

PRIVATE AND CONFIDENTIAL



SCOTTISH BORDERS HOUSING ASSOCIATION

FINANCIAL STATEMENTS

For the year ended 31st March 2012

“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 2012

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Board of Management, Executive Officers and Advisers

Board of Management

Ray Licence – Chair (Re-elected as Chair 26-09-11)
Kenneth Gunn - Vice-Chair (Re-elected as Vice-Chair 26-09-11)
Kathleen Beaton – Tenant Vice Chair (Re-elected as Tenant Vice Chair 26-09-11)

Tenant

Kathleen Beaton
Ann Knight
Ethel Munro
George Parker (Elected 26-09-11)
Robert Pearson (Elected 26-09-11)
Marlen Jones (Retired 26-09-11)
Albert Williamson (Resigned 26-09-11)

Council

Zandra Elliot
Kenneth Gunn
John Paton-Day
Sandy Scott
Gavin Logan (Nominated by Council 20-06-11)

Independent

Ray Licence
David Pye
David Richardson
Ian MacDonald (Stood down and re-elected 26-11-11)
Audrey Johnston (Stood down as Co-optee Member and elected as Independent Member 26-11-11)
Oliver Angus (Retired 26-09-11)

Co-optees

Eric Glass (Co-opted 12-12-11)
Jean Rodgers (Stood down 26-09-11)

Secretary to the Association

Julia Mulloy Chief Executive

Board of Management, Executive Officers and Advisers (continued)

Directors

Carly Stewart	Director of Finance and Corporate Services
Maria Lyle	Director of Housing Services (Temporary Appointment extended 22-10-11, and made permanent 12-01-12)
Alan Vass	Director of Technical Services (Temporary Appointment 02-06-11, made permanent 12-01-12)

External Auditor

Baker Tilly UK Audit LLP
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Internal Auditor

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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 2012. 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 2012, 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 2011-12 was SBHA's ninth full year in operation, and as in the previous eight years, the Association's core housing functions were carried out alongside a process of continuing change and development.

SECTION 2 - OPERATING AND FINANCIAL REVIEW 2011-12: 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 20 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 5,838, primarily through Right to Buy transactions.
- 2.2 Of the 5,838 properties currently owned, approximately 2,400 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 two years old. There are no high-rise properties, and the great majority of properties are flats. House condition is variable, but significant investment since 2003 and planned future investment will mean all homes meet Scottish Housing Quality Standard (SHQS) by 2015.
- 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 2012 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). 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. Last 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 fulfill 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 provides a stair cleaning service for its own Tenants in 59 blocks. A Factoring Service is provided to owners in these blocks and will continue to be developed in the coming year to enable extension to other areas. Communal costs for Amenity Housing Schemes and flatted blocks are recouped through Service Charges to tenants.
- 3.3 SBHA's allocations system (SBHA HomeChoice) is fully automated, with round the clock registration and bidding, both on-line and by telephone. The second full year 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 2011-12 Budget have been exceeded. To ensure continuous improvement, a centralised Voids team was formed at the end of 2011 to concentrate in this area, with targets being set to achieve top quartile performance in SBHA's peer group by 2016.
- 3.4 Wider role activities continued through the year, with funding granted to SBHA Plus for the Transitions Project at Albert Place, Galashiels. This provides two new staff posts (an "Employability" specialist and a "Housing Options" specialist) to be seconded to Scottish Borders Council's Transitions Team to work with young people. In addition to the new posts, SBHA seconded its existing Tenancy Support Officer to the Transitions Team to continue the successes achieved in previous years.
- 3.5 Funding for a new joint initiative project with Waverley Housing, 'Help With Money' was bid for and successfully received. This new pilot project, launched in Quarter 4 and running until late 2012, aims to focus on the prevention and early intervention of rent arrears. Financial Capacity Workers help tenants of both RSLs who fall into rent arrears or experience other financial difficulties by providing financial education advice, including money and debt management.
- 3.6 SBHA and Scottish Borders Council Concordat agreement 2011-16, was set up and agreed in March 2011 to enable both organisations to develop a productive working relationship and address common concerns and issues. Considerable progress has been made on the implementation of the Projects, with direct practical results benefiting both organisations. This has been particularly strong on preventing homelessness and improving tenancy sustainment, promoting and supporting the development of new homes and the enhancement of local neighbourhoods as highlighted in two completed projects below. Progress on Partnership working was recognised in SBHA's Regulation plan published in March 2012.
- 3.7 A Neighbourhood improvement model has been developed in partnership with other agencies, tenants and local residents to resolve community identified social environmental issues and create desirable areas where tenants and residents aspire to live. Adoption of this problem solving model has been successful in the pilot area in Galashiels, with fewer reported instances of anti social behaviour, reduced crime and increased recycling of household waste.
- 3.8 Scottish Borders Council's Local Housing Strategy team have worked with SBHA on the successful development of the business case for the retention of asset disposal receipts referenced at para 8.7, and have supported SBHA's strategy to regenerate the Stonefield Estate, granting monies from the second homes council tax fund to allow SBHA to buy back a privately owned flat situated in the area ear-marked for demolition. The site is a possibility for the development of 41 New Build homes and is included in the Scottish Borders Strategic Housing and Investment Plan (SHIP) 2012-14.
- 3.9 SBHA rejoined the Scottish Federation of Housing Associations (SFHA) in 2011 to gain access to a national network of support and guidance and benefit from the positive influence on Government policy and promotion of the work of its members.

- 3.10 Within the current financial year the Association has made the permanent appointment of both the Directors' of Housing and Technical Services roles. Two long standing Board Members (including the founder Chairman) retired at the 2011 Annual General Meeting, but continuity plans have ensured the places were successfully filled. The Board of Management completed a training needs assessment with a training plan being developed, commencing with refresher Governance training facilitated by Employers in Voluntary Housing (EVH).
- 3.11 SBTO is growing in membership and has worked on a series of campaigns including the tenants lettings pack; the neighbourhood improvement project in Galashiels; and the Pay to Stay Rent campaign, all of which have improved service delivery and continue to ensure Tenants voices are heard.
- 4.0 **STATEMENT OF BOARD'S RESPONSIBILITIES UNDER INDUSTRIAL AND PROVIDENT SOCIETIES ACTS FOR A REGISTERED SOCIAL LANDLORD**
- 4.1 The Industrial and Provident Societies Acts and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the RSL and of the surplus or deficit for that period. In preparing these financial statements, the Board is required to:
- Select suitable accounting policies and then apply them consistently;
 - Make judgements and estimates that are reasonable and prudent;
 - State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
 - Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the RSL will continue in business.
- 4.2 The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the RSL and to enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, The Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords Determination 2006. It has general responsibility for taking reasonable steps to safeguard the assets of the RSL and to prevent and detect fraud and other irregularities.
- 4.3 As far as each of the Board Members are aware, there is no relevant audit information of which the auditors are unaware and they have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.
- 4.4 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 2011-12 has delivered fundamental strategic reviews on Investment in SBHA's Stock; the Strategic Business Plan; Information Technology and New Build.
- 5.2 The development of an Asset Management Strategy was undertaken and approved by the June 2011 meeting of the Board of Management. The purpose of the Strategy is to set out a framework within which SBHA can make effective investment decisions. The strategy develops 5 strategic objectives based on SBHA's Corporate Objectives by providing an analysis of SBHA's current asset management practices, and sets out the future direction of service delivery, maintenance of and investment in assets. An Action Plan will be developed in 2012 to support implementation and progress will be monitored by the Technical Services Sub-Committee.
- 5.3 In August 2011, SBHA's Board, SBTO Members and the Management Team participated in a strategic planning event, to assess the strategic direction set previously in 2009, ensuring that SBHA is fit-for-purpose in an ever changing environment, taking specifically into account the new regulatory environment, challenges such as welfare reform and local and national economic pressures. The main challenges and opportunities were previously focussed on placing 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.

Whilst these solutions remain viable the session concluded with the following 3 statements:

- "SBHA has an aspiration to build affordable housing that sustains our communities; meets customer needs and provides income for re-investment"
 - "SBHA should support community projects that raise our visibility; support our strategic priorities and create greater responsibility within communities"
 - "Following consultation and discussion with our tenants and customers to identify their needs and expectations (by 2012-13), SBHA will develop an Information Centre based on identified client needs. Simultaneously, SBHA will explore any other efficiencies which can be made as a whole by SBHA."
- 5.4 From this direction, projects within the former Strategic plan were reviewed, assessed and revised by the Management team, seeking to build on progress to date. The main overall focus being performance of the Association's operational and financial activities to achieve top Quartile performance in it's peer group by 2016; develop customer focus by transforming services by way of mobile working, an information centre and self service for Tenants.
- 5.5 The annual review of the 30 year Business Plan was undertaken in February 2012, which generated some changes to core assumptions, mainly being the increase of future long term bad debts in light of the Welfare Reform implications, whilst minor adjustments were made to other business areas in light of the Strategic Plan and Budget setting process, creating an aligned, sustainable and deliverable set of future business projections.

- 5.6 In conjunction with the review of the Strategic Plan, the IT Strategy was reviewed and updated, ensuring the strategic direction set and the projects to be undertaken, were reflected. The purpose of the document is to define SBHA's IT Strategy 2011-16, the baseline against which computer and communication systems are developed, and to guide procurement and implementation, which will support SBHA's corporate objectives over the next 5 years.
- 5.7 The Scottish Housing Regulator's April 2011 Regulation Plan, continued to identify SBHA as medium risk. The main requirements being to closely monitor the achievement of SHQS, and the production of an Asset Management Strategy, the updated Strategic Plan as well as the annual 30 year Business Plan.

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. Options for rent increases were presented to Tenants in 2010, who preferred the option of a rent freeze for 2010-11, followed by the recouping of lost increases over a 6 year period. SBHA continued to provide the lowest average rent in 2011-12 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 The outlying area programme, carved into four targeted zones and small settlements, ensured that Tenants homes in rural areas now fully comply with SHQS. This provides a platform for delivering increased Cyclical maintenance programmes in future years.
- 7.4 As a member of the Borders Regional Procurement Partnership the SBHA Planned Maintenance Programme is procured through a Framework Agreement. SBHA remains a member of the 2010-14 Framework 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.

- 7.5 Building new homes is an emerging strategic priority for SBHA, ensuring stock is replenished from the loss to Right to Buy and that housing demand can be met. 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 and 3 units in Earliston, remains a top priority for the Scottish Borders in the 2012-14 SHIP. A review of potential development sites has been undertaken in the year outlining the potential number, size and type of units achievable in order to create plans for the longer term.
- 7.6 There remain 228 Non-Lettable Properties in SBHA's stock at 31st March 2012, which are a focus of the Association and are being progressed and monitored within SBHA's Asset Management Strategy. A range of demolitions, disposals and reconfigurations are being progressed to improve void performance, with 2011-12 seeing progress in previous Board approved options for many schemes and individual units.
- 7.7 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 were implemented in 2011-12, reflecting tenant aspirations for increased levels of first-time fix and improved information on appointment times and will continue to be a focus for SBHA in 2012-13.
- 7.8 Following a full procurement process, Travis Perkins were successfully appointed as the preferred supplier for repairs and maintenance materials in January 2012. The decision was made on the basis of achieving value for money and had an emphasis on partnership working, with increased commitments on service performance, investment and community benefit.
- 7.9 In 2011 SBHA entered into an arrangement with Carillion Ltd to access grant funding via Scottish Power for all its properties Cavity Wall Insulation requirements, in order to meet SHQS, saving the Association a potential £1.5 million. This arrangement has also allowed lofts to be insulated, including all loft hatches; pipe-work and water tanks. This will benefit the Association's Tenants by preventing unnecessary heat loss; reduce the likelihood of burst pipes in severe weather; and will also support a reduction in heating costs alongside supporting the achievement of SHQS.

8.0 KEY PERFORMANCE INDICATORS 2011-12

8.1 SBHA records and monitors at Board level, 10 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 2011-12	VARIANCE	TARGET 2012-13
Total Current Arrears	<£800,000	£ 671,000	-£129,000	£600,000
Voids as a % of Total Stock (excludes properties held for Demolition)	3.30%	3.18%	-0.12%	3.30%
Emergency Repairs Completed within Target	98.5%	97.33%	-1.17%	98.5%
Non Lettable Voids	56	228	+172	101
SBHA properties achieving Scottish Housing Quality Standard	36%	44%	+8%	57%
Number of Right to Buy Sales	32	13	-19	20
Net Debt per Unit	£5,588	£3,891	-£1,697	£5,567
Loan to Value Ratio	105%	201%	+96%	105%
Staff Turnover	<6%	13.77%	+7.77%	<6%
Staff Attendance	>97%	93.12%	- 3.88%	>97%

8.2 Current Tenant rent arrears amounted to £671,000 which is £129,000 below the target set, a commendable reduction of £180,000 from 2010-11 levels. SBHA is committed to reducing rent arrears to a minimum and in preparation for welfare reform to have a consistent approach. A campaign, Pay to Stay, was launched with the involvement of SBTO. During the year a comprehensive review of the Rent Arrears Policy was carried out and an Arrears Action Plan devised.

8.3 Plans focussed 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. Corporate responsibility; ownership of the problem; and a change of behaviours were also contributing factors. A rent arrears protocol is currently being devised under the Concordat, to build on this success and mitigate the future risks of impending Welfare Reform and Universal Credit measures.

8.4 Emergency repairs completed within target have improved from 94.73% in 2010-11 to 97.33%, this shows considerable progress and reflects the focus on performance improvement and improved contingency arrangements in the event of bad weather.

- 8.5 Total rent loss due to voids has continued to exceed targets in 2011-12, even with non lettable void numbers increasing. It is planned that this will be improved in the coming year, having created a centralised voids team and the commencement of a process review to improve the efficient and effective letting of vacancies arising in SBHA's stock in order to reduce rent loss.
- 8.6 The majority of non-lettable voids are 150 empty homes in the Stonefield Regeneration Area. SBHA and Waverley Housing submitted a joint business case for the "solum swaps" of properties to the Scottish Government which was approved in November 2011. This will allow refurbishment and demolition work to progress in 2012 over a 4 year programme.
- 8.7 The potential disposal of 21 properties at Mansfield and Eastfield Gardens, Hawick (properties with a high flood risk, requiring considerable investment) is nearing completion. A business case to retain the disposal receipts by SBHA and recycle into the reconfiguration of a hard to let former Sheltered Housing scheme in Hawick, was approved by the Scottish Government to create 9, two and three bedroom family sized homes in high demand; the return of a former housing office in Peebles to general housing stock with disabled access was completed within this financial year; the planned demolition of Deanfield Court in Hawick, a low demand former sheltered housing scheme will be commenced early in the coming year; and feasibility work will continue on the future of 1 low demand former sheltered housing scheme in Kelso and a block of 8 self contained bedsits previously used by Homelessness in Innerleithen.
- 8.8 An increase of 18%, in the number of properties achieving Scottish Housing Quality Standard this year is ahead of the 36% target. SBHA has made considerable progress on the number of elements in properties meeting SHQS and the percentage of homes fully complying with the standard.
- 8.9 This year continued to see low levels of Right to Buy sales. 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.
- 8.10 The reported Net Debt per Unit and Loan to value ratio as at 31st March 2012, were comfortably within levels agreed with our Funder. A full valuation of housing properties was undertaken by Countrywide Surveyors as at 31st March 2012, with a value of £54,932,000.
- 8.11 Staff attendance is below target, an area of considerable priority in 2011-12, marked reductions in short term absence were unfortunately offset by long term absences resulting in overall levels similar to last year.
- 8.12 Staff turnover increased with structures, especially within Technical services, being reviewed and progressed to permanent arrangements, to ensure that the Association's exposure to staff turnover is minimised, whilst enabling longer term business plan commitments to be met. The turnover level also reflects a strategic increase in the use of temporary staff to cover short term arrangements, and projects which have a finite life and require fixed term contracts for staff.
- 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 All staff attended briefing and interactive workshops on the updated Strategic Plan 2011-16. The People Strategy was produced and approved in March 2012, which sets out plans for both Staff and Governing members, this is underpinned by the launch of a staff recognition scheme, designed by staff.
- 9.3 SBHA is committed to apprenticeships and in the year 6 apprentices completed their time and gained full time employment within SBHA. A budget for 4 new places has been made available in the forthcoming year and SBHA are working closely with other agencies such as Scottish Enterprise, Scottish Borders Council and Borders College to ensure this aspiration is shaped for future years.
- 9.4 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. A new HR management system was implemented in the year to monitor such statistics and provide better, easier to access reports. The second phase of this will be implemented in 2012-13, which will see managers and employees have direct, real time access to the system.

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 Matrix and Training Plan. Staff training and education on health and safety matters is ongoing using Toolbox talks, e-learning and external accredited training. In 2011-12 following a review of the management of Health and Safety a single working group was formed comprising of senior management, frontline staff including operatives and representation from the Unions. This working group reports to the Health and Safety Committee on a quarterly basis.

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 2011-12: 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 Bank plc ('The Funder') in the form of a loan facility of £40.8m. The facility is split between £33.8m at fixed rates and £7m at variable rates based on LIBOR ('London Inter Bank Offered Rate') and no amounts were drawn in the year.

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 undertook a major internal reorganisation during 2010-11 and subsequently centralised its Social Housing portfolio, to be managed by a London based team. During 2011-12 the Bank made further changes, requiring that Loan Securities, the Loan Agreement and Banking facilities be migrated to Lloyds TSB Bank plc from Lloyds TSB Scotland plc. This was successfully completed in March 2012. SBHA continues to work with its Relationship Director who provides support through the annual Business Plan renewal process and any other Business issues requiring bank approval.
- 1.3 At 31st March 2012, SBHA complied fully with all its Loan Covenants.

2.0 INCOME AND EXPENDITURE ACCOUNT 2011-12

- 2.1 Annual Turnover increased from £16.57m to £17.26m during the year, an increase of 4.2%. The principal source of turnover for the Association is rental income and related service charges. Weekly rents for 2011-12 were increased by an average of 7.28% from previous year levels. However, a loss of 13 properties through Right to Buy sales during the ensuing year, a loss of rental income from 17 units approved for demolition and an increase of 12% in operational voids offset the rent increase levels. Outwith rental income, the Association had a continued decrease in Grants received from Scottish ministers of £68,000. Income from Other Activities increased by 11%, not taking into account the one off payment of £250,000 from SBC in 2010-11, with regards to a legal settlement.
- 2.2 Rent loss through lettable void properties (houses and garages) amounted to 1.42% of rent receivable during the year (for 2010-11 the comparable figure was 1.35%). 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 8.6, actions are in place to ensure future performance improves.
- 2.3 Operating Costs increased from £10.2m to £12.2m during the year, an increase of 19.66%. The most significant change in costs were: Management costs reduced by 5%; Planned and Cyclical costs (revenue) increased by 327%; note that Planned and Cyclical costs are revenue expenditure items - in 2011-12 total cash expenditure was £5,750,181 and £4,868,840 in 2010-11 (an increase of 18%). The increase in cash expenditure reflects budgeted levels in line with asset management plans to achieve SHQS
- 2.4 Following the implementation of the Statement of Recommended Practice – Accounting by registered social housing providers – Update 2010 (SORP 2010), the Association has implemented component accounting. As a result of the changes brought about by the SORP 2010 and the detailed guidance of the Technical Notes, the Association has adopted a new accounting policy, which has resulted in a prior period adjustment. Major components (Note 12) of our housing properties are identified and depreciated over specific economic life spans. Their replacement is then capitalised in fixed assets as they occur. The resulting prior period adjustment is shown in the relevant notes to the financial statements and detailed in Note 26 and resulted in an increase in reserves at 31st March 2011 of £13.6m.
- 2.5 Bad Debts expense reduced by £169,000 (65%) reflecting the turnaround in rent arrears performance described at para 8.2.
- 2.6 Gain on sale of housing properties decreased from £251,373 to £119,608 during the year. 13 sales were achieved in this year as opposed to 26 in the previous year, with the average net gain on sale per property decreasing by 5.09%.
- 2.7 The average rate of loan interest payable remained approximately the same at 5.26% and no drawdowns occurred in the year resulting in interest payable remaining at 2010-11 levels. However delayed projects in major repairs of approximately £3 million created a cash surplus throughout the year, with funds being placed on deposit, which accounts for Interest receivable (excluding interest on Pension Scheme) increasing during the year. Interest receivable on the Pension scheme increased by an amount of £140,000.
- 2.8 The Pension scheme adjustment which arose in 2010-11 was relative to Past Service gains of £1,609,000 and is not a recurring item. In accordance with FRS 17, this was treated as a gain in the Income and Expenditure Account. This gain arose 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).

2.9 The net impact of paragraphs 2.1 - 2.8 above was a surplus for the year of £3.9m (for 2010-11, there was a surplus of £6.8m). Excluding the Pension scheme adjustment, surplus for the year decreased by £1.3m. Surpluses are not expected to continue in the short term due to heavy investment in the stock to achieve SHQS, the regeneration of Stonefield Estate and the reconfiguration of Amenity schemes. Surpluses are forecast to be achieved after the years of heavy investment and once peak debt has been met in 2019-20.

3.0 BALANCE SHEET AT 31st MARCH 2012

3.1 At 31st March 2012, the Association showed a positive Balance Sheet where assets, including the Local Government Pension Scheme liability, exceeded liabilities. This is a continuing trend from 2011 where increasing revenue reserves and decreasing pension deficits, have maintained a positive balance sheet. The high revenue reserves are due to the full implementation of component accounting, in accordance with which expenditure on properties owned, (as per accounting policy (i) on page 24, where it is deemed to extend the useful life of the property or provides an enhancement of economic benefits or the component is replaced), 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 2012 where those assets generally able to be realised within one year exceeded liabilities generally payable in the same period. The liquidity ratio for 2012 was 2.66 (2011 - 1.96).

3.3 At 31st March 2012, the Association owned 5,838 properties as against 5,849 at 31st March 2011. 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 By virtue of being a stock transfer Association, SBHA is not committed to accumulating reserves in order to meet future long term commitments, but has agreed at the outset a loan facility with a specific loan repayment programme. A positive Balance Sheet, as stated at 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 Cash in Bank or hand is £5.2 million and is at levels greater than anticipated, due to the delayed expenditure in the planned maintenance programme, the reconfiguration of 2 Amenity schemes and the Regeneration of Stonefield Estate. These programmes are now to commence in 2012-13, being funded from a mixture of the cash balance and the loan facility highlighted in para 1.0.

3.6 SBHA's latest 30-year Business Plan has been approved by the Association's Funders, Lloyds TSB Bank plc, 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 13th 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").

- 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. Actual performance is set out at page 10.
- 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 2011-12 included a full assessment of the Strategic and Business Plan 2011-16 and a full exercise to identify and score the Top 20 corporate risks. The Top 3 risk areas currently identified are:

Corporate Risk	Detail	Actions to Mitigate
Failure to retain and recruit sufficiently experienced and skilled Board Members	Local Elections create a risk of turnover from SBC nominations of Councillor Members. Supporting & equipping Board Members in the context of the New Regulatory Environment.	Succession plan; Induction, Training, Development & Mentoring for Members; Skills Gap analysis; Increase SBHA profile & encourage Shareholders
Breach of Health and Safety Regulations	The high volume of repairs and improvements carried out with Tenants in situ presents an inherent risk that requires management as both a client and a contractor.	Clear policy, procedures and practices; Audited review of main processes for Gas, Asbestos & Legionella; Compliance register; Training & Qualifications.
Achievement of Rental Income Targets	Welfare reform increases the risk of bad debt exceeding assumptions Void loss from Long Term empty properties	Rent campaign to promote payment culture; Tenant profiling to assess full impact; Asset management strategy to address and prevent long term voids.

- 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 2012 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 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



Julia Mulloy

Secretary

Date 27/6/12

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 2012 on pages 20 to 42. 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.

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 2012 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
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH9 3QG

Date:

..... 3 July 2012

Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the Board's statement on pages 15 to 16 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 2006/5 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 15 to 16 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
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH9 3QG

Date:

..... 3 July 2012

INCOME AND EXPENDITURE ACCOUNT for the year ended 31st MARCH 2012

	Note	2012 £	2011 As restated £
Turnover	2	17,263,314	16,569,558
Operating Costs	2	(12,240,209)	(10,228,847)
Operating Surplus	2,7	5,023,105	6,340,711
Pension Scheme Adjustment to Past Service Cost	19b	-	1,609,000
Gain on sale of housing properties/land	6	119,608	251,373
Interest receivable	8	216,829	68,505
Interest payable and similar charges	9	(1,479,055)	(1,477,099)
Surplus for the Year		3,880,487	6,792,490

The results for the year relate wholly to continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES


	Note	2012 £	2011 As restated £
Surplus for the Year prior to Pension Scheme Surplus	19a	3,750,487	5,345,490
Increase /(Decrease) in Pension Scheme Deficit	19b	130,000	(162,000)
Pension Scheme Adjustment to Past Service Cost	19b	-	1,609,000
Surplus for the Year		3,880,487	6,792,490
Prior period adjustment	26	13,613,123	-
Pension Scheme Actuarial Gain	19b	1,866,000	1,857,000
Total Recognised Gains since last Annual Report		19,359,610	8,649,490

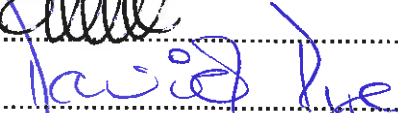
The notes on pages 23 to 42 form part of these Financial Statements

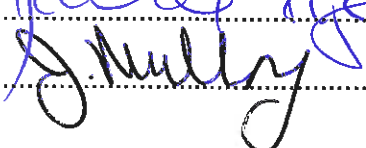
BALANCE SHEET as at 31st MARCH 2012

	Note	2012 £	2011 As restated £
Fixed Assets			
Housing Properties – Depreciated Costs	12	45,971,569	44,092,706
Capital Grants	12	(864,219)	(1,019,311)
		<u>45,107,350</u>	<u>43,073,395</u>
Other Fixed Assets	13	2,489,694	2,634,801
		<u>47,597,044</u>	<u>45,708,196</u>
Investment in Subsidiary Company	14	<u>1</u>	<u>1</u>
Current Assets			
Stock of Materials		61,871	95,431
Debtors	15	1,350,192	1,509,527
Cash at Bank and in Hand		5,212,908	3,253,101
		<u>6,624,971</u>	<u>4,858,059</u>
Creditors: Amounts falling due within one year	16	(2,474,176)	(2,482,507)
Net Current Assets		<u>4,150,795</u>	<u>2,375,552</u>
Total Assets less Current Liabilities		<u>51,747,840</u>	<u>48,083,749</u>
Creditors:			
Amounts falling due after more than one year	17	(27,816,000)	(27,902,400)
Net Assets excluding Pension Liability		23,931,840	20,181,349
Net Pension Asset/(Liability)	21	1,220,000	(776,000)
Net Assets including Pension Liability		<u>25,151,840</u>	<u>19,405,349</u>
Capital and Reserves			
Share Capital	18	255	251
Revenue Reserve	19a	23,681,585	19,931,098
Designated Reserve	19c	250,000	250,000
Pension Reserve/(Deficit)	19b	1,220,000	(776,000)
Total Capital and Reserves		<u>25,151,840</u>	<u>19,405,349</u>

The Board of Management approved these Financial Statements and authorised them for issue on 25th June 2012 and they were signed on their behalf by:

Ray Licence Chair..... 

David Pye Board Member..... 

Julia Mulloy Secretary..... 

The notes on pages 23 to 42 form part of these Financial Statements

CASH FLOW STATEMENT for the year ended 31st MARCH 2012

	Note	2012 £	2011 As restated £
Net Cash Inflow from operating activities	20(i)	7,568,423	8,744,414
Returns on Investment and Servicing of Finance			
Interest Received		27,829	19,505
Interest Paid		(1,479,055)	(1,477,099)
Net Cash Outflow from returns on investments and servicing of finance		(1,451,226)	(1,457,594)
Capital Expenditure			
Capitalisation of Improvement Costs		(4,102,799)	(5,270,478)
Purchase of Housing Properties		(31,500)	(60,616)
Other Capital Grants		31,500	-
Purchase of other fixed assets		(94,251)	(852,085)
Sale of Properties/Land		173,515	350,200
Net Cash Outflow from Capital Expenditure		(4,023,535)	(5,832,979)
Net Cash Inflow before Financing		2,093,662	1,453,841
Financing			
Loan principal repayments		(133,859)	(177,871)
Shares issued		19	19
Shares Redeemed		(15)	(18)
Net Cash (Outflow) from Financing		(133,855)	(177,870)
Increase in Cash during year	20(ii)	1,959,807	1,275,971

The notes on pages 23 to 42 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 – Update 2010.

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) **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 consider the going concern assumption underlying the preparation of the Association's Financial Statements to be appropriate.

- (c) **Turnover:** Turnover represents:
- Rental and Service Charge income (net of voids); and
 - Fees and other types of income as shown in Note 4.

- (d) **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.
- (e) **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.

- (f) **Investments:** Long term investments are classified as fixed assets. Subsidiary undertakings are stated at cost in the Balance Sheet.
- (g) **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.
- (h) **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.
- (i) **Fixed Assets – Housing Land and Buildings:** Housing properties are stated at cost less any social housing and other public grants less accumulated depreciation. The cost of such properties includes where applicable the following:
- Cost of Acquiring Land and Buildings;
 - Improvement/Development Expenditure;
 - Premium paid over valuation at date of purchase;

For expenditure on works to existing Housing Properties, SBHA capitalises expenditure under the following circumstances:

- Where a component of the housing property that has been treated separately for depreciation purposes and depreciated over its useful economic life is replaced or restored; or
- Where the subsequent expenditure provides an enhancement of the economic benefits of the tangible fixed assets in excess of the previously assessed standard of performance. Such enhancement can occur if the improvements result in an increase in rental income, a material reduction in future maintenance costs or a significant extension of the life of the property.

Work to existing properties which fail to meet the above criteria is charged to the Income and Expenditure account in the year in which it is incurred. Only assets over £1,000 are capitalised.

The adoption of component accounting represents a change in accounting policy. Previously the major components of the Association's housing properties were deemed to be land and buildings, central heating, windows and doors. The major components are now deemed to also include kitchens, bathrooms and rewiring. Useful economic lives of all components have also been reviewed in line with the Association's asset management strategy. Each component has a substantially different economic life and is depreciated over this individual life as set out in the table below. The new accounting policy is compliant with the SORP 2010.

- (j) **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.

(k) **Depreciation – Housing Properties:**

Depreciation is charged on a straight line basis over the expected economic lives of each major component that makes up the housing property as follows:

Component	Useful Economic Life (Yrs)
Structure (including roofs)	50
Wiring	40
Central Heating	15
Kitchens	20
Bathrooms	20
Windows	30
Doors	30

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

Asset Type	Useful Economic Life (Yrs)
Head Office	50
Area Offices	10
Tenant Improvements	over the initial term of the lease
Furniture and fittings	5
Office Equipment and Info Systems	4
Plant	4
Motor Vehicles	4
Land is not Depreciated	

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.

- (l) **Impairment of Fixed Assets:** Impairment is calculated as the difference between the carrying value of income generating units and the estimated value in use at the date an impairment loss is recognised. Value in use represents the net present value of expected future cash flows from these units. The Association recognises its full stock as an income generating unit with hard to let properties reviewed separately.

Impairment of assets would be recognised in the Income and Expenditure Account

- (m) **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.
- (n) **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.
- (o) **Lease Obligations:** Rentals paid under operating leases are charged to the Income and Expenditure account on a straight line basis.
- (p) **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.

- (q) **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.

- (r) **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.
- (s) **Sales of Properties:** Sales of properties are reflected at historic cost net of accumulated depreciation and selling costs. Any grants received which cannot be repaid from the proceeds of sale, are abated and the grants removed from the Financial Statements.
- (t) **Taxation:** The Association is a registered charity and is generally not subject to Corporation Tax, either on its income or on any capital gains.
- (u) **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.

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

	Note	Turnover £	Operating Costs £	Operating Surplus £	2011 As restated £
Social Lettings	3	16,945,479	(12,092,012)	4,853,467	5,916,370
Other Activities	4	317,835	(148,197)	169,638	424,341
Total for 2012		17,263,314	(12,240,209)	5,023,105	6,340,711
Total for 2011 As restated		16,569,558	(10,228,847)	6,340,711	

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

	2012 £	2011 As restated £
Rent Receivable net of Service Charges	16,787,762	15,765,182
Service Charges	212,915	228,968
Gross Income from Rents and Service Charges	17,000,677	15,994,150
Less Operational Voids	(238,613)	(212,412)
Net Income from Rents and Service Charges	16,762,064	15,781,738
Grants from Scottish Ministers	183,415	251,384
Total Turnover from Social Letting activities	16,945,479	16,033,122
Management and Maintenance Administration costs	4,054,194	4,287,430
Service Costs	206,395	219,613
Planned and Cyclical Maintenance including major repairs costs	2,855,873	668,738
Reactive Maintenance costs	2,873,324	2,794,734
Bad Debts, Rents and Service Charges	89,723	259,335
Depreciation of Social Housing Properties	2,012,503	1,886,902
Operating Costs for Social Letting activities	12,092,012	10,116,752
Operating Surplus for Social Lettings for 2012	4,853,467	5,916,370
Operating Surplus for Social Lettings for 2011 As restated	5,916,370	

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

3(a) AVERAGE RENTS

	2012	2011
	£	£
The average rent per property available to let at the period end was:	61.20	57.01

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

	Total Turnover	Other Operating Costs	Operating (Deficit)/ Surplus	Operating (Deficit)/ Surplus 2011 As restated
	£	£	£	£
Other Agency/Management Services	13,243	(20,964)	(7,721)	(7,720)
Factoring	21,515	(9,733)	11,782	6,487
Other Activities	283,077	(117,500)	165,577	425,574
Total from other activities 2012	317,835	(148,197)	169,638	424,341
Total from other activities 2011 As restated	536,435	(112,094)	424,341	

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 2011-12 and the previous accounting period of 2010-11, which require disclosure.

5. HOUSING STOCK

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

	2012	2011
General Needs Housing	5,766	5,777
Homeless Lets	48	48
Commercial Lets	24	24
	<u>5,838</u>	<u>5,849</u>

Stock movements during the year: During the year, 13 Right to Buy sales were made, 1 house was purchased as part of a regeneration programme and 1 property, which was previously used as an office, was transferred back to housing stock.

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

6. SALES OF HOUSING PROPERTIES AND LAND

	2012	2011
	£	As restated
		£
Gross Proceeds	384,110	965,520
Income Share due to Scottish Borders Council	(204,280)	(603,376)
Legal Costs of Sales	(13,423)	(17,612)
Net Proceeds	<u>166,407</u>	<u>344,532</u>
Less Asset Cost, less Depreciation	(46,799)	(93,159)
Gain on Sale	<u><u>119,608</u></u>	<u><u>251,373</u></u>

The gain on sale of 13 Houses and 5 miscellaneous small areas of land takes into consideration the deduction of sums payable to Scottish Borders Council totalling £204,280. £10,223 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 £153,861.

7. OPERATING SURPLUS

Operating surplus is stated after charging:

	2012	2011
	£	As restated
		£
Depreciation	<u>2,248,441</u>	<u>2,102,247</u>
External auditors remuneration:		
Audit Service	19,198	18,460
Non Audit Services for entities related to Auditor	-	-
	<u>19,198</u>	<u>18,460</u>
Internal Auditors Remuneration	<u>7,699</u>	<u>8,668</u>

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012	2011
	£	£
Interest Receivable	27,829	19,505
Other Interest on Pension Scheme	189,000	49,000
	<u>216,829</u>	<u>68,505</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2012	2011
	£	£
Loan Interest	1,458,017	1,456,191
Non-utilisation Fees	16,038	18,408
Arrangement Fees	5,000	2,500
	<u>1,479,055</u>	<u>1,477,099</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.

	2012 £	2011 £
Aggregate emoluments payable to Directors (including Pension Contributions)	291,608	379,182
Emoluments payable to highest paid Director (excluding pension contributions)	75,808	77,784
Pension contributions payable to Directors whose total emoluments (excluding pension contributions) were £60,000 or more	24,787	22,781

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

	2012	2011
£60,000 - £70,000	2	1
£70,001 - £80,000	1	1

10.2 During the year 3 Directors (2010-11, 2 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.

	2012 £	2011 £
Total expenses reimbursed to Directors and Board Members as not chargeable to UK income tax	2,974	3,825

11. EMPLOYEES

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

	2012 £	2011 £
Wages and Salaries	4,283,989	4,355,765
Social Security Costs	315,581	321,973
Pension costs	571,460	584,253
	<u>5,171,030</u>	<u>5,261,991</u>

	2012	2011
Average number employed during the year (full time equivalents)		
Directorate and Senior Management	11	10
Supervisory and Administrative	80	84
Tradesmen and other weekly paid	97	103
	<u>188</u>	<u>197</u>

12. TANGIBLE FIXED ASSETS: HOUSING PROPERTY

	Housing for Let 2012 £
Cost	
At 1 st April 2011	33,881,370
Prior Period Adjustment (Note 26)	17,637,969
As Restated	<u>51,519,339</u>
Additions	4,134,299
Disposals	(53,907)
Transfer from Other Fixed Assets	7,203
At 31 st March 2012	<u><u>55,606,934</u></u>
Accumulated Depreciation	
At 1 st April 2011	(3,401,787)
Prior Period Adjustment (Note 26)	(4,211,438)
At 1 st April 2011 Restated	<u>(7,613,225)</u>
Charge for Year	(2,029,248)
On Disposals	7,108
At 31 st March 2012	<u><u>(9,635,365)</u></u>
Depreciated Costs	<u><u>45,971,569</u></u>
Capital Grants	
At 1 st April 2011	(1,019,311)
Prior Period Adjustment (Note 26)	186,592
At 1 st April 2011 Restated	<u>(832,719)</u>
Awarded during Year	(31,500)
At 31 st March 2012	<u><u>(864,219)</u></u>
Net Book Value	
At 1 st April 2011 Restated	<u>43,073,395</u>
At 31 st March 2012	<u><u>45,107,350</u></u>
12.1	Total expenditure on major works to existing properties was £5,749,881. £1,647,383 was charged to the Income and Expenditure Account and £4,102,798 was capitalised. All amounts capitalised related to replacements of components.
12.2	At 31 st March 2012, a capital grant of £31,500 was due from Scottish Borders Council in respect of a grant to purchase a property as part of a regeneration programme.
12.3	The Association's Housing property was independently valued as at 31 st March 2012 at £54,932,000 (Fifty four million, nine hundred and thirty two 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 st March 2012 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 201% compared to the 105% required by the lender.
- 12.8 There were authorised capital commitments at the year end of £777,889 (2011: £730,904).

14. INVESTMENT IN SUBSIDIARY

	2012 £	2011 £
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 2011-12 was £57,861 (2010-11 £61,795) with costs of £57,334 (2010-11 £61,373) resulting in a surplus for the year of £527. The net assets of the company as at 31 March 2012 were £1,253 (2010-11 £831).		
14.4 The Association also owns 100% of Scottish Borders Building Services Ltd, a company which is currently dormant.		

15. DEBTORS

	2012 £	2011 £
Gross Arrears of Rent and Service Charges	1,025,339	1,240,091
Provision for Doubtful Debts	(463,639)	(606,882)
	<u>561,700</u>	<u>633,209</u>
Other Debtors	23,896	34,250
Prepayments and Accrued Income	711,169	780,669
Amount due from Subsidiary Company	53,427	61,399
	<u>1,350,192</u>	<u>1,509,527</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £	2011 £
Accruals	796,682	960,777
Rent in Advance	448,927	476,304
Trade Creditors	898,766	711,240
Right to Buy Receipts due to Scottish Borders Council	10,223	57,682
Other Creditors	100,844	35,143
Other Taxes and Social Security	132,334	154,961
Bank Loans (Note 17)	86,400	86,400
	<u>2,474,176</u>	<u>2,482,507</u>

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

	2012	2011
	£	£
Bank Loans	<u>27,816,000</u>	<u>27,902,400</u>
Analysis of duration of loan tranches:		
Repayable between one and two years	86,400	86,400
Repayable between two and five years	6,729,600	816,000
Repayable in five years or more	<u>21,000,000</u>	<u>27,000,000</u>
	<u>27,816,000</u>	<u>27,902,400</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 2012, £27,816,000 (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 31st March 2012 was 5.26% (2011, 5.27%).

18. SHARE CAPITAL

	2012	2011
	£	£
Shares of £1 issued and fully paid:		
Active Shares at 31 st March 2011	251	250
Relinquished during the period	(15)	(18)
Issued during the period	<u>19</u>	<u>19</u>
Active Shares at 31 st March 2012	<u>255</u>	<u>251</u>

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

	2012	2011
	£	As restated £
a) Revenue Reserve		
At 1 st April 2011	6,317,975	14,835,608
Prior Period Adjustment (Note 26)	13,613,123	-
At 1 st April 2011 as restated	<u>19,931,098</u>	<u>14,835,608</u>
Surplus for the Year	3,750,487	5,095,490
At 31 st March 2012	<u><u>23,681,585</u></u>	<u><u>19,931,098</u></u>

The total surplus for the year amounts to £3,880,487 (2011, £6,792,490) of which £130,000 (2011, £1,447,000) relating to a surplus on the pension reserve, is disclosed in Note 19(b). There was no transfer of surplus to Designated Reserve (2011, £250,000).

	2012	2011
	£	£
b) Pension Reserve		
At 1 st April 2011	(776,000)	(4,080,000)
Surplus/(Deficit) in Year	130,000	(162,000)
Past Service Cost Adjustment	-	1,609,000
Actuarial Gain in Year	1,866,000	1,857,000
At 31 st March 2012	<u><u>1,220,000</u></u>	<u><u>(776,000)</u></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 (Note 21).

The Past Service Cost adjustment in the prior year accounts 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.

	2012	2011
	£	£
(c) Designated Reserve		
At 1 st April 2011	250,000	-
Settlement of Legal Claim	-	250,000
At 31 st March 2012	<u><u>250,000</u></u>	<u><u>250,000</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. £50,000 has been allocated for spend in 2012-13 on roads and footpaths. A rolling 30-year programme will be introduced in the forthcoming year.

20. CASH FLOW

(i) Reconciliation of Operating Surplus to Operating Cashflows

	2012	2011
	£	As restated £
Operating Surplus	5,023,105	6,340,711
(Decrease) in Bad Debt provision	(123,258)	(110,076)
Depreciation for Year	2,248,441	2,102,247
Depreciation on Disposals	5,854	(5,668)
Pension Adjustment – Management	59,000	211,000
Decrease/(Increase) in Stock	33,560	(9,135)
Decrease in Debtors	282,593	286,575
Increase/(Decrease) in Creditors	39,128	(71,240)
	<u>7,568,423</u>	<u>8,744,414</u>

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

	2012	2011
	£	£
Increase in Cash in the Year	1,959,807	1,275,971
Loan Repaid during the year	86,400	86,400
Reduction in SBC Right to Buy Income Share	47,459	91,471
Movement in Net Debt	<u>2,093,666</u>	<u>1,453,842</u>
Net Debt at 1 st April 2011	(24,793,381)	(26,247,223)
Movement in Debt in the year	2,093,666	1,453,842
Net debt at 31 st March 2012	<u>(22,699,715)</u>	<u>(24,793,381)</u>

(iii) Analysis of Changes in Net Debt

	2012	Movement	2011
	£	£	£
Cash and Short Term Deposits	5,212,908	1,959,807	3,253,101
Debt due within one year	(96,623)	47,459	(144,082)
Debt due after one year	(27,816,000)	86,400	(27,902,400)
Total	<u>(22,699,715)</u>	<u>2,093,666</u>	<u>(24,793,381)</u>

21. PENSION COMMITMENT

21.1 The pension cost charge for the year amounted to £571,460 (2011 - £583,518). At 31st March 2012, the Association had pension contributions outstanding amounting to £66,973 (2011 - £65,515). 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 31st March 2012:

Pensionable Salary	% Payable
£0 - £18,000	5.50
£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 31st March 2012. This calculation was based on rolling forward valuation data as of 31st March 2011 to 31st March 2012 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	2012 %
RPI increases	3.2
CPI increases	2.2
Salary increases	3.2
Pension increases	2.2
Discount rate	5.1

21.6 The expected return on assets is based on the long-term future expected investment for each asset class as at 31st March 2012.

21. PENSION COMMITMENT (Cont.)

21.7 Assumed life expectancies from age 65 are:-

		Years
Retiring today	Males	22.0
	Females	24.3
Retiring in 20 years	Males	23.4
	Females	25.8
Assets (Employer)	31.03.12	31.03.11
Equities	76%	77%
Gilts	7%	7%
Other Bonds	9%	8%
Property	5%	5%
Cash	3%	3%
Total	100%	100%

Net Pension Liability as at	31st March 2012 £'000	31st March 2011 £'000	31st March 2010 £'000	31st March 2009 £'000	31st March 2008 £'000
Fair Value of Scheme assets	18,063	17,541	16,180	10,531	13,152
Present value of Funded obligation	(16,843)	(18,317)	(20,260)	(11,553)	(13,034)
Net Pension Asset/ (Liability)	1,220	(776)	(4,080)	(1,022)	118

21.8 Assets are valued on a bid value basis.

Amount recognised in Income & Expenditure Account	31st March 2012 £'000	31st March 2011 £'000
Current Service Cost	631	789
Expected return on scheme assets	(1,222)	(1,177)
Interest on obligation	1,033	1,128
Past Service Cost	-	(1,609)
Total	442	(869)
Actual return on scheme assets	531	1,050

21. PENSION COMMITMENT (Cont.)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	31st March 2012 £'000	31st March 2011 £'000
Opening Defined Benefit Obligation	18,317	20,260
Service Cost	631	789
Interest Cost	1,033	1,128
Actuarial (Gains)	(2,899)	(1,984)
Estimated Benefits paid (net of transfers in)	(435)	(476)
Past service cost	-	(1,609)
Contributions by Scheme participants	196	209
Closing Defined Benefit Obligation	<u>16,843</u>	<u>18,317</u>

Reconciliation of opening and closing balances of the fair value of Scheme assets	31st March 2012 £'000	31st March 2011 £'000
Opening fair value of Scheme assets	17,541	16,180
Expected return on Scheme assets	1,222	1,177
Actuarial (losses)	(1,033)	(127)
Contributions by employer (including unfunded)	572	578
Contributions by Scheme participants	196	209
Estimated benefits paid (net of transfers in including unfunded)	(435)	(476)
Fair value of Scheme assets at end of period	<u>18,063</u>	<u>17,541</u>

Projected pension expense for year to 31st March 2013	Year to 31st March 2013 £000's
Service cost	433
Interest cost	864
Return on assets	(1,087)
Total	<u>210</u>
Employer Contributions	<u>572</u>

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31st March 2012.

These projections are based on the assumptions as at 31st March 2012, as described in paragraphs 21.5 and 21.7.

22. OPERATING LEASE COMMITMENTS

At 31st March 2012, the Association had aggregate annual commitments and had made payments under non cancellable operating leases as set out below:-

	2012		2011	
	Plant & Equipment £	Land & Buildings £	Plant & Equipment £	Land & Buildings £
Expiring within 1 year	93,515	-	48,568	-
Expiring within 2 – 5 years	152,485	-	268,827	13,200
Annual commitment at 31 st March 2012	246,000	-	317,395	13,200
Payments in current year	329,132	10,721	353,237	13,200

23. CONTINGENCIES

As at 31st March 2012 and 2011, there were no contingencies.

24. RELATED PARTIES

- 24.1 Board members Kenneth Gunn, Zandra Elliot, Sandy Scott, John Paton Day and Gavin Logan are Councillors. Any transactions with Scottish Borders Council are at arms length, on normal commercial terms and the Councillor members cannot use their position to an advantage.
- 24.2 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 Kenneth Gunn (elected 26th September 2011), Kathleen Beaton and Ray Licence. Oliver Angus retired on 26th September 2011.
- 24.3 Carly Stewart, the Director of Finance and Corporate Services of SBHA, is also the secretary of SBHA Plus Ltd.
- 24.4 A Service Level Agreement between SBHA and SBHA Plus Ltd took effect on 1st April 2010.
- 24.5 During the year ended 31st March 2012 SBHA recharged SBHA Plus Ltd the sum of £53,427 representing costs incurred in connection with Wider Role activities. The amount due by SBHA Plus to SBHA at 31st March 2012 was £53,427.
- 24.6 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 2012.
- 24.7 Julia Mulloy, the Secretary and Chief Executive Officer of SBHA, is also the Secretary of SBBS Ltd.
- 24.8 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.
- 24.9 There was no trading between SBHA and SBBS Ltd during the years ended 31st March 2011 or 2012.

- 24.10 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 2011-12 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 2011-12, the Association's total expenditure on Tenant Participation was £62,476.
- 24.11 The Board Members listed as Tenants on page 1 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.
- 24.12 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 2012, SBHA purchased building services valued at £32,017 from J & R Elliot Ltd and owed an amount of £5,593 at the year end, 31st March 2012.
- 24.13 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 31st March 2012, SBHA purchased building supplies valued at £317,262 from Howdens Joinery Ltd and owed an amount of £9,954 at the year end, 31st March 2012.

25. LEGISLATIVE PROVISIONS

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

26. PRIOR PERIOD ADJUSTMENT

- 26.1 The principle of component accounting is to account separately for each major component of a property asset with substantially different useful economic lives, and to depreciate them over their individual useful economic lives. This change in accounting policy has resulted in major works expenditure written off in prior years being capitalised, and an additional depreciation charge now being recognised. The change in accounting policy has increased the surplus for 2012 by £926,065 (being a further £2,143,674 in capitalised major repairs offset by an increase of £1,217,609 in depreciation).
- 26.2 The effect of this change in accounting policy on the 31st March 2011 Financial Statements is shown below. 31st March 2011 opening reserves have been increased by £11,276,140 of which £2,923,127 relates to increased depreciation, £14,049,080 related to major repairs previously written off to the Income and Expenditure account now capitalised as components and £150,187 relates to grants now written off to the Income and Expenditure account. The effect of this change on the comparative year's figures of 2011 has been to:

	£
Increase depreciation charge	(1,288,311)
Decrease major works charged against income	3,568,331
Decrease in Cost of House Sales	20,558
Decrease in grants	36,405
Increase in the Surplus for the Year	<u>2,336,983</u>

In summary the overall effect on the Balance Sheet at 31st March 2011 has been to:

Increase Fixed Asset Cost	17,637,969
Increase Depreciation	(4,211,438)
Decrease Grants	186,592
	<u>13,613,123</u>