Rents and Service Charges	15,781,738	15,806,915
Grants from Scottish Ministers	214,979	384,992
<b>Total Turnover from Social Letting activities</b>	<b>15,996,717</b>	<b>16,191,907</b>
Management and Maintenance Administration costs	4,299,931	4,262,257
Service Costs	219,613	332,117
Planned and Cyclical Maintenance including major repairs costs	4,209,123	3,367,697
Reactive Maintenance costs	2,804,315	3,146,206
Bad Debts, Rents and Service Charges	259,335	210,388
Depreciation of Social Housing Properties	610,093	660,149
<b>Operating Costs for Social Letting activities</b>	<b>12,402,410</b>	<b>11,978,814</b>
Operating Surplus for Social Lettings for 2011	3,594,307	4,213,093
Operating Surplus for Social Lettings for 2010	4,213,093	

(SBHA owns no other accommodation except for General Housing Accommodation.)

**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) 2010
	£	£	£	£	£	£
Other Agency/Management Services	-	13,459	13,459	(21,251)	(7,792)	(9,331)
Factoring	-	11,691	11,691	(5,204)	6,487	(11,173)
Support Activities	-	-	-	-	-	(204,949)
Other Activities	-	511,286	511,286	(80,002)	431,284	162,719
<b>Total from other activities 2011</b>	-	<b>536,436</b>	<b>536,436</b>	<b>(106,457)</b>	<b>429,979</b>	<b>(62,734)</b>
<b>Total from other activities 2010</b>	<b>113,990</b>	<b>285,479</b>	<b>399,469</b>	<b>(462,203)</b>	<b>(62,734)</b>	

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 2010-11 and the previous accounting period of 2009-10, which require disclosure.

Other Activities includes the receipt from Scottish Borders Council in settlement of a legal claim (Note 19c).

**5. HOUSING STOCK**

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

	2011	2010
General Needs	5,777	5,512
Supported Housing	-	293
Homeless Lets	48	45
Commercial Lets	24	24
	<u>5,849</u>	<u>5,874</u>

**Stock movements during the year:** During the year, 26 Right to Buy sales were made, 1 house was lost through conversion to an office, 1 house was purchased by SBHA and 1 house was gained due to a conversion into smaller units. This equates to an overall reduction of 25 properties. A total of 293 houses were transferred from Supported Housing to General Needs.

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

**6. SALES OF HOUSING PROPERTIES AND LAND**

	2011 £	2010 £
Gross Proceeds	965,520	952,262
Income Share due to Scottish Borders Council	(603,376)	(603,899)
Legal Costs of Sales	(17,612)	(24,967)
Net Proceeds	<u>344,532</u>	<u>323,396</u>
Less Asset Cost, less Depreciation	(113,717)	(106,426)
<b>Gain on Sale</b>	<u><u>230,815</u></u>	<u><u>216,970</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 £603,376. £57,682 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 £283,400.

**7. OPERATING SURPLUS**

Operating surplus is stated after charging:

	2011 £	2010 £
Depreciation	<u>813,186</u>	<u>942,564</u>
External auditors remuneration:		
Audit Service	21,300	19,403
Non Audit Services for entities related to Auditor	-	999
	<u>21,300</u>	<u>20,402</u>
Internal Auditors Remuneration	<u>8,668</u>	<u>11,855</u>

**8. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2011 £	2010 £
Interest Receivable	19,505	2,053
Other Interest on Pension Scheme	49,000	-
	<u>68,505</u>	<u>2,053</u>

**9. INTEREST PAYABLE AND SIMILAR CHARGES**

	2011 £	2010 £
Loan Interest	1,456,191	1,271,777
Non-utilisation Fees	18,408	18,192
Arrangement Fees	2,500	11,000
Interest on Pension Scheme	-	66,000
	<u>1,477,099</u>	<u>1,366,969</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.

	2011 £	2010 £
Aggregate emoluments payable to Directors (including Pension Contributions)	379,182	362,699
Emoluments payable to highest paid Director (excluding pension contributions)	77,784	81,127
Pension contributions payable to Directors whose total emoluments (excluding pension contributions) were £60,000 or more	22,781	35,164

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

	2011	2010
£60,000 - £70,000	1	2
£70,001 - £80,000	1	1

10.2 During the year 8 Directors (2009-10, 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.

	2011 £	2010 £
Total expenses reimbursed to Directors and Board Members as not chargeable to UK income tax	3,825	3,643

## 11. EMPLOYEES

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

	2011 £	2010 £
Wages and Salaries	4,355,765	4,720,326
Social Security Costs	321,973	325,636
Pension costs	584,253	646,535
	<u>5,261,991</u>	<u>5,692,497</u>
	2011	2010
Average number employed during the year (full time equivalents)	<u>197</u>	<u>204</u>

**12. TANGIBLE FIXED ASSETS: HOUSING PROPERTY**

	Housing for Let 2011 £	Housing for Let 2010 £
<b>Cost</b>		
At 1 <sup>st</sup> April 2010	32,248,719	28,885,373
Additions	1,762,011	3,509,306
Disposals	(119,385)	(123,982)
Transfers to Other Fixed Assets	(9,975)	(21,978)
At 31 <sup>st</sup> March 2011	<u>33,881,370</u>	<u>32,248,719</u>
<b>Accumulated Depreciation</b>		
At 1 <sup>st</sup> April 2010	(2,794,621)	(2,137,586)
Charge for Year	(612,834)	(662,032)
On Disposals	5,668	4,997
At 31 <sup>st</sup> March 2011	<u>(3,401,787)</u>	<u>(2,794,621)</u>
<b>Depreciated Costs</b>	<u>30,479,583</u>	<u>29,454,096</u>
<b>Capital Grants</b>		
At 1 <sup>st</sup> April 2010	(982,906)	(516,153)
Awarded during Year	(36,405)	(466,753)
At 31 <sup>st</sup> March 2011	<u>(1,019,311)</u>	<u>(982,906)</u>
<b>Net Book Value</b>		
At 1 <sup>st</sup> April 2010	28,471,192	26,231,634
At 31 <sup>st</sup> March 2011	<u>29,460,272</u>	<u>28,471,192</u>

12.1 Total expenditure on major works to existing properties was £4,868,804 (2009-10 £5,084,904). £3,196,383 (2009-10 £2,152,104) was charged to the Income and Expenditure Account and £1,672,421 (2009-10 £2,932,800) was capitalised.

12.2 A capital grant of £36,405 was received from Centrica in respect of gas central heating.

12.3 The Association's Housing property was independently valued as at 31<sup>st</sup> March 2011 at £49,900,000 (Forty nine million, nine hundred 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 31<sup>st</sup> March 2011 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 182% compared to the 105% required by the lender.

12.8 There were authorised capital commitments at the year end of £730,904 (2010: £346,370).

**13.0. TANGIBLE FIXED ASSETS: OTHER FIXED ASSETS**

	<u>Office Premises</u> £	<u>Tenant Improvements</u> £	<u>Furniture &amp; Fittings</u> £	<u>Office Equip &amp; Information Systems</u> £	<u>Plant</u> £	<u>Motor Vehicles</u> £	<u>Total</u> £
At 1 <sup>st</sup> April 2010	2,023,543	46,403	151,513	1,285,281	20,514	2,306	3,529,560
Additions	814,885	-	-	37,200	-	-	852,085
Transfer from Housing Properties	-	-	-	9,975	-	-	9,975
Disposals	-	(10,978)	-	(175,737)	-	-	(186,715)
At 31 <sup>st</sup> March 2011	2,838,428	35,425	151,513	1,156,719	20,514	2,306	4,204,905
<b>Depreciation</b>							
At 1 <sup>st</sup> April 2010	(317,783)	(36,789)	(120,080)	(1,066,269)	(13,240)	(2,306)	(1,556,467)
Charge for the year	(87,544)	(3,103)	(10,102)	(95,966)	(3,637)	-	(200,352)
Disposals	-	10,978	-	175,737	-	-	186,715
At 31 <sup>st</sup> March 2011	(405,327)	(28,914)	(130,182)	(986,498)	(16,877)	(2,306)	(1,570,104)
<b>Net Book Value</b>							
At 31 <sup>st</sup> March 2010	1,705,760	9,614	31,433	219,012	7,274	-	1,973,093
At 31 <sup>st</sup> March 2011	2,433,101	6,511	21,331	170,221	3,637	-	2,634,801

There were no capital commitments at the year end (2010: £nil)

**14. INVESTMENT IN SUBSIDIARY**

	2011 £	2010 £
Cost	<u>1</u>	<u>1</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 2010-11 was £61,795 (2009-10 £38,259) with costs of £61,373 (2009-10 £37,631) resulting in a surplus for the year of £422. The net assets of the company as at 31 March 2011 were £919 (2009-10 £497).		
14.4 The Association also owns 100% of Scottish Borders Building Services Ltd, a company which is currently dormant.		

**15. DEBTORS**

	2011 £	2010 £
Gross Arrears of Rent and Service Charges	1,240,091	1,330,241
Provision for Doubtful Debts	(606,882)	(736,032)
	<u>633,209</u>	<u>594,209</u>
Other Debtors	34,250	384,560
Prepayments and Accrued Income	780,669	677,190
Amount due from Subsidiary Company	61,399	30,067
	<u>1,509,527</u>	<u>1,686,026</u>

**16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2011 £	2010 £
Accruals	960,777	766,515
Rent in Advance	476,304	363,383
Trade Creditors	711,240	1,071,351
Right to Buy Receipts due to Scottish Borders Council	57,682	149,153
Other Creditors	35,143	76,324
Other Taxes and Social Security	154,961	132,094
Bank Loans (Note 17)	86,400	86,400
	<u>2,482,507</u>	<u>2,645,220</u>



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

	2011 £	2010 £
Bank Loans	<u>27,902,400</u>	<u>27,988,800</u>
<b>Analysis of duration of loan tranches:</b>		
Repayable between one and two years	86,400	86,400
Repayable between two and five years	216,000	259,200
Repayable in five years or more	<u>27,600,000</u>	<u>27,643,200</u>
	<u>27,902,400</u>	<u>27,988,800</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 31<sup>st</sup> March 2011, £27,902,400 (100%) of the loan was at fixed rates for a period of one year or more. The average rate of interest on all borrowings for the year ended 31<sup>st</sup> March 2011 was 5.27% (2010 4.54%).

**18. SHARE CAPITAL**

	2011 £	2010 £
<b>Shares of £1 issued and fully paid:</b>		
Active Shares at 31 <sup>st</sup> March 2010	250	252
Relinquished during the period	(18)	(10)
Issued during the period	19	8
Active Shares at 31 <sup>st</sup> March 2011	<u>251</u>	<u>250</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**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
a) Revenue Reserve		
At 1 <sup>st</sup> April 2010	3,559,468	672,055
Surplus for the Year	<u>2,758,507</u>	<u>2,887,413</u>
At 31 <sup>st</sup> March 2011	<u>6,317,975</u>	<u>3,559,468</u>

The total surplus for the year amounts to £4,455,507 of which £1,447,000 (including past service cost adjustment) relating to a surplus on the pension reserve, is disclosed in Note 19(b). In addition, a sum of £250,000 has been transferred to a designated reserve as disclosed in Note 19(c).

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
b) Pension Reserve		
At 1 <sup>st</sup> April 2010	(4,080,000)	(1,022,000)
(Deficit)/Surplus in Year	(162,000)	115,000
Past Service Cost Adjustment	1,609,000	-
Actuarial Gain/(Loss) in Year	<u>1,857,000</u>	<u>(3,173,000)</u>
At 31 <sup>st</sup> March 2011	<u>(776,000)</u>	<u>(4,080,000)</u>

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.

The Past Service Cost adjustment is the reduction in SBHA's share of the Pension Scheme deficit due to the capitalised gain from the change in pension increase policy from RPI to CPI.

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
(c) Designated Reserve		
At 1 <sup>st</sup> April 2010	-	-
Settlement of Legal Claim	250,000	-
At 31 <sup>st</sup> March 2011	<u>250,000</u>	<u>-</u>

The designated reserve comprises the receipt from Scottish Borders Council in settlement of a legal claim and is earmarked for further property repairs and maintenance.

**20. CASH FLOW**

**(i) Reconciliation of Operating Surplus to Operating Cashflows**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Operating Surplus	4,024,286	4,150,359
(Decrease)/Increase in Bad Debt provision	(110,076)	89,847
Depreciation for Year	813,186	942,564
Depreciation on Disposals	(5,668)	(4,997)
Demolitions written off	-	12,559
Pension Adjustment – Management	211,000	(181,000)
(Increase)/Decrease in Stock	(9,135)	24,875
Decrease/(Increase) in Debtors	286,575	(353,323)
(Decrease)/Increase in Creditors	(71,242)	257,012
	<u>5,138,926</u>	<u>4,937,896</u>

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

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Increase in Cash in the Year	1,275,971	1,069,222
Net Cash received from New Loans	-	(27,575,000)
Loan Repaid during the year	86,400	27,261,400
Reduction in SBC Right to Buy Income Share	91,471	62,302
Movement in Net Debt	<u>1,453,842</u>	<u>817,924</u>
Net Debt at 1 <sup>st</sup> April 2010	(26,247,223)	(27,065,147)
Movement in Debt in the year	<u>1,453,842</u>	<u>817,924</u>
Net debt at 31 <sup>st</sup> March 2011	<u>(24,793,381)</u>	<u>(26,247,223)</u>

**(iii) Analysis of Changes in Net Debt**

	<b>2011</b>	<b>Movement</b>	<b>2010</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Cash and Short Term Deposits	3,253,101	1,275,971	1,977,130
Debt due within one year	(144,082)	91,471	(235,553)
Debt due after one year	(27,902,400)	86,400	(27,988,800)
<b>Total</b>	<u>(24,793,381)</u>	<u>1,453,842</u>	<u>(26,247,223)</u>

## 21. PENSION COMMITMENT

21.1 The pension cost charge for the year amounted to £583,518 (2010 - £646,535). At 31<sup>st</sup> March 2011, the Association had pension contributions outstanding amounting to £nil (2010 - £65,248). 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 for the year ended 31<sup>st</sup> March 2011:

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

21.3 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 31<sup>st</sup> March 2010. This calculation was based on rolling forward valuation data as of 31<sup>st</sup> March 2009 to 31<sup>st</sup> 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 <sup>st</sup> March	2011 %
RPI increases	3.5
CPI increases	2.7
Salary increases	5.0
Pension increases	2.7
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 31<sup>st</sup> March 2011.

**21. PENSION COMMITMENT (Cont.)**

21.7 Assumed life expectancies from age 65 are:-

		<b>Years</b>
Retiring today	Males	18.6
	Females	21.5
Retiring in 20 years	Males	19.5
	Females	22.5
<b>Assets (Employer)</b>	<b>31.03.11</b>	<b>31.03.10</b>
Equities	77%	79%
Gilts	7%	6%
Other Bonds	8%	8%
Property	5%	5%
Cash	3%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

<b>Net Pension Liability as at</b>	<b>31st March 2011 £'000</b>	<b>31st March 2010 £'000</b>	<b>31st March 2009 £'000</b>	<b>31st March 2008 £'000</b>	<b>31<sup>st</sup> March 2007 £'000</b>
Fair Value of Scheme assets	17,541	16,180	10,531	13,152	13,414
Present value of Funded obligation	(18,317)	(20,260)	(11,553)	(13,034)	(13,611)
<b>Net Pension (Liability)/Asset</b>	<b>(776)</b>	<b>(4,080)</b>	<b>(1,022)</b>	<b>118</b>	<b>(197)</b>

21.8 Assets are valued on a bid value basis.

<b>Amount recognised in Income &amp; Expenditure Account</b>	<b>31st March 2011 £'000</b>	<b>31st March 2010 £'000</b>
Current Service Cost	789	409
Expected return on scheme assets	(1,177)	(725)
Interest on obligation	1,128	791
Past Service Cost	(1,609)	-
Loss on curtailments and settlements	-	51
<b>Total</b>	<b>(869)</b>	<b>526</b>
<b>Actual return on scheme assets</b>	<b>1,050</b>	<b>4,896</b>

**21. PENSION COMMITMENT (Cont.)**

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>31st March 2011 £'000</b>	<b>31st March 2010 £'000</b>
Opening Defined Benefit Obligation	20,260	11,553
Service Cost	789	409
Interest Cost	1,128	791
Actuarial (Gains)/Losses	(1,984)	7,344
Loss on curtailments	-	51
Estimated Benefits paid (net of transfers in)	(476)	(94)
Past service cost	(1,609)	-
Contributions by Scheme participants	209	206
<b>Closing Defined Benefit Obligation</b>	<b>18,317</b>	<b>20,260</b>

<b>Reconciliation of opening and closing balances of the fair value of Scheme assets</b>	<b>31st March 2011 £'000</b>	<b>31st March 2010 £'000</b>
Opening fair value of Scheme assets	16,180	10,531
Expected return on Scheme assets	1,177	725
Actuarial (losses)/gains	(127)	4,171
Contributions by employer (including unfunded)	578	641
Contributions by Scheme participants	209	206
Estimated benefits paid (net of transfers in including unfunded)	(476)	(94)
<b>Fair value of Scheme assets at end of period</b>	<b>17,541</b>	<b>16,180</b>

<b>Projected pension expense for year to 31<sup>st</sup> March 2012</b>	<b>Year to 31<sup>st</sup> March 2012 £000's</b>
Service cost	703
Interest cost	1,019
Return on assets	(1,245)
<b>Total</b>	<b>477</b>
<b>Employer Contributions</b>	<b>588</b>

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31<sup>st</sup> March 2011.

## 22. OPERATING LEASE COMMITMENTS

22.1 At 31<sup>st</sup> March 2011, the Association had aggregate annual commitments under non cancellable operating leases as set out below:-

	2011		2010	
	Plant & Equipment £	Land & Buildings £	Plant & Equipment £	Land & Buildings £
Expiring within 1 year	48,568	-	57,818	31,640
Expiring within 2 – 5 years	268,827	13,200	215,649	12,956
	317,395	13,200	273,467	44,596

## 23. CONTINGENCIES

23.1 As at 31<sup>st</sup> March 2011, there were no contingencies.

## 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 members of the Board of SBHA including David Pye who is the Chair in addition to Oliver Angus, Kathleen Beaton and Ray Licence.
- 24.2 Carly Stewart, the Director of Finance and Corporate Services of SBHA, is also the secretary of SBHA Plus.
- 24.3 A Service Level Agreement between SBHA and SBHA Plus Ltd took effect on 1<sup>st</sup> April 2010.
- 24.4 During the year ended 31<sup>st</sup> March 2011 SBHA recharged SBHA Plus Ltd the sum of £58,305 representing costs incurred in connection with Wider Role activities. The amount due by SBHA Plus to SBHA at 31<sup>st</sup> March 2011 was £61,400.
- 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 31<sup>st</sup> March 2011.
- 24.6 Julia Mulloy, the Secretary and Chief Executive Officer of SBHA, is also the Secretary of SBBS Ltd.
- 24.7 Ray Licence, the Chair of the Board of Management of SBHA is also a Director of SBBS Ltd but holds no shares in the company.
- 24.8 There was no trading between SBHA and SBBS Ltd during the years ended 31<sup>st</sup> March 2010 or 2011.
- 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 2010-11 amounted to £46,000, as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2010-11, the Association's total expenditure on Tenant Participation was £91,297.

- 24.10 The Board Members listed as Tenants on page 1 plus the Chair (until 1<sup>st</sup> 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 31<sup>st</sup> March 2011, SBHA purchased building services valued at £153,619 from J & R Elliot Ltd and no amount was owing to them at the year end, 31<sup>st</sup> March.
- 24.12 Mr David Richardson is also an employee of Howdens Joinery 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 31<sup>st</sup> March 2011, SBHA purchased building supplies valued at £72,624 from Howdens Joinery Ltd and owed an amount of £5,878 at the year end, 31<sup>st</sup> March.

## **25. LEGISLATIVE PROVISIONS**

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