



**SCOTTISH BORDERS HOUSING ASSOCIATION**

**FINANCIAL STATEMENTS**

**For the year ended 31<sup>st</sup> March 2013**

*“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 2013**

	<b>Page</b>
Board of Management, Executive Officers and Advisers .....	1 - 2
Report of the Board of Management and Operating and Financial Review.....	3 - 18
Independent Auditor's Report.....	19
Income and Expenditure Account.....	20
Statement of Total Recognised Gains and Losses .....	20
Balance Sheet.....	21
Cash Flow Statement .....	22
Notes to the Financial Statements.....	23 – 42





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

### **Board of Management**

Ray Licence – Chair	(Re-elected as Chair 17-09-12)
Simon Mountford – Vice-Chair	(Elected as a Councillor Vice-Chair 17-09-12)
Kathleen Beaton – Tenant Vice Chair	(Re-elected as Tenant Vice Chair 17-09-12)

### **Tenant**

Kathleen Beaton	
Ann Knight	
Ethel Munro	(Re-elected 17-09-12)
George Parker	
Robert Pearson	(Stood down 17-09-12)
Marlen Jones	(Appointed to fill temporary vacancy 10-12-12)
Barry Armstrong	(Elected 17-9-12, Resigned 29-10-12)

### **Council**

Zandra Elliot	(Resigned 10-12-12)
Sandy Scott	(Re-nominated by Council 24-05-12)
Gavin Logan	(Stood down 02-05-12)
Vicky Davidson	(Nominated by Council 24-05-12)
Simon Mountford	(Nominated by Council 24-05-12)
David Paterson	(Nominated by Council 24-05-12)
Bill Herd	(Nominated by Council 12-12-12)

### **Independent**

Ray Licence	
David Pye	(Re-elected 17-09-12)
David Richardson	(Resigned 20-12-12)
Ian MacDonald	
Stuart Lobb	(Appointed to fill temporary vacancy 18-03-13)
Audrey Johnston	(Stood down 17-09-12)
John Paton-Day	(Stood down as Council Member 02-05-12, elected as Independent Member 17-09-12)

### **Co-optees**

Eric Glass	(Stood down 17-09-12, Co-opted 17-09-12)
Kenneth Gunn	(Stood down as Council Member 02-05-12, Co-opted 17-09-12)

### **Secretary to the Association**

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

**Directors**

Carly Stewart	Director of Finance and Corporate Services
Maria Lyle	Director of Housing Services
Alan Vass	Director of Technical Services

**External Auditor**

Baker Tilly UK Audit LLP  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
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**Internal Auditor**

Findlay & Company  
Chartered Accountants  
11 Dudhope Terrace  
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DD3 6TS

**Solicitors**

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The Ca'd'oro  
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Glasgow  
G1 3PE

**Bankers**

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3<sup>rd</sup> Floor  
25 Gresham Street  
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**Registered Office:**

South Bridge House  
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<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 2013. 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 2013, 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 2012-13 was SBHA’s tenth full year in operation, and as in the previous nine years, the Association’s core housing functions were carried out alongside a process of continuing change and development.

### **SECTION 2 - OPERATING AND FINANCIAL REVIEW 2012-13: 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 3<sup>rd</sup> March 2003, SBHA took over ownership of 6,728 properties, which has now been reduced to 5,796, primarily through Right to Buy transactions.
- 2.2 Of the 5,796 properties currently owned, approximately 2,200 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 31<sup>st</sup> March 2013 two Co-optee places were filled.
- 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. 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. In 2012-13 half of the Programme was carried out by the Maintenance Division, with resultant efficiencies and savings in labour costs and VAT, as well as a high level of Tenant satisfaction.





- 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. A full review of all communal services provided to Tenants and Owner Occupiers throughout SBHA's operating area has commenced and will be concluded in 2013-14. 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. In it's third full year, 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 2012-13 Budget have been exceeded as highlighted in para 8.3 of this review. 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 Big Lottery funding granted for a further four years to SBHA Plus for the Transitions Project at Albert Place, Galashiels. The project has been developed further to provide outreach support to young people leaving Care and living across the Scottish Borders. This provides two 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 posts, SBHA seconded its existing Tenancy Support Officer to the Transitions Team to continue the successes achieved in previous years.
- 3.5 A joint initiative project with Waverley Housing, 'Help With Money' continued into 2013 and was successfully received. It aims to focus on the prevention and early intervention of rent arrears. Financial Capacity Workers help tenants who fall into rent arrears or experience other financial difficulties by providing financial education advice, including money and debt management. Whilst grant funding has come to an end and further grant applications are assessed, SBHA continue the service by funding a full time Financial Capability Worker, as part of it's Welfare Reform Mitigation Plan.
- 3.6 In partnership with the 3 other RSLs operating in the Scottish Borders, SBHA joined HomeSwapper, a national homes mutual exchange scheme in February 2013. This offers free access to mutual exchanges and housing options information. With the reduction of Housing Benefit entitlement for over 500 tenants due to the introduction of the Size Criteria in April 2013, joining this scheme aims to match Tenants with homes that meet their requirements and alleviate the financial difficulties that some face.
- 3.7 Welfare Reform preparations have been at the focus of SBHA's operations in 2012 and as well as forming its own Welfare Reform Mitigation Project Group, it is a partner in the Scottish Borders Mitigation Group, which aims to share ideas and best practice at a Regional level and provide a coordinated and uniform approach, especially regarding communicating changes. There are a number of projects ongoing to mitigate this risk; the Help with Money project and Homeswapper membership as detailed above; profiling of all tenants, with initial focus to ensure contact was made with all 528 tenants to be affected by the bedroom under occupation criteria; staff training and awareness; and reviewing access to bank accounts and optimising payment methods.



- 3.8 The 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 continued to be particularly strong on preventing homelessness and improving tenancy sustainment, promoting and supporting the development of new homes and the enhancement of local neighbourhoods. In 2012, this has been followed by the delivery of a joint Rent Arrears protocol, a Young Person Protocol and the Unified Policy on Preventing and Responding to Domestic Abuse (with SBC and the Borders Housing Network). Continuing progress on Partnership working was again recognised in SBHA's Regulation plan published in March 2013.
- 3.9 Scottish Borders Council's Local Housing Strategy team have supported SBHA's strategy to regenerate the Stonefield Estate, by granting £105,000 of second homes council tax funds to allow SBHA to buy back 4 privately owned flats situated in the area ear-marked for regeneration. A further 4 will be purchased next year with financial support from SBC. The site is ear-marked for the development of 44 New Build homes and is included in the Scottish Borders Strategic Housing and Investment Plan (SHIP) 2012-14.
- 3.10 SBTO maintains a strong membership and during the year has attended sessions held by various institutions in order to prepare for the Scottish Social Housing Charter. SBTO, alongside Board and Staff Members reviewed and revised The Tenant Participation Strategy 2012-15. The Strategy was developed to comply with legislation whilst aiming to remain a tenant-friendly source of information for tenants who are considering becoming involved in Tenant Participation, or simply want their views to be 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 (Scotland) Act 2010 and the Determination of Accounting Requirements April 2012. 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 The annual review of the 30 year Business Plan was undertaken and concluded in February 2013, 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. After consideration of a detailed evaluation on the appraisal and financial capacity of New Build development, the Business Plan was adjusted to include a modest New Build programme.
- 5.2 SBHA delivered fundamental strategic reviews in 2011-12 on Investment in SBHA's Stock; the Strategic Business Plan; Information Technology and New Build. The main themes and processes of which are detailed below. The Strategic Business Plan is being reviewed and updated early in 2013 to ensure that the Objectives and detailed projects are still relevant. This process is undertaken by key stakeholders, including the Board of Management, Local Elected Members, SBTO and the Management team. It will incorporate a set of Values which were initially designed by staff and the SBTO. SBHA Values are a core part of the Customer Service training sessions being held in 2013-14, as per para 9.4.
- 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, and to implement an information centre and self service for Tenants.
- 5.5 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.
- 5.6 An Action Plan was developed in 2012 to support implementation and progress has been monitored by the Technical Services Sub-Committee. The main theme of this strategy being SBHA’s post-SHQS plan for 2015-2020, in which the main principles were agreed as;
- Continued internal element replacement;
  - Cyclical programme for external works to enhance stock and neighbourhoods; and
  - Programme to meet the Energy Efficiency Standard for Social Housing (EESH) by 2020.
- 5.7 Progress on the implementation of the reviewed IT Strategy was documented and reported. 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.
- 5.8 The Scottish Housing Regulator’s April 2012 Regulation Plan, continued to identify SBHA as medium risk. The main requirements being to closely monitor the achievement of SHQS, Rent Arrears performance and the production of the annual 30 year Business Plan, including cash flows and covenant compliance. This was continued in the 2013 Regulation Plan with the addition of the requirement to report on progress with Welfare Reform plans and the outcome of the Pension review undertaken.

## **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 2012-13 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 and amenity housing full SHQS programmes have been delivered with the smaller settlement programme nearing conclusion. 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 Earlston, 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 226 Non-Lettable Properties in SBHA's stock at 31<sup>st</sup> March 2013, 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 2012-13 seeing significant 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 2013-14.

7.8 Following a full procurement process in conjunction with Berwickshire Housing Association and Waverley Housing, Dalex Systems Ltd were successfully appointed as the Heating Contractor in January 2013. One apprenticeship post has also been created as a result of this procurement process.

7.9 The SFHA thermal imaging project was undertaken by SBHA, with over 1,000 surveys. The results of this will support preparations for climate change and evaluation of the recent Carillion Insulation programme.



## 8.0 KEY PERFORMANCE INDICATORS 2012-13

- 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 2012-13	VARIANCE	TARGET 2013-14
<b>Total Current Arrears</b>	<£600,000	£ 708,145	<b>+£108,145</b>	£650,000
<b>Voides as a % of Total Stock</b> (excludes properties held for Demolition)	3.30%	2.97%	<b>- 0.33%</b>	3.40%
<b>Emergency Repairs Completed within Target</b>	97.0%	96.80%	<b>- 0.2%</b>	97.5%
<b>Non Lettable Voids</b>	101	226	<b>+125</b>	101
<b>SBHA properties achieving Scottish Housing Quality Standard</b>	64%	62%	<b>- 2%</b>	75%
<b>Number of Right to Buy Sales</b>	20	9	<b>- 11</b>	15
<b>Net Debt per Unit</b>	£5,567	£3,505	<b>- £2,062</b>	£5,582
<b>Loan to Value Ratio</b>	105%	201%	<b>+96%</b>	105%
<b>Staff Turnover</b>	<5%	15.10%	<b>+10.10%</b>	<5%
<b>Staff Attendance</b>	>97%	95.24%	<b>- 1.76%</b>	>97%

- 8.2 Current Tenant rent arrears amounted to £708,000 which is £108,000 above the target set, SBHA is committed to reducing rent arrears to a minimum and in preparation for Welfare Reform to have a consistent approach. Failure to achieve income targets is seen as the Association's top risk and actions are in place or planned to be in place to address this area. It is recognised that although current rent arrears targets were not met, total rent arrears of £1,025,339 had only slightly increased from 2011-12 by £7,737. Targets levels for 2013-14 have been amended to recognise the requirement to improve in this area, but which remains achievable.
- 8.3 Voids performance has exceeded targets this year, as result of creating a centralised voids team and a process review. Void loss is also monitored by the average number of days lost per void, which having remained at 32 days last year, decreased to 26 days in 2012-13, a reduction of one working week.
- 8.4 The majority of non-lettable voids are in the Stonefield Regeneration Area. Having received Scottish Government approval to proceed the solum swaps with Waverley Housing, the first phase of the complex swaps took place in November 2012. This allows the refurbishment and demolition programme to commence in 2013 over a 4 year programme.



- 8.5 In the year, significant progress was made with other non lettable voids including the demolition of 17 low demand units at Deanfield, Hawick; the disposal of 21 hard to let units at Mansfield and Eastfield Garden, Hawick; the reconfiguration of 14 hard to let units at a former sheltered housing scheme, Myreslaw Court into 9 high demand family sized homes; and the return of a former housing office into general housing. The lease of 24 units at Rose Court, Galashiels ended during the year, and feasibility work is now being carried out to maximise the potential future use of these 24, 3 bed maisonettes.
- 8.6 The number of properties achieving Scottish Housing Quality Standard this year has made progress, but is slightly behind the anticipated target. SBHA has nevertheless made considerable progress on the number of elements in properties meeting SHQS and detailed plans are in place to ensure that full compliance with the Standard will be achieved before March 2015.
- 8.7 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. The Right to Buy sales forecast will be adjusted if necessary when the outcome of the Future of the Right to Buy in Scotland is announced.
- 8.8 The reported Net Debt per Unit and Loan to value ratio as at 31<sup>st</sup> March 2013, were comfortably within levels agreed with our Funder. A desktop valuation of housing properties was undertaken by Countrywide Surveyors as at 31<sup>st</sup> March 2013, with a value of £53,433,000.
- 8.9 Staff attendance is still below target, but has increased significantly from the previous year. Over a two year journey, SBHA has addressed sickness absence issues by ensuring a strong HR framework of robust policies and procedures, an increase in staff awareness, training for managers and improved support services for staff. Both Long term and short term sickness absences have dramatically decreased and the framework in place will ensure that absence management can be sustained.
- 8.10 Staff turnover increased with structures being reviewed to ensure that the Association is able to meet longer term business plan commitments. 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 therefore 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 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 successful launch of a staff recognition scheme, designed by staff which had its first set of "Stars" announced at an event in February 2013. Policies and procedures have been delivered as set out in the People Strategy, which also underpin the performance framework as noted at para 8.9.
- 9.3 SBHA is committed to apprenticeships and in the year 4 apprentices qualified and gained full time employment within SBHA. The recruitment of 4 new apprenticeships out of 230 applications took place in the year, and work placements were put in place for 16 college and school students, 14 in the Maintenance Division and 2 in Office based posts. 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 The SBHA staff training plan was consolidated and SBHA became a successful Scottish Enterprise Account Managed Organisation, this has secured match funding for the Customer Service and Leadership training to be undertaken by all staff in early 2013-14 and the verification process to attain Investors in People.
- 9.5 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 2011 to monitor such statistics and provide better, easier to access reports. The second phase of this was implemented in 2012-13, which allows managers and employees to 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. Extensive 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.

## **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.
- 1.3 In November 2012, Lloyds TSB Bank plc transferred a part of its rights to SBHA's Loan Facility to Scottish Widows, a subsidiary of the Lloyds Banking Group. This transfer was part of a Lloyds Banking Group strategy to align long term liabilities and assets, to allow Lloyds TSB Bank plc to free up short term liquidity.
- 1.4 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.
- 1.5 At 31<sup>st</sup> March 2013, SBHA complied fully with all its Loan Covenants.





## 2.0 INCOME AND EXPENDITURE ACCOUNT 2012-13

- 2.1 Annual Turnover increased from £17.26m to £18.41 during the year, an increase of 6.63%. The principal source of turnover for the Association is rental income and related service charges. Weekly rents for 2012-13 were increased by an average of 7.4% from previous year levels. However, a loss of 30 properties through Right to Buy and Private Sales during the ensuing year partially offset the rent increase levels. Outwith rental income, the Association had a continued decrease in Grants received from Scottish ministers of £24,000. Income from Other Activities decreased by 13.92%, which was mainly through the cessation of a lease of 24 properties by a local university for student accommodation.
- 2.2 Rent loss through lettable void properties (houses and garages) amounted to 1.23% of rent receivable during the year (for 2011-12 the comparable figure was 1.42%). Reducing this level of loss is a high priority for the business and challenging but achievable ongoing targets are set. As reported earlier in section 8, actions are in place to ensure future performance continues to improve.
- 2.3 Operating Costs increased from £12.24m to £12.63m during the year, an increase of 3.2%. The most significant change in costs were: Management costs increased 2.5%; Service costs increased by 19%, reflecting an unforeseen increase in utility costs for communal areas; Bad Debts expense increased by 91% (£82,000 – see 2.5 below); and Response Repairs decreased by 4.9%, due to the improved financial performance and control of this service.
- 2.4 Following the implementation of component accounting last year, Major components continued to be capitalised and Note 12 details the total cost of planned maintenance contracts, broken into capitalised and expensed amounts.
- 2.5 The Bad Debts expense increased by £82,000 (91%) reflecting efforts to ensure the former tenant debt recovery process was performed timeously. The re-tendering of debt collection services has increased recovery but has also allowed historic cases to be concluded, with all avenues having been pursued. This has increased actual debt written off and the bad debt provision for many former tenant debts.
- 2.6 Gain on sale of housing properties and land increased from £119,608 to £202,454 during the year. 9 Right to Buy sales were achieved this year as opposed to 13 in the previous year. The figure also includes the gain on sale of 21 privately sold hard to let properties, of which the proceeds are to be ring-fenced and used to finance the reconfiguration of 9 family sized homes at Myreslawcourt, Hawick. This gain has been offset by a loss on sale of £54,658 resulting from the Solum Swaps detailed in Note 9.
- 2.7 The average rate of loan interest payable remained approximately the same at 5.45% and no drawdowns occurred in the year resulting in interest payable remaining at 2012-13 levels. However delayed projects, efficiency savings and a reduction in the scope of works required amounting to 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 £34,000.
- 2.8 The net impact of paragraphs 2.1 - 2.7 above was a surplus for the year of £4.7m (for 2011-12, there was a surplus of £3.9m). 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 31<sup>st</sup> MARCH 2013**

- 3.1 At 31<sup>st</sup> March 2013, 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 continued full implementation of component accounting, in accordance with which expenditure on properties owned, (as per accounting policy 1 (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 31<sup>st</sup> March 2013 where those assets generally able to be realised within one year exceeded liabilities generally payable in the same period. The liquidity ratio for 2013 was 3.06 (2012 – 2.66).
- 3.3 At 31<sup>st</sup> March 2013, the Association owned 5,796 properties against 5,838 at 31<sup>st</sup> March 2012. 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 £7.9 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 to commence in 2013-14, 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 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.
- 4.3 In Quarter 4, SBHA took the opportunity offered by Lloyds Bank plc to restructure a £9 million RPI-linked loan to a fixed rate.



## **5.0 PENSIONS**

- 5.1 The Association participates in the Scottish Borders Council Pension Fund (SBCPF) 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 SBCPF. 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 as at 31<sup>st</sup> March 2011 and, following this valuation, SBHA's employer's contributions have been continued at 18% of pensionable pay.
- 5.3 The Association continued to adopt Financial Reporting Standard (FRS) 17 in full in 2012-13 and recognised a Net Pension asset of £1,195,000 at 31<sup>st</sup> March 2013.
- 5.4 A Pension review was carried out by SBHA in 2012-13 and after consultation with staff, a decision was made to close the SBCPF to new entrants as of 31<sup>st</sup> March 2013. A new Defined Contribution Scheme is being offered from June 2013 and will be the scheme into which staff will be auto-enrolled as of SBHA's staging date from 1<sup>st</sup> April 2014.

## **6.0 CONTINGENCY**

- 6.1 At 31<sup>st</sup> March 2013, 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 7 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 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 2011-16 was reviewed and approved on 18<sup>th</sup> August 2011 with the financial part of the Business Plan being approved on 21<sup>st</sup> February 2013;
  - The Association's Financial Regulations were replaced by a suite of Financial Policies which were updated and approved on 20<sup>th</sup> November 2009 and have been subsequently reviewed and amended as required;
  - 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 Sub-Committee level and Homologated 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 and 3 Directors, receives and monitors the Management Accounts on a monthly basis;
  - The Board is presented with a Financial Monitoring report for the Association on a quarterly basis. This report compares Actual financial results against Budget and comments on any significant variances and on whether the forecast out-turn for the year is likely to be materially different from Budget;
  - The Association uses the services of an independent Internal Auditor who works to an Audit Needs Assessment programme agreed in advance by the Audit and Compliance Sub-Committee;
  - The Internal Auditor carries out regular reviews of control activities and reports their findings to the relevant Manager, the Executive Team and to the Audit and Compliance Sub-Committee; and
  - Risk is actively managed through the Association's Risk Management Strategy. An SBHA Corporate Risk Panel meets on a regular basis to assess Corporate Risks and reports findings to the Audit and Compliance Sub-Committee.

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





- 2.4 The Association has identified an extensive range of Key Performance Indicators which were reported at Sub-Committee and Board of Management level throughout the year.
- 2.5 The Key Performance Indicators comparing target with actual results reported at the Board of Management cover financial matters such as loan covenants, progress towards improving housing stock to Scottish Housing Quality Standard, and staff attendance levels. 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. A full exercise was undertaken to review and score the Top 20 corporate risks. The Top 3 risk areas currently identified are:

Corporate Risk	Detail	Actions to Mitigate
Failure to achieve Rental Income particularly due to the Impact of Welfare Reform.	Welfare Reform increases the risk of bad debts exceeding assumptions and increasing operating costs.	Analysis of impact; Carry out tenant profiling; Maintain Rent Campaign; Set targets for arrears and voids to achieve top quartile by 2016; Realign Business Plan to allow for a higher bad debt expense and higher cash collection costs.; Increase focus on Help With Money.
Loss of a Major Supplier.	SBHA has a significant planned maintenance, regeneration and new build programme in place as well as a number of key suppliers performing such services as Cash collection, IT Support and Material Supplies. The failure of a major construction contractor, sub contractor or supplier would cause significant disruption to the business.	Obtain and Review financial information including Bank Statements during tendering process and thereafter on at least a quarterly basis; Quarterly review at Framework Meetings. Provision to go outwith Framework if required.
The Maintenance Division fails to provide Value for Money and generate New Income Streams.	The Maintenance Division comprises almost 50% of the Associations workforce and carries out a significant proportion of SBHA's Planned Maintenance contracts.	Monthly Finance Monitoring; Actions from MD Benchmarking Review; Monitoring of KPIs; Workforce profiling.

- 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 2013 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

28/6/13



**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<sup>st</sup> March 2013 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](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 2013 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, Part 6 of the Housing (Scotland) Act 2010. and the Determination of Accounting Requirements – April 2012.

**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:

*4 July* .....2013



**INCOME AND EXPENDITURE ACCOUNT for the year ended 31<sup>st</sup> MARCH 2013**

	Note	2013	2012
		£	£
<b>Turnover</b>	2	18,408,409	17,263,314
Operating Costs	2	(12,625,153)	(12,240,209)
<b>Operating Surplus</b>	2,7	5,783,256	5,023,105
Gain on sale of housing properties/land	6	148,296	119,608
Interest receivable	8	278,747	216,829
Interest payable and similar charges	9	(1,519,309)	(1,479,055)
<b>Surplus for the Year</b>		4,690,990	3,880,487

The results for the year relate wholly to continuing activities.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	Note	2013	2012
		£	£
Surplus for the Year prior to Pension Scheme Surplus	19a	4,306,990	3,750,487
Increase in Pension Scheme Surplus	19b	384,000	130,000
<b>Surplus for the Year</b>		4,690,990	3,880,487
Prior period adjustment	26	-	13,613,123
Pension Scheme Actuarial (Loss)/Gain	19b	(409,000)	1,866,000
<b>Total Recognised Gains since last Annual Report</b>		4,281,990	19,359,610

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



**BALANCE SHEET as at 31<sup>st</sup> MARCH 2013**

	Note	2013 £	2012 £
<b>Fixed Assets</b>			
Housing Properties – Depreciated Costs	12	48,359,028	45,971,569
Capital Grants	12	(1,044,198)	(864,219)
		<u>47,314,830</u>	<u>45,107,350</u>
Other Fixed Assets	13	2,355,682	2,489,694
		<u>49,670,512</u>	<u>47,597,044</u>
<b>Investment in Subsidiary Company</b>	14	<u>1</u>	<u>1</u>
<b>Current Assets</b>			
Stock of Materials		25,334	61,871
Debtors	15	1,461,687	1,350,192
Cash at Bank and in Hand		7,867,037	5,212,908
		<u>9,354,058</u>	<u>6,624,971</u>
Creditors: Amounts falling due within one year	16	(3,056,137)	(2,474,176)
Net Current Assets		<u>6,297,921</u>	<u>4,150,795</u>
<b>Total Assets less Current Liabilities</b>		<u>55,968,434</u>	<u>51,747,840</u>
Creditors:			
Amounts falling due after more than one year	17	(27,729,600)	(27,816,000)
Net Assets excluding Pension Liability		<u>28,238,834</u>	<u>23,931,840</u>
Net Pension Asset	21	1,195,000	1,220,000
Net Assets including Pension Liability		<u>29,433,834</u>	<u>25,151,840</u>
<b>Capital and Reserves</b>			
Share Capital	18	258	255
Revenue Reserve	19a	27,998,576	23,681,585
Designated Reserve	19c	240,000	250,000
Pension Reserve	19b	1,195,000	1,220,000
Total Capital and Reserves		<u>29,433,834</u>	<u>25,151,840</u>

The Board of Management approved these Financial Statements and authorised them for issue on 24<sup>th</sup> June 2013 and they were signed on their behalf by:

Ray Licence

Chair.....

David Pye

Board Member.....

Julia Mulloy

Secretary.....





**CASH FLOW STATEMENT for the year ended 31<sup>st</sup> MARCH 2013**

	Note	2013 £	2012 £
<b>Net Cash Inflow from operating activities</b>	20(i)	8,631,775	7,520,964
<b>Returns on Investment and Servicing of Finance</b>			
Interest Received		55,747	27,829
Interest Paid		(1,519,309)	(1,479,055)
<b>Net Cash Outflow from returns on investments and servicing of finance</b>		(1,463,562)	(1,451,226)
<b>Capital Expenditure</b>			
Capitalisation of Improvement Costs		(4,701,346)	(4,102,799)
Purchase of Housing Properties		(125,500)	(31,500)
Other Capital Grants		179,979	31,500
Purchase of other fixed assets		(65,844)	(94,251)
Sale of Properties/Land		285,024	173,515
<b>Net Cash Outflow from Capital Expenditure</b>		(4,427,687)	(4,023,535)
<b>Net Cash Inflow before Financing</b>		2,740,526	2,046,203
<b>Financing</b>			
Loan principal (repayments)		(86,400)	(86,400)
Shares issued		15	19
Shares Redeemed		(12)	(15)
<b>Net Cash Outflow from Financing</b>		(86,397)	(86,396)
<b>Increase in Cash during year</b>	20(ii)	2,654,129	1,959,807

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 Determination of Accounting Requirements – April 2012 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.

Prior to the adoption of component accounting in 2012 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.

- (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 £	2012 £
Social Lettings	3	18,099,743	(12,477,409)	5,622,334	4,853,467
Other Activities	4	308,666	(147,744)	160,922	169,638
<b>Total for 2013</b>		<b>18,408,409</b>	<b>(12,625,153)</b>	<b>5,783,256</b>	<b>5,023,105</b>
<b>Total for 2012</b>		<b>17,263,314</b>	<b>(12,240,209)</b>	<b>5,023,105</b>	

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

	2013 £	2012 £
Rent Receivable net of Service Charges	17,946,783	16,787,762
Service Charges	212,209	212,915
Gross Income from Rents and Service Charges	18,158,992	17,000,677
Less Operational Voids	(221,458)	(238,613)
Net Income from Rents and Service Charges	17,937,534	16,762,064
Grants from Scottish Ministers	159,209	183,415
Other Revenue Grants	3,000	-
<b>Total Turnover from Social Letting activities</b>	<b>18,099,743</b>	<b>16,945,479</b>
Management and Maintenance Administration costs	4,154,821	4,054,194
Service Costs	245,516	206,395
Planned and Cyclical Maintenance including major repairs costs	2,886,361	2,855,873
Reactive Maintenance costs	2,732,764	2,873,324
Bad Debts, Rents and Service Charges	171,644	89,723
Depreciation of Social Housing Properties	2,286,303	2,012,503
<b>Operating Costs for Social Letting activities</b>	<b>12,477,409</b>	<b>12,092,012</b>
Operating Surplus for Social Lettings for 2013	5,622,334	4,853,467
Operating Surplus for Social Lettings for 2012	4,853,467	

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



### 3(a) AVERAGE RENTS

	2013 £	2012 £
The average weekly rent (48 week basis) per property available to let at the period end was:	65.73	61.20

### 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 2012
	£	£	£	£
Other Agency/Management Services	13,212	(21,644)	(8,432)	(7,721)
Factoring	16,458	(9,916)	6,542	11,782
Other Activities	278,996	(116,184)	162,812	165,577
<b>Total from other activities 2013</b>	<b>308,666</b>	<b>(147,744)</b>	<b>160,922</b>	<b>169,638</b>
<b>Total from other activities 2012</b>	<b>317,835</b>	<b>(148,197)</b>	<b>169,638</b>	

Other Activities include commercial lets of £262,662 less related costs of £116,184.

In line with paragraph 12.2 of the Determination of Accounting Requirements – April 2012, there are no amounts falling under Grants from Scottish Ministers and Other Revenue Grants for 2012-13 and the previous accounting period of 2011-12, which require disclosure.

### 5. HOUSING STOCK

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

	2013	2012
General Needs Housing	5,746	5,766
Homeless Lets	50	48
Commercial Lets	-	24
	<u>5,796</u>	<u>5,838</u>

**Stock movements during the year:** During the year, stock numbers were reduced by 9 Right to Buy sales, 17 demolitions and 21 unoccupied flats sold to a property developer. Additions to stock numbers include 1 property, which was previously used as an office, transferred back to housing stock and 4 owner-occupied properties bought back by the Association as part of a regeneration programme.

Also, as part of the above mentioned regeneration programme, 18 void properties were exchanged for 18 similar properties owned by another local housing association (see note 6).

During the year, the lease of 24 commercial lets was terminated and the properties were transferred into general needs housing stock.

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



## 6. SALES OF HOUSING PROPERTIES AND LAND

	2013 £	2012 £
Gross Proceeds	581,213	384,110
Income Share due to Scottish Borders Council	(283,480)	(204,280)
Legal Costs of Sales	(12,709)	(13,423)
Net Proceeds	<u>285,024</u>	<u>166,407</u>
Less Asset Cost, less Depreciation	(136,728)	(46,799)
<b>Gain on Sale</b>	<u><u>148,296</u></u>	<u><u>119,608</u></u>

The gross proceeds include the sale of 9 properties under Right to Buy, 21 unoccupied flats sold to a property developer and 2 small areas of land. The gain on sale takes into consideration the deduction of sums payable to Scottish Borders Council totalling £283,480. £108,478 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 £106,214.

As stated in Note 5, 18 properties were exchanged with Waverley Housing for 18 similar properties during the year. The above figures include a loss of £54,658 on the 18 disposals. 13 of the properties acquired are for demolition and are deemed to have a nil value. The 5 properties acquired for modernisation have been valued at £500 in total indicating the high modernisation investment required, and this sum is treated as a gain in the above figures. These disposals, additions and related accumulated depreciation are included in the Housing Property movements in Note 12.

## 7. OPERATING SURPLUS

Operating surplus is stated after charging:

	2013 £	2012 £
Depreciation	<u>2,499,670</u>	<u>2,248,441</u>
External auditors remuneration:		
Audit Service	19,968	19,198
Non Audit Services for entities related to Auditor	-	-
	<u>24,048</u>	<u>19,198</u>
Internal Auditors Remuneration	<u><u>10,717</u></u>	<u><u>7,699</u></u>

## 8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £	2012 £
Interest Receivable	55,747	27,829
Other Interest on Pension Scheme	<u>223,000</u>	<u>189,000</u>
	<u><u>278,747</u></u>	<u><u>216,829</u></u>





**9. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Loan Interest	1,499,278	1,458,017
Non-utilisation Fees	2,500	16,038
Arrangement Fees	17,531	5,000
	<u>1,519,309</u>	<u>1,479,055</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.

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Aggregate emoluments payable to Directors (including Pension Contributions)	350,711	291,608
Emoluments payable to highest paid Director (excluding pension contributions)	79,065	75,808
Pension contributions payable to Directors whose total emoluments (excluding pension contributions) were £60,000 or more	37,329	24,787

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

	<b>2013</b>	<b>2012</b>
£60,000 - £70,000	3	2
£70,001 - £80,000	1	1

10.2 During the year 4 Directors (2011-12, 3 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.

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Total expenses reimbursed to Directors and Board Members as not chargeable to UK income tax	<u>3,245</u>	<u>2,974</u>



## 11. EMPLOYEES

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

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Wages and Salaries	4,634,013	4,283,989
Social Security Costs	353,250	315,581
Pension costs	590,027	571,460
	<u>5,577,290</u>	<u>5,171,030</u>
	<b>2013</b>	<b>2012</b>
Average number employed during the year (full time equivalents)		
Directorate and Senior Management	11	11
Supervisory and Administrative	81	80
Tradesmen and other weekly paid	95	97
	<u>187</u>	<u>188</u>



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

	Housing for Let 2012-13	Under Construction 2012-13	Total 2013 £
<b>Cost</b>			
At 1 <sup>st</sup> April 2012	55,606,934	–	55,606,934
Additions	4,494,896	332,451	4,827,347
Disposals	(225,119)	–	(225,119)
Transfer from Other Fixed Assets	3,140	–	3,140
At 31 <sup>st</sup> March 2013	59,879,851	332,451	60,212,302
<b>Accumulated Depreciation</b>			
At 1 <sup>st</sup> April 2012	(9,635,365)	–	(9,635,365)
Charge for Year	(2,305,800)	–	(2,305,800)
On Disposals	87,891	–	87,891
At 31 <sup>st</sup> March 2013	(11,853,274)	–	(11,853,274)
<b>Depreciated Costs</b>	48,026,577	332,451	48,359,028
<b>Capital Grants</b>			
At 1 <sup>st</sup> April 2012	(864,219)	–	(864,219)
Awarded during Year	(125,500)	(54,479)	179,979
At 31 <sup>st</sup> March 2013	(989,719)	(54,479)	(1,044,198)
<b>Net Book Value</b>			
At 1 <sup>st</sup> April 2012	45,107,350	–	45,107,350
At 31 <sup>st</sup> March 2013	47,036,858	277,972	47,314,830

- 12.1 Total expenditure on major works to existing properties was £6,288,822. £1,641,954 was charged to the Income and Expenditure Account and £4,646,868 was capitalised. All amounts capitalised related to replacements of components.
- 12.2 At 31<sup>st</sup> March 2013, a capital grant of £20,500 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<sup>st</sup> March 2013 at £53,433,000 (fifty three million, four hundred and thirty three 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 2013 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 196% compared to the 105% required by the lender.
- 12.8 There were authorised capital commitments in relation to housing properties at the year end of £1,008,041 (2012: £777,889).





**13. TANGIBLE FIXED ASSETS: OTHER FIXED ASSETS**

Cost	Office Premises	Tenant Improvements	Furniture & Fittings	Office Equip & Information Systems	Plant	Motor Vehicles	Total
	£	£	£	£	£	£	£
At 1 <sup>st</sup> April 2012	2,791,724	35,425	147,129	1,219,970	20,514	1,537	4,216,299
Additions	1,879	-	-	63,965	-	-	65,844
Transfer to Housing Properties	(3,140)	-	-	-	-	-	(3,140)
Disposals	(12,598)	-	-	-	-	-	(12,598)
At 31 <sup>st</sup> March 2013	2,777,865	35,425	147,129	1,283,935	20,514	1,537	4,266,405
<b>Depreciation</b>							
At 1 <sup>st</sup> April 2012	(468,413)	(32,628)	(132,186)	(1,071,327)	(20,514)	(1,537)	(1,726,605)
Charge for the year	(71,279)	(2,797)	(14,078)	(105,716)	-	-	(193,870)
On Disposals	9,752	-	-	-	-	-	9,752
At 31 <sup>st</sup> March 2013	(529,940)	(35,425)	(146,264)	(1,177,043)	(20,514)	(1,537)	(1,910,723)
<b>Net Book Value</b>							
At 31 <sup>st</sup> March 2012	2,323,311	2,797	14,943	148,643	-	-	2,489,694
At 31 <sup>st</sup> March 2013	2,247,925	-	865	106,892	-	-	2,355,682

There were no capital commitments in relation to other fixed assets at the year end (2012: £nil)



**14. INVESTMENT IN SUBSIDIARY**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
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 2012-13 was £35,922 (2011-12 £57,861) with costs of £33,850 (2011-12 £57,334) resulting in a surplus for the year of £2,072. The net assets of the company as at 31 March 2013 were £2,911 (2011-12 £1,253).

14.4 The Association also owns 100% of Scottish Borders Building Services Ltd, a company which is currently dormant.

**15. DEBTORS**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Gross Arrears of Rent and Service Charges	1,017,605	1,025,339
Provision for Doubtful Debts	<u>(385,828)</u>	<u>(463,639)</u>
	631,777	561,700
Other Debtors	71,158	23,896
Prepayments and Accrued Income	738,589	711,169
Amount due from Subsidiary Company	<u>20,163</u>	<u>53,427</u>
	<u><u>1,461,687</u></u>	<u><u>1,350,192</u></u>

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

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Accruals	879,096	796,682
Rent in Advance	501,804	448,927
Trade Creditors	1,229,120	898,766
Right to Buy Receipts due to Scottish Borders Council	108,578	10,223
Other Creditors	112,791	100,844
Other Taxes and Social Security	138,348	132,334
Bank Loans (Note 17)	<u>86,400</u>	<u>86,400</u>
	<u><u>3,056,137</u></u>	<u><u>2,474,176</u></u>



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

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Bank Loans	<u>27,729,600</u>	<u>27,816,000</u>
<b>Analysis of duration of loan tranches:</b>		
Repayable within one year	86,400	86,400
Repayable between one and two years	86,400	86,400
Repayable between two and five years	6,643,200	6,729,600
Repayable in five years or more	<u>21,000,000</u>	<u>21,000,000</u>
	27,816,000	27,902,400
Less due within one year (Note 16)	<u>(86,400)</u>	<u>(86,400)</u>
	<u><u>27,729,600</u></u>	<u><u>27,816,000</u></u>

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

17.2 As at 31<sup>st</sup> March 2013, £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 31<sup>st</sup> March 2013 was 5.45% (2012, 5.26%).

**18. SHARE CAPITAL**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
<b>Shares of £1 issued and fully paid:</b>		
Active Shares at 31 <sup>st</sup> March 2012	255	251
Relinquished during the period	(12)	(15)
Issued during the period	<u>15</u>	<u>19</u>
Active Shares at 31 <sup>st</sup> March 2013	<u><u>258</u></u>	<u><u>255</u></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**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
a) Revenue Reserve		
At 1 <sup>st</sup> April	23,681,586	19,931,099
Surplus for the Year	4,306,990	3,750,487
Transfers from Designated Reserve:		
- for roads and footpaths maintenance	50,000	-
- for reconfiguration	110,000	-
Transfer to Designated Reserve:		
- receipt from Sale of Flats	(150,000)	-
At 31 <sup>st</sup> March	<u>27,998,576</u>	<u>23,681,586</u>

The total surplus for the year amounts to £4,690,990 (2012, £3,880,487) of which £384,000 (2012, £130,000) relating to a surplus on the pension reserve, is disclosed in Note 19(b). Transfers to and from the Designated Reserve are further explained at Note 19(c) below.

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
b) Pension Reserve		
At 1 <sup>st</sup> April	1,220,000	(776,000)
Surplus in Year	384,000	130,000
Actuarial (Loss)/Gain in Year	(409,000)	1,866,000
At 31 <sup>st</sup> March	<u>1,195,000</u>	<u>1,220,000</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 (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.

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
(c) Designated Reserve		
At 1 <sup>st</sup> April	250,000	250,000
Transfers to Revenue Reserve:		
- for roads and footpaths maintenance	(50,000)	-
- for reconfiguration	(110,000)	-
Transfer from Revenue Reserve:	150,000	-
At 31 <sup>st</sup> March	<u>240,000</u>	<u>250,000</u>

The designated reserve comprises the receipt of £250,000 from Scottish Borders Council in settlement of a legal claim and is earmarked for further property repairs and maintenance. £50,000 has been utilised for spend on maintaining roads and footpaths in 2012-13 as part of an ongoing programme and has been transferred back to general reserve. Future spend of £100,000 is scheduled to take place in 2013-14, with the balance being spent evenly over a four year period thereafter.

In addition, a sum of £150,000 was received from the sale of two blocks of unoccupied flats to a property developer and the sum was allocated to the designated reserve. The Scottish Government agreed that the proceeds could be retained by SBHA on the condition that they are recycled into defined reconfigurations and new build. £110,000 was so utilised in 2012-13 and was transferred back to the general reserve and the balance will be spent in 2013-14.





## 20. CASH FLOW

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

	2013	2012
	£	£
Operating Surplus	5,783,256	5,023,105
(Decrease) in Bad Debt provision	(141,590)	(123,258)
Depreciation for Year	2,499,670	2,248,441
Depreciation Adjustments on Disposals	2,846	5,854
Pension Adjustment – Management	(161,000)	59,000
Decrease in Stock	36,537	33,560
Decrease in Debtors	30,095	282,593
Increase/(Decrease) in Creditors	581,961	(8,331)
	<u>8,631,775</u>	<u>7,520,964</u>

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

	2013	2012
	£	£
Increase in Cash in the Year	2,654,129	1,959,807
Loan Repaid during the year	86,400	86,400
Movement in Net Debt	<u>2,740,529</u>	<u>2,046,207</u>
Net Debt at 1 <sup>st</sup> April 2012	(22,689,492)	(24,735,699)
Movement in Debt in the year	2,740,529	2,046,207
Net debt at 31 <sup>st</sup> March 2013	<u>(19,948,963)</u>	<u>(22,689,492)</u>

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

	2013	Movement	2012
	£	£	£
Cash and Short Term Deposits	7,867,037	2,654,129	5,212,908
Debt due within one year	(86,400)	-	(86,400)
Debt due after one year	(27,729,600)	86,400	(27,816,000)
<b>Total</b>	<u>(19,948,963)</u>	<u>2,740,529</u>	<u>(22,689,492)</u>



## 21. PENSION COMMITMENT

21.1 The pension cost charge for the year amounted to £590,027 (2012 - £571,460). At 31<sup>st</sup> March 2013, the Association had pension contributions outstanding amounting to £70,696 (2012 - £66,973). 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 2013:

<b>Pensionable Salary</b>	<b>% Payable</b>
£0 - £19,800	5.50
£19,801 - £24,200	7.25
£24,201 - £33,200	8.50
£33,201 - £44,200	9.50
Above £44,201	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 2013. This calculation was based on rolling forward valuation data as of 31<sup>st</sup> March 2012 to 31<sup>st</sup> March 2013 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:

<b>Assumptions as at 31<sup>st</sup> March</b>	<b>2013</b>
	<b>%</b>
RPI increases	3.2
CPI increases	2.2
Salary increases	3.2
Pension increases	2.2
Discount rate	4.7

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 2013.



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

21.7 Assumed life expectancies from age 65 are:-

		<b>Years</b>
Retiring today	Males	22.1
	Females	24.4
Retiring in 20 years	Males	23.4
	Females	25.9
<b>Assets (Employer)</b>	<b>31.03.13</b>	<b>31.03.12</b>
Equities	73%	76%
Gilts	4%	7%
Other Bonds	8%	9%
Property	4%	5%
Cash	2%	3%
Multi Asset Fund	9%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

<b>Net Pension Asset/(Liability) as at</b>	<b>31st March 2013 £'000</b>	<b>31st March 2012 £'000</b>	<b>31st March 2011 £'000</b>	<b>31st March 2010 £'000</b>	<b>31<sup>st</sup> March 2009 £'000</b>
Fair Value of Scheme assets	20,766	18,063	17,541	16,180	10,531
Present value of Funded obligation	(19,571)	(16,843)	(18,317)	(20,260)	(11,553)
<b>Net Pension Asset/ (Liability)</b>	<b>1,195</b>	<b>1,220</b>	<b>(776)</b>	<b>(4,080)</b>	<b>(1,022)</b>

21.8 Assets are valued on a bid value basis.

<b>Amount recognised in Income &amp; Expenditure Account</b>	<b>31st March 2013 £'000</b>	<b>31st March 2012 £'000</b>
Current Service Cost	415	631
Expected return on scheme assets	(1,081)	(1,222)
Interest on obligation	858	1,033
<b>Total</b>	<b>192</b>	<b>442</b>
Actual return on scheme assets	2,587	531



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

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>31st March 2013 £'000</b>	<b>31st March 2012 £'000</b>
Opening Defined Benefit Obligation	16,843	18,317
Service Cost	415	631
Interest Cost	858	1,033
Actuarial Loss/(Gains)	1,915	(2,899)
Estimated Benefits paid (net of transfers in)	(648)	(435)
Contributions by Scheme participants	188	196
Closing Defined Benefit Obligation	<u>19,571</u>	<u>16,843</u>
<b>Reconciliation of opening and closing balances of the fair value of Scheme assets</b>	<b>31st March 2013 £'000</b>	<b>31st March 2012 £'000</b>
Opening fair value of Scheme assets	18,063	17,541
Expected return on Scheme assets	1,081	1,222
Actuarial gains/(losses)	1,506	(1,033)
Contributions by employer (including unfunded)	576	572
Contributions by Scheme participants	188	196
Estimated benefits paid (net of transfers in and including unfunded)	(648)	(435)
Fair value of Scheme assets at end of period	<u>20,766</u>	<u>18,063</u>
<b>Projected pension expense for year to 31<sup>st</sup> March 2014</b>	<b>Year to 31<sup>st</sup> March 2014 £000's</b>	
Service cost	491	
Interest cost	921	
Return on assets	(1,180)	
Total	<u>232</u>	
Employer Contributions	<u>548</u>	

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31<sup>st</sup> March 2013.

These projections are based on the assumptions as at 31<sup>st</sup> March 2013, as described in paragraphs 21.5 and 21.7.





## 22. OPERATING LEASE COMMITMENTS

At 31<sup>st</sup> March 2013, the Association had aggregate annual commitments and had made payments under non cancellable operating leases as set out below:-

	2013		2012	
	Plant & Equipment £	Land & Buildings £	Plant & Equipment £	Land & Buildings £
Expiring within 1 year	46,912	-	93,515	-
Expiring within 2 – 5 years	78,860	-	152,485	-
Annual commitment at 31 <sup>st</sup> March 2013	125,772	-	246,000	-
Payments in current year	281,819	-	329,132	10,721

## 23. CONTINGENCIES

As at 31<sup>st</sup> March 2012 and 2011, there were no contingencies.

## 24. RELATED PARTIES

- 24.1 Board members Sandy Scott, Vicky Davidson, Simon Mountford, David Paterson and Bill Herd 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 Kathleen Beaton and Ray Licence.
- 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 1<sup>st</sup> April 2010.
- 24.5 During the year ended 31<sup>st</sup> March 2013 SBHA recharged SBHA Plus Ltd the sum of £30,163 representing costs incurred in connection with Wider Role activities. The amount due by SBHA Plus to SBHA at 31<sup>st</sup> March 2013 was £20,163.
- 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 31<sup>st</sup> March 2013.
- 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 31<sup>st</sup> March 2012 or 2013.



- 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 2012-13 amounted to £63,392, as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2012-13, the Association's total expenditure on Tenant Participation was £71,714.
- 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 (Board member resigned December 2012) was also the Company Secretary of J & R Elliot Ltd, one of the Association's suppliers. All transactions with this supplier were carried out at arms length and the Board Member was not in a position to influence trading terms. J & R Elliot Ltd went into liquidation in 2012-13. During the year ended 31<sup>st</sup> March 2013, SBHA purchased building services valued at £33,477 from J & R Elliot Ltd with no amount owing at the year end, 31<sup>st</sup> March 2013.
- 24.13 Mr David Richardson (Board member resigned December 2012) 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 was not in a position to influence trading terms. During the year ended 31<sup>st</sup> March 2013, SBHA purchased building supplies valued at £479,035 from Howdens Joinery Ltd and owed an amount of 19,402 at the year end, 31<sup>st</sup> March 2013.

## 25. LEGISLATIVE PROVISIONS

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

## 26. PRIOR PERIOD ADJUSTMENT –YEAR ENDED 31<sup>st</sup> MARCH 2012

- 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. The change in accounting policy in the previous year 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 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 overall effect on the Balance Sheet at 31<sup>st</sup> March 2012 was to:

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