



**SCOTTISH BORDERS HOUSING ASSOCIATION**

**FINANCIAL STATEMENTS**

**For the year ended 31<sup>st</sup> March 2014**

*“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 2014**

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

### **Board of Management**

Ray Licence – Chair	(Re-elected as Chair 16-09-13)
Simon Mountford – Vice-Chair	(Re-elected as a Councillor Vice-Chair 16-09-13)
Marlen Jones – Tenant Vice Chair	(Elected as Tenant Vice Chair 16-09-13)

### **Tenant**

Kathleen Beaton	(Stood down 16-09-13)
Ann Knight	
Ethel Munro	
George Parker	(Stood down 17-03-14)
Marlen Jones	(Re-elected 16-09-13)
Michael Grieve	(Elected 16-09-13)
Robert McVittie	(Appointed to fill casual vacancy 17-03-14)

### **Council**

Sandy Scott	(Stood down 16-9-13)
Vicky Davidson	
Simon Mountford	
David Paterson	
Bill Herd	
Alistair Cranston	(Nominated by Council 25-11-13)

### **Independent**

Ray Licence	(Re-elected 16-9-13)
David Pye	
Ian MacDonald	
Stuart Lobb	(Temporary appointment ceased 16-09-13)
John Paton-Day	
Sheila Spence	(Elected 16-09-13)

### **Co-optees**

Eric Glass	(Stood down 16-09-13, co-opted 16-09-13)
Kenneth Gunn	(Stood down 16-09-13)

### **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
George McMorran	Interim Director of Finance and Corporate Services (8 <sup>th</sup> September 2013 – 17 <sup>th</sup> March 2014)
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  
EH3 9QG

### Internal Auditor

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

### Solicitors

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

### Bankers

Lloyds TSB Bank plc  
3<sup>rd</sup> Floor  
25 Gresham Street  
London  
EC2V 7HN

### Registered Office:

South Bridge House  
Whinfield Road  
Selkirk  
TD7 5DT

<b>Industrial and Provident Society Registered Number</b>	2573R(s)
<b>Scottish Charity Registered Number</b>	SC030751
<b>The Scottish Housing Regulator Registered Number</b>	313

## **REPORT OF THE BOARD OF MANAGEMENT AND OPERATING AND FINANCIAL REVIEW**

The Board of Management of Scottish Borders Housing Association Ltd (“the Association” or “SBHA”) has pleasure in submitting its report and the Financial Statements for the year ended 31st March 2014. 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**

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.

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.

In the year ended 31st March 2014, 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.

### **SECTION 2 - OPERATING AND FINANCIAL REVIEW 2013-14: PART 1 (OPERATIONAL)**

#### **2.0 BACKGROUND TO THE ASSOCIATION**

SBHA was established to receive the transfer of the housing stock of Scottish Borders Council (SBC) and on 3<sup>rd</sup> March 2003 commenced trading. The association is a charitable organisation and manages some 5,689 rented and over 200 factored homes.

The association is governed by a Board of Management comprising five Tenants, five Council nominees (Scottish Borders Council), and five independent community representatives. There is also scope for up to 3 Co-optees on the Board. As at 31<sup>st</sup> March 2014 one Co-optee place was filled. Governance is supported by 3 main Sub-Committees (Housing Services, Technical Services and Audit & Compliance) which include Board Members and local independent and tenant members.

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. 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. SBTO is developing proposals for SBHA’s Scrutiny model.

SBHA delivers front-line services from owned offices in Selkirk, Galashiels and Hawick. All SBHA’s offices are Disability Discrimination Act-compliant, and provide modern, connected workplaces for staff located therein.

### **3.0 PROVIDING CUSTOMER SERVICES**

SBHA's core housing management services of allocations, estate management, rent collection, management of anti-social behaviour and housing support continue to be provided in-house within specialised teams and work in partnership with other agencies to reduce rent arrears, prevent homelessness and improve tenancy sustainment.

Welfare Reform preparations are a central focus of SBHA's operations for the last couple of years and as well as forming its own Welfare Reform Mitigation Project Group, SBHA are 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.

The risk of the change in housing benefit under occupation criteria from 1<sup>st</sup> April 2013 has been managed. The development of housing options advice, a tenant profiling exercise and partnership has meant that over 500 tenants affected by the change have either received Discretionary Housing Payment or sought other housing options. A long term sustainable solution to this issue is required.

The successful impact of the introduction of a Financial Capability Officer (providing financial education advice, including money and debt management) has been evaluated and built into the mainstream budget. This post will be supplemented by the Financial Inclusion service in 2014, via funding provided by the Big Lottery in partnership with Berwickshire Housing Association and Waverly Housing.

Wider role activities continued through the year, with Big Lottery funding in place until 2015 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. Funding was also secured in the year to introduce an Employability Service for SBHA Tenants.

SBTO continues to work in partnership with SBHA to ensure that Tenants voices are heard in decision making. The 2013 Tenant Satisfaction Survey was undertaken in the year, and the results will be used to focus and improve on services. The survey also identified areas of high satisfaction and those that require improvement. SBTO maintains a strong membership and has supported preparations to ensure that SBHA meets the requirements of the Scottish Social Housing Charter. Implementation of the Tenant Participation Strategy is progressing and a tenant scrutiny model is currently being devised in conjunction with the Tenant Participatory Advice Service (TPAS), which will involve tenants in looking at the services that SBHA delivers.

### **4.0 PROVIDING GOOD QUALITY HOMES**

SBHA's Asset Management Strategy sets out how the association plans to make the most of its Assets – through an effective approach of looking-after and enhancing through investment, management and maintenance.

The housing stock contains a range of construction types, aged between 500+ years old in the historical areas of Jedburgh, to less than one year old. There are no high-rise properties, and the great majority of properties are flats. SBHA have made significant investment since 2003 and SBHA is on target to ensure that all homes meet Scottish Housing Quality Standard (SHQS) by March 2015.

Capital projects have been significant in the year, with SBHA's first new build completed, Stonefield blocks being either demolished or regeneration commencing, and the major reconfiguration of one amenity block complete with another starting on site in the last quarter. The criteria for Energy Efficiency for Social Housing in Scotland (EESH) compliance was recently announced and plans will be developed in the coming year, setting out priorities and investment plans by property to ensure maximum compliance by 2020. Internal elements of homes will continue to be replaced as part of the life cycle programme, and the commissioning of an External Stock Condition survey will also provide the basis for future investment programmes.

Scottish Borders Council has continued to support the regeneration of the Stonefield Estate in Hawick with second homes council tax funds to support the purchase of privately owned homes. The site is ear-marked for the development of 44 New Build homes, with phase 1 due to commence in 2014.

Building new homes is an emerging strategic priority to ensure housing demand can be met and in the year saw the completion of 3 homes, SBHA's first development of it's own, for rent at mid market levels. A business case, also supported by SBC, to the Scottish Government, to retain right to buy receipts and used in lieu of housing grant (see note 20c) was successful and will allow a small development of approximately 8 units to be brought forward from 2017 to 2014.

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 2013-14 half of the Programme was continued to be 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.

## **5.0 STATEMENT OF BOARD'S RESPONSIBILITIES UNDER INDUSTRIAL AND PROVIDENT SOCIETIES ACTS FOR A REGISTERED SOCIAL LANDLORD**

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.

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.

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.

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.

## 6.0 REVIEW OF BUSINESS PLAN AND FUTURE STRATEGY

The annual review of the budget and 30 year Business Plan was undertaken and concluded in February 2014, which maintained the assumption of increasing bad debts in light of the Welfare Reform implications. Further detail on demolition, regeneration and new build was gained in order to realign provisions and allow for the potential of two further small developments to be planned.

The Strategic Business Plan was updated in May 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. The values of the Association were developed and agreed as:

*"Our tenants and communities are at the heart of all we do. We take pride in delivering excellent quality services with courtesy and respect. We aim to earn the trust of all people we deal with. We will always strive to give value for money, while being focused on accountability, transparency and honesty."*

Eleven projects in total were prioritised through the Strategic Plan review process in 2013 with the overall focus being termed under one project umbrella as "Borders without Barriers", an organisational review to include the establishment of community teams, neighbourhood model and the IT systems to support improvements to service delivery – customer relations management, mobile working and self service. The other major priorities included the "wrap up warm" initiative with the maintenance division, to reflect the need to address fuel poverty and the impending EESH legislation.

The main overall focus of the Association's operational and financial activities is to achieve top Quartile performance in its peer group by 2016.



The objectives were also reviewed and updated to reflect the changes and the Association aims to:

- Listen to Tenants and their communities to innovate and improve;
- Inspire and develop our people to make change happen;
- Create great places to live;
- Deliver excellent value for money; and
- Anticipate opportunities to develop and grow.

The Strategic Plan is supported by a raft of detailed Strategy documents – Tenant Participation, Asset Management, People, Treasury Management, IT and Concordat. In 2014 it is planned to review the Asset Management and IT Strategy given the speed of change in the Association and the need to ensure these key Strategies remain in-line with the Strategic Plan.

The Scottish Housing Regulator's April 2013 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. The Regulator noted mechanisms were in place to support good governance, and on review of SBHA's business plan had gained assurance about its strategic management and controls.

## **7.0 SBHA'S RENTS**

SBHA's objectives are for rents to be affordable, fair, and sufficient to enable the Association to meet its statutory obligations, strategic objectives and Tenants' service expectations. SBHA continued to provide the lowest average rent in 2013-14 for Registered Social Landlords in the Scottish Borders area and annual rent increases reflect the need to continue services and invest in homes.

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 additional investment to meet the Scottish Housing Quality Standard.

Options for rent increases were presented to Tenants in 2010, at the peak of the credit crunch, who preferred the option of a rent freeze for 2010-11, followed by the recouping of lost increases over a 6 year period.

## **8.0 KEY PERFORMANCE INDICATORS 2013-14**

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 table overleaf.

PERFORMANCE	TARGET	ACTUAL 2013-14	VARIANCE	ACTUAL 2012-13
<b>Total Current Arrears</b>	<£650,000	£739,691	<b>+£89,691</b>	£708,145
<b>Lettable Stock Void Loss %</b>	1%	1.45%	<b>+ 0.45%</b>	0.84%
<b>Non Lettable Voids</b>	101	124	<b>+23</b>	226
<b>Emergency Repairs Completed within Target</b>	97.5%	98.6%	<b>+1.1%</b>	96.8%
<b>SBHA properties achieving Scottish Housing Quality Standard</b>	75%	80%	<b>+5%</b>	62%
<b>Number of Right to Buy Sales</b>	15	18	<b>+3</b>	9
<b>Net Debt per Unit</b>	£5,582	£3,340	<b>- £2,242</b>	£3,505
<b>Loan to Value Ratio</b>	105%	218%	<b>+113%</b>	201%
<b>Staff Turnover</b>	<5%	6.57%	<b>+1.57%</b>	15.10%
<b>Staff Attendance</b>	>97%	94.67%	<b>- 2.33%</b>	>95.24%

- Arrears were impacted by the Housing Benefit under occupancy rule, which came into effect from the 1<sup>st</sup> April 2013, but the full potential impact was reduced by SBHA's rent officers and welfare team, working with tenants to apply and receive Discretionary Housing Payments from Scottish Borders Council, in order to cover the rent gap. Enforcement action in the year significantly increased, with the number of decrees granted for repossession increasing to allow for early intervention going forward. It has been recognised that extra resource is required to meet the challenge of managing rent arrears in the current environment, with two additional housing officers recently being recruited for a two year period, in order to create smaller management areas. This was also supplemented by a financial capability officer, as detailed in paragraph 3 above, being built into mainstream budgets.
- Void Loss during the year increased by 0.6%, which is both an impact of increasing number of empty houses and the average days lost per void. There are a number of factors, including a rise in low demand properties, impact of welfare reform as well as internal processes. A number of letting initiatives have recently been implemented to increase demand and let specific low demand properties in some areas, such as multiple viewings, communal area improvement works and a pilot of a partly furnished tenancy, but further work is required to address the level of turnover in specific streets throughout the stock. A comprehensive review will be undertaken which will adopt 'lean process thinking' aimed at streamlining the current processes, consideration of the impact of tenancy turnover on the letting process and improving the condition of empty properties.
- Demolitions in the Stonefield Regeneration Area account for the significant reduction in non-lettable voids and the programme of regeneration of the remaining blocks is in progress, which will see a gradual reduction of non-lettable voids in the future. Myreslawcourt completed in the year and reconfiguration works to an amenity scheme in Kelso commenced and will complete in 2014-15.
- The number of properties achieving Scottish Housing Quality Standard this year has made great progress and is ahead of target and detailed plans remain in place to ensure that full compliance with the Standard will be achieved before March 2015.

## 8.0 KEY PERFORMANCE INDICATORS 2013-14 (...continued)

- The number of Right to Buy sales doubled in the year. This is recognised as being a consequence of the announcement by the Scottish Government to abolish Right to Buy by 2017. This change in policy has been aligned in SBHA's business plan, so that the cash flows can be adjusted in the longer term. In the year, an agreement with Scottish Government was reached which allows SBHA to retain the receipt previously handed over to them, in order to be used in place of grant funding for a new build development of 8 units in Hawick, as highlighted in note 20.
- The reported Net Debt per Unit and Loan to value ratio as at 31<sup>st</sup> March 2014, 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 2014, with a value of £59,076,000.
- Staff attendance is still below target and has decreased slightly from last year. However, over a three 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.
- Staff turnover has decreased and in line with sector levels. Structures continue to be reviewed, to ensure that the Association is able to meet business plan commitments.

## 9.0 EMPLOYEES

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. SBHA's Learning and Development Strategy continues to be developed. To help facilitate this, the association's appraisal and personal development planning systems were revised in 2013 as part of the Leadership Project.

The People Strategy sets out plans for both staff and governing members. Policies and procedures have been delivered as set out in the People Strategy, which also underpin the performance framework. An extensive training programme entitled 'Delivering Customer Excellence' was delivered to all staff in September/ October 2013 and this is being followed up with a further programme which will be delivered during 2014.

A staff survey was conducted towards the end of 2013 as part of the Investors in People project. The aim is to receive IIP accreditation at the beginning of next year and a Project Team has been established to oversee this.

SBHA is committed to apprenticeships and in the year 4 apprentices were in place and 1 qualified and gained full time employment within SBHA, whilst work placements were put in place for 20 college and school students. 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.

## **10.0 HEALTH AND SAFETY**

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. A working group, comprising of senior management, frontline staff including operatives and representation from the Unions is in place, which reports to the Health and Safety Committee on a quarterly basis.

## **SECTION 3 - OPERATING AND FINANCIAL REVIEW 2013-14: PART 2 (FINANCIAL)**

### **1.0 FUNDING**

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 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.

At 31<sup>st</sup> March 2014, SBHA complied fully with all its Loan Covenants.

### **2.0 INCOME AND EXPENDITURE ACCOUNT 2013-14**

Annual Turnover increased from £18.41m to £18.98m during the year, an increase of 3.1%. The principal source of turnover for the Association is rental income and related service charges. Weekly rents were increased by an average of 4.5% from previous year levels. However, the loss of 23 properties through Right to Buy and reconfiguration during the year and an increase in void loss partially offset the rent increase levels. Income from Other Activities decreased by 14%, which was mainly through the cessation of a lease of 24 properties by a local University for student accommodation.

Operating Costs increased from £12.63m to £13.45m during the year, an increase of 6.5%. The most significant increase above inflation was Management Costs. This is mainly due to the increased resourcing of managing the rent arrears process including enforcement and the associated costs of managing multiple, complex housing capital projects.

Major components continued to be capitalised and Note 12 details the total cost of planned maintenance contracts, broken into capitalised and expensed amounts.

Bad Debt expense has doubled and reflects both the increase in arrears and the implementation of a revised bad debt provisioning policy. This has increased actual debt written off and the bad debt provision. The policy is intended to take prudent steps in the context of welfare reform, and will continue to do so when universal credit is rolled out.

Gain on sale of housing properties and land decreased from £148,296 to £96,570 during the year. 18 Right to Buy sales were achieved this year as opposed to 9 in the previous year, with the proceeds being on average £10,000 lower due to the property mix having a lower valuation but with higher tenant discounts. In 2012-13, the figure also included the gain on sale of 21 privately sold hard to let properties which was offset by a loss on sale of £54,658 resulting from Solum Swaps.

The average rate of loan interest payable increased to 6.06% from 5.45%, after a £9m loan was renegotiated to a fixed rate at the end of 2013, which accounted for interest payable increasing from 2012-13 levels.

The net impact was a surplus for the year of £4.2m (for 2012-13, there was a surplus of £4.7m).

### **3.0 BALANCE SHEET AT 31<sup>st</sup> MARCH 2014**

At 31<sup>st</sup> March 2014, the Association showed a positive Balance Sheet where assets, including the Local Government Pension Scheme liability, exceeded liabilities. This is a continuing trend from 2010-11 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 21, 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.

The Association showed net current assets at 31<sup>st</sup> March 2014 where those assets are generally able to be realised within one year, exceeded liabilities generally payable in the same period. The liquidity ratio for 2014 was 3.18 (2013 – 3.06).

At 31<sup>st</sup> March 2014, the Association owned 5,689 properties against 5,796 at 31<sup>st</sup> March 2013, the movements are explained in note 5. 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.

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.

Cash in Bank or hand is £8.8 million and is at levels greater than anticipated, due to the delayed expenditure in the planned maintenance programme, the reconfiguration of an Amenity scheme and the Regeneration of Stonefield Estate. These programmes commenced in 2013-14 and are being funded from a mixture of the cash balance and the loan facility highlighted in para 1.0.

### **4.0 TREASURY MANAGEMENT**

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").

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 currently forbidden, as is any exposure to currencies other than sterling.

## **5.0 PENSIONS**

The Association participates as a closed member in the Scottish Borders Council Pension Fund (SBCPF), 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 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. The Association continued to adopt Financial Reporting Standard (FRS) 17 in full in 2013-14 and recognised a Net Pension asset of £563,000 at 31<sup>st</sup> March 2014.

A Defined Contribution pension scheme from Scottish Widows has been available to employees who are not members of the SBCPF since June 2013 and is the scheme to which employees are being auto-enrolled from 1<sup>st</sup> April 2014, SBHA's staging date. It is a joint contributory scheme with total contribution from the association and employees being up to 12%, depending on length of service.

## **SECTION 4 - CONTROLS**

### **1.0 BOARD OF MANAGEMENT AND EXECUTIVE OFFICERS**

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

Each Board Member, except for the Co-opted 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**

The Board of Management acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the Association or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposition.

It is the Board of Management's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. The Board has delegated some authority to its Sub-Committees, all as described on page 6 above.

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.

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 2013-18 was reviewed and approved on 9<sup>th</sup> September 2013 with the financial part of the Business Plan being approved on 19<sup>th</sup> February 2014;
- 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".

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.

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 8.

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 is 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 cash collection costs; Voids action plan and promotion of hard to let properties; Additional 2 Housing Officers approved.
Suitable levels of Competition and capacity in the framework contracts, leading to increased costs & risk of supplier failure	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. Review Framework; Provision to go outwith Framework if required.
Future Strategic Role of Maintenance Division.	Investment priorities post SHQS achievement will require the Maintenance Division to increase efficiency and develop new income sources.	Monthly Finance Monitoring; Actions from MD Benchmarking Review; Monitoring of KPIs; Workforce profiling.

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 2014 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 The External Audit mandate is currently subject to a tender process.
- 3.2 A resolution to appoint External Auditors for 2014-15 will be proposed at the Annual General Meeting.

**By order of the Board of Management**

**Julia Mulloy**

**Secretary**



**Date** 26/6/4

## 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 2014 on pages 17 to 39. 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 5 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/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### 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 2014 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:

..... 15 July ..... 2014

**INCOME AND EXPENDITURE ACCOUNT for the year ended 31<sup>st</sup> MARCH 2014**

	Note	2014	2013
		£	£
<b>Turnover</b>	2	18,983,341	18,408,409
Operating Costs	2	(13,543,455)	(12,625,153)
<b>Operating Surplus</b>	2,7	5,439,886	5,783,256
Gain on sale of housing properties/land	6	96,570	148,296
Interest receivable	8	292,933	278,747
Interest payable and similar charges	9	(1,713,489)	(1,519,309)
<b>Surplus for the Year</b>		4,115,900	4,690,990

The results for the year relate wholly to continuing activities.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	Note	2014	2013
		£	£
Surplus for the Year prior to Pension Scheme Surplus	20a	3,780,900	4,306,990
Increase in Pension Scheme Surplus	20b	335,000	384,000
<b>Surplus for the Year</b>		4,115,900	4,690,990
Pension Scheme Actuarial (Loss)	20b	(967,000)	(409,000)
<b>Total Recognised Gains since last Annual Report</b>		3,148,900	4,281,990

The notes on pages 19 to 39 form part of these Financial Statements

**BALANCE SHEET as at 31<sup>st</sup> MARCH 2014**

	Note	2014 £	2013 £
<b>Fixed Assets</b>			
Housing Properties – Depreciated Costs	12	52,039,162	48,359,028
Capital Grants	12	(1,250,819)	(1,044,198)
		50,788,343	47,314,830
Other Fixed Assets	13	2,241,205	2,355,682
		53,029,548	49,670,512
<b>Investment in Subsidiary Company</b>	14	1	1
<b>Current Assets</b>			
Stock	15	47,221	25,334
Debtors	16	1,405,728	1,461,687
Cash at Bank and in Hand		8,820,230	7,867,037
		10,273,179	9,354,058
Creditors: Amounts falling due within one year	17	(3,254,542)	(3,056,137)
Net Current Assets		7,018,637	6,297,921
<b>Total Assets less Current Liabilities</b>		60,048,186	55,968,434
Creditors:			
Amounts falling due after more than one year	18	(27,643,200)	(27,729,600)
Net Assets excluding Pension Liability		32,404,986	28,238,834
Net Pension Asset	22	563,000	1,195,000
Net Assets including Pension Liability		32,967,986	29,433,834
<b>Capital and Reserves</b>			
Share Capital	19	251	258
Revenue Reserve	20a	31,899,476	27,998,576
Designated Reserve	20c	505,259	240,000
Pension Reserve	20b	563,000	1,195,000
Total Capital and Reserves		32,967,986	29,433,834

The Board of Management approved these Financial Statements and authorised them for issue on 23<sup>rd</sup> June 2014 and they were signed on their behalf by:

Ray Licence

Chair.....

David Pye

Board Member.....

Julia Mulloy

Secretary.....

The notes on pages 19 to 39 form part of these Financial Statements

**CASH FLOW STATEMENT for the year ended 31<sup>st</sup> MARCH 2014**

	Note	2014	2013
		£	£
<b>Net Cash Inflow from operating activities</b>		8,617,350	8,631,775
<b>Returns on Investment and Servicing of Finance</b>			
Interest Received		31,933	55,747
Interest Paid		(1,713,489)	(1,519,309)
<b>Net Cash Outflow from returns on investments and servicing of finance</b>		(1,681,556)	(1,463,562)
<b>Capital Expenditure</b>			
Capitalisation of Improvement Costs		(6,189,930)	(4,701,346)
Purchase of Housing Properties		(140,764)	(125,500)
Other Capital Grants		206,621	179,979
Purchase of other fixed assets		(31,438)	(65,844)
Sale of Properties/Land		259,317	285,024
<b>Net Cash Outflow from Capital Expenditure</b>		(5,896,194)	(4,427,687)
<b>Net Cash Inflow before Financing</b>		1,039,600	2,740,526
<b>Financing</b>			
Loan principal (repayments)		(86,400)	(86,400)
Shares issued		8	15
Shares Redeemed		(15)	(12)
<b>Net Cash Outflow from Financing</b>		(86,407)	(86,397)
<b>Increase in Cash during year</b>		953,193	2,654,129

The notes on pages 19 to 39 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 Conduct Authority (formerly the FSA).

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 Conduct 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. An operating lease is one which does not transfer the substantial risks and rewards of ownership of an asset.
- (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 is 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.
- (v) **Financial Investments:** The Association's Treasury Management policy prescribes the credit scoring levels institutions must meet before investments can be undertaken and the maximum amount that can be placed with any one institution.

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

	Note	Turnover £	Operating Costs £	Operating Surplus £	2013 £
Social Lettings	3	18,717,428	(13,390,598)	5,326,830	5,622,334
Other Activities	4	265,913	(152,857)	113,056	160,922
<b>Total for 2014</b>		<b>18,983,341</b>	<b>(13,543,455)</b>	<b>5,439,886</b>	<b>5,783,256</b>
<b>Total for 2013</b>		<b>18,408,409</b>	<b>(12,625,153)</b>	<b>5,783,256</b>	

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

	2014 £	2013 £
Rent Receivable net of Service Charges	18,664,419	17,946,783
Service Charges	213,171	212,209
Gross Income from Rents and Service Charges	18,877,590	18,158,992
Less Operational Voids	(342,762)	(221,458)
Net Income from Rents and Service Charges	18,534,828	17,937,534
Grants from Scottish Ministers	174,500	159,209
Other Revenue Grants	8,100	3,000
<b>Total Turnover from Social Letting activities</b>	<b>18,717,428</b>	<b>18,099,743</b>
Management and Maintenance Administration costs	4,637,128	4,154,821
Service Costs	224,598	245,516
Planned and Cyclical Maintenance including major repairs costs	2,798,341	2,886,361
Reactive Maintenance costs	2,888,660	2,732,764
Bad Debts, Rents and Service Charges	369,373	171,644
Depreciation of Social Housing Properties	2,472,498	2,286,303
<b>Operating Costs for Social Letting activities</b>	<b>13,390,598</b>	<b>12,477,409</b>
Operating Surplus for Social Lettings for 2014	5,326,830	5,622,334
Operating Surplus for Social Lettings for 2013	5,622,334	

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

### 3(b) AVERAGE RENTS

	2014 £	2013 £
The average weekly rent (48 week basis) per property available to let at the period end was:	68.63	65.73

### 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 2013
	£	£	£	£
Other Agency/Management Services	15,867	(32,792)	(16,925)	(8,432)
Factoring	16,926	(8,710)	8,216	6,542
Other Activities	233,120	(111,355)	121,765	162,812
<b>Total from other activities 2014</b>	<b>265,913</b>	<b>(152,857)</b>	<b>113,056</b>	<b>160,922</b>
<b>Total from other activities 2013</b>	<b>308,666</b>	<b>(147,744)</b>	<b>160,922</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 2013-14 and the previous accounting period of 2012-13, which require disclosure.

### 5. HOUSING STOCK

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

	2014	2013
General Needs Housing	5,633	5,746
Homeless Lets	53	50
Mid Market Lets	3	-
	<u>5,689</u>	<u>5,796</u>

**Stock movements during the year:** Properties acquired during the year include 3 new build, mid market properties which are leased to SBHA's subsidiary company (SBHA Plus), 1 purchase for renovation and re-let, and 1 purchase under the Rent to Mortgage Scheme.

Disposals include 18 Right to Buy sales and 5 houses removed by scheme reconfiguration.

Housing stock was further reduced by 89 properties as part of an area regeneration programme (94 demolitions less 2 purchased from owner occupiers and a net 3 properties gained in an exchange arrangement with another local housing association -see Note 6).

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

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Gross Proceeds	659,588	581,213
Income Share due to Scottish Borders Council	(385,159)	(283,480)
Legal Costs of Sales	(15,112)	(12,709)
Net Proceeds	259,317	285,024
Less Asset Cost, less Depreciation	(162,747)	(136,728)
<b>Gain on Sale</b>	<b>96,570</b>	<b>148,296</b>

The gross proceeds include the sale of 18 properties under Right to Buy (RTB).

The sum of £385,159 due to Scottish Borders Council is shown in Designated Reserves, as stated in Note 20(c). The Scottish Government has given consent for the Association to retain a maximum of £398,240 of RTB receipts as a contribution to the development of eight new affordable homes. Future income foregone relating to the current year's sales is £239,145.

As referred to in Note 5, the above figures include a loss of £462 being the land value of 1 property transferred to another housing association and the gain of £400 being the value of 4 properties acquired from that association for modernisation. Their low value indicates the high value of investment required.

**7. OPERATING SURPLUS**

Operating surplus is stated after charging:

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Depreciation	2,633,328	2,499,670
External auditors remuneration:		
Audit Service	24,000	24,048
Non Audit Services for entities related to Auditor	2,371	-
	26,371	24,048
Internal Auditors Remuneration	15,738	10,717

**8. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Interest Receivable	31,933	55,747
Other Interest on Pension Scheme	261,000	223,000
	292,933	278,747

**9. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Loan Interest	1,648,427	1,499,278
Non-utilisation Fees	9,324	2,500
Arrangement Fees	55,738	17,531
	1,713,489	1,519,309

## 10. DIRECTORS' EMOLUMENTS

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>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Aggregate emoluments payable to Directors (including Pension Contributions)	330,945	308,235
Emoluments payable to highest paid Director (excluding pension contributions)	81,997	79,065
Pension contributions payable to Directors whose total emoluments (excluding pension contributions) were £60,000 or more	26,665	37,329

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

	<b>2014</b>	<b>2013</b>
£60,000 - £70,000	2	3
£70,001 - £80,000	-	1
£80,001 -£90,000	2	-

During the year, 2 Directors (2012-13, 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 they had no other pension arrangements to which the Association contributes.

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Total expenses reimbursed to Directors and Board Members as not chargeable to UK income tax	2,862	3,245

## 11. EMPLOYEES

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

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Wages and Salaries	4,722,271	4,634,013
Social Security Costs	352,483	353,250
Pension costs	602,325	590,027
	<u>5,677,079</u>	<u>5,577,290</u>

Average number employed during the year (full time equivalents)

Directorate and Senior Management	11	11
Supervisory and Administrative	82	81
Tradesmen and other weekly paid	96	95
	<u>189</u>	<u>187</u>

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

	Housing for Let 2013-14	Under Construction 2013-14	Total 2014 £
<b>Cost</b>			
At 1 <sup>st</sup> April 2013	59,879,851	332,451	60,212,302
Construction works completed	332,451	(332,451)	-
Additions	5,861,835	468,859	6,330,694
Disposals	(464,037)	-	(464,037)
At 31 <sup>st</sup> March 2014	65,610,100	468,859	66,078,959
<b>Accumulated Depreciation</b>			
At 1 <sup>st</sup> April 2013	(11,853,274)	-	(11,853,274)
Charge for Year	(2,487,413)	-	(2,487,413)
On Disposals	300,890	-	300,890
At 31 <sup>st</sup> March 2014	(14,039,797)	-	(14,039,797)
<b>Depreciated Costs</b>	51,570,303	468,859	52,039,162
<b>Capital Grants</b>			
At 1 <sup>st</sup> April 2013	(989,719)	(54,479)	(1,044,198)
Construction works completed	(54,479)	54,479	-
Awarded during Year	(146,621)	(60,000)	(206,621)
At 31 <sup>st</sup> March 2014	(1,190,819)	(60,000)	(1,250,819)
<b>Net Book Value</b>			
At 1 <sup>st</sup> April 2013	47,036,858	277,972	47,314,830
At 31 <sup>st</sup> March 2014	50,379,484	408,859	50,788,343

Total expenditure on major works to existing properties was £7,391,524. £1,333,145 was charged to the Income and Expenditure Account and £6,058,379 was capitalised. All amounts capitalised related to replacements of components.

The Association's Housing property was independently valued as at 31<sup>st</sup> March 2014 at £59,076,000 (fifty nine million and seventy six thousand pounds) by Countrywide Housing Solutions. 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 2014 on the Existing Use Value for Social Housing basis.

The value reported has been made in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards. It should be noted that future growth in both capital and rental values may not occur and values can fall as well as rise.

This valuation provides a loan collateral cover of 218% compared to the 105% required by the lender. There were authorised capital commitments in relation to housing properties at the year end of £1,558,677 (2013: £1,008,041).

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

	<u>Office Premises</u>	<u>Tenant Improvements</u>	<u>Furniture &amp; Fittings</u>	<u>Office Equip &amp; Information Systems</u>
<b>Cost</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 <sup>st</sup> April 2013	2,777,865	35,425	147,129	1,283,935
Additions	-	-	-	31,438
At 31 <sup>st</sup> March 2014	2,777,865	35,425	147,129	1,315,373
<b>Depreciation</b>				
At 1 <sup>st</sup> April 2013	(529,940)	(35,425)	(146,264)	(1,177,043)
Charge for the year	(86,322)	-	(865)	(58,728)
At 31 <sup>st</sup> March 2014	(616,262)	(35,425)	(147,129)	(1,235,771)
<b>Net Book Value</b>				
At 31 <sup>st</sup> March 2013	2,247,925	-	865	106,892
At 31 <sup>st</sup> March 2014	2,161,603	-	-	79,602

There were no capital commitments in relation to other fixed assets at the year end 2014 (2013: £nil)

**14. INVESTMENT IN SUBSIDIARY**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Cost	<u>1</u>	<u>1</u>

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.

The objectives of SBHA Plus Ltd include the carrying on of business as a general commercial company with an emphasis on housing related activities.

The income of the company in 2013-14 was £76,946 (2012-13 £35,778) with costs of £73,137 (2012-13 £33,706) resulting in a surplus for the year of £3,809 (2012-13: £2,072). The net assets of the company as at 31 March 2014 were £5,958 (2013 £2,911).

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

**15. STOCK**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Stock of Materials	39,229	25,334
Properties held for sale	7,992	-
	<u>47,221</u>	<u>25,334</u>

**16. DEBTORS**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Gross Arrears of Rent and Service Charges	1,097,987	1,017,605
Provision for Doubtful Debts	(583,043)	(385,828)
	514,944	631,777
Other Debtors	108,372	71,158
Prepayments and Accrued Income	758,745	738,589
Amount due from Subsidiary Company	23,667	20,163
	<u>1,405,728</u>	<u>1,461,687</u>

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

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Accruals	1,078,481	879,096
Rent in Advance	639,028	501,804
Trade Creditors	1,271,509	1,229,120
Right to Buy Receipts due to Scottish Borders Council	-	108,578
Other Creditors	29,941	112,791
Other Taxes and Social Security	149,183	138,348
Bank Loans (Note 18)	86,400	86,400
	<u>3,254,542</u>	<u>3,056,137</u>



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

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Bank Loans	<u>27,643,200</u>	<u>27,729,600</u>
<b>Analysis of duration of loan tranches:</b>		
Repayable within one year	86,400	86,400
Repayable between one and two years	643,200	86,400
Repayable between two and five years	6,000,000	6,643,200
Repayable in five years or more	<u>21,000,000</u>	<u>21,000,000</u>
	27,729,600	27,816,000
Less due within one year (Note 17)	<u>(86,400)</u>	<u>(86,400)</u>
	<u><u>27,643,200</u></u>	<u><u>27,729,600</u></u>

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.

As at 31<sup>st</sup> March 2014, £27,643,200 (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 2014 was 6.14% (2013, 5.45%).

**19. SHARE CAPITAL**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
<b>Shares of £1 issued and fully paid:</b>		
Active Shares at 31 <sup>st</sup> March 2013	258	255
Relinquished during the period	(15)	(12)
Issued during the period	<u>8</u>	<u>15</u>
Active Shares at 31 <sup>st</sup> March 2014	<u><u>251</u></u>	<u><u>258</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.

<b>20. RESERVES</b>	<b>2014</b>	<b>2013</b>
a) Revenue Reserve	<b>£</b>	<b>£</b>
At 1 <sup>st</sup> April 2013	27,998,576	23,681,586
Surplus for the Year	3,780,900	4,306,990
Transfers from Designated Reserve:		
- for roads and footpaths maintenance	80,000	50,000
- for new build, 2014 (reconfiguration, 2013)	40,000	110,000
Transfer to Designated Reserve:		
- receipt from Sale of Flats	-	(150,000)
At 31 <sup>st</sup> March 2014	<u>31,899,476</u>	<u>27,998,576</u>

The total surplus for the year amounts to £4,115,900 (2013, £4,690,990) of which £335,000 (2013, £384,000) relating to a surplus on the pension reserve, is disclosed in Note 20(b). Transfers to and from the Designated Reserve are further explained at Note 20(c) below.

b) Pension Reserve	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
At 1 <sup>st</sup> April 2013	1,195,000	1,220,000
Surplus in Year	335,000	384,000
Actuarial (Loss) in Year	(967,000)	(409,000)
At 31 <sup>st</sup> March 2014	<u>563,000</u>	<u>1,195,000</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 22).

(c) Designated Reserve	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
At 1 <sup>st</sup> April 2013	240,000	250,000
Transfers to Revenue Reserve:		
- for roads and footpaths maintenance	(80,000)	(50,000)
- for new build (reconfiguration, 2013)	(40,000)	(110,000)
Right to Buy receipts for Deanfield		
Transfer from Revenue Reserve:		
- For new build reconfiguration	-	150,000
- Right to Buy receipts for New Build	385,259	-
At 31 <sup>st</sup> March 2014	<u>505,259</u>	<u>240,000</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 was utilised in 2012-13 with a further £80,000 utilised in 2013-14 for spend on maintaining roads and footpaths as part of an ongoing programme. Both amounts have now been transferred back to general reserve.

In 2012-13 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 utilised in 2012-13 and the remaining £40,000 was utilised in 2013-14 and transferred back to the general reserve.

The Scottish Government has given consent for the Association to retain Right to Buy Receipts, which would have fallen as due to them, to a maximum of £398,240 as a contribution to the development of eight new affordable homes. Receipts retained to 31 March 2014 total £385,259 and have been included in Designated Reserve.

**21. CASH FLOW**

**(i) Reconciliation of Operating Surplus to Operating Cash Flows**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Operating Surplus	5,439,886	5,783,256
Increase/(Decrease) in Bad Debt provision	102,185	(141,590)
Depreciation for Year	2,633,328	2,499,670
Non Cash Adjustments on Additions/Disposals	400	2,846
Pension Adjustment – Management	(74,000)	(161,000)
(Increase)/Decrease in Stock	(21,887)	36,537
(Increase)/Decrease in Debtors	(46,226)	30,095
Increase in Creditors	198,405	581,961
T/f to Reserves (Right to Buy receipts retained)	385,259	-
	<u>8,617,350</u>	<u>8,631,775</u>

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

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Increase in Cash in the Year	953,193	2,654,129
Loan Repaid during the year	86,400	86,400
Movement in Net Debt	<u>1,039,593</u>	<u>2,740,529</u>
Net Debt at 1 <sup>st</sup> April 2013	(19,948,963)	(22,689,492)
Movement in Debt in the year	<u>1,039,593</u>	<u>2,740,529</u>
Net debt at 31 <sup>st</sup> March 2014	<u>(18,909,370)</u>	<u>(19,948,963)</u>

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

	<b>2014</b>	<b>Movement</b>	<b>2013</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Cash and Short Term Deposits	8,820,230	953,193	7,867,037
Debt due within one year	(86,400)	-	(86,400)
Debt due after one year	(27,643,200)	86,400	(27,729,600)
<b>Total</b>	<u>(18,909,370)</u>	<u>1,039,593</u>	<u>(19,948,963)</u>

## 22. PENSION COMMITMENT

The pension cost charge for the year amounted to £602,325 (2013 - £590,027). At 31<sup>st</sup> March 2014, the Association had no pension contributions outstanding (2013 - £70,696). 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.

Employees' contributions are fixed by statute for SBHA employees. According to the following scale for the year ended 31<sup>st</sup> March 2014:

<b>Pensionable Salary</b>	<b>% Payable</b>
£0 - £20,335	5.50
£20,336 - £24,853	7.25
£24,854 - £34,096	8.50
£34,097 - £45,393	9.50
Above £45,394	12.00

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

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.

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 2014. This calculation was based on rolling forward valuation data as of 31<sup>st</sup> March 2013 to 31<sup>st</sup> March 2014 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>2014 %</b>
RPI increases	3.2
CPI increases	2.2
Salary increases	3.2
Pension increases	2.2
Discount rate	4.6

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 2014.

## 22. PENSION COMMITMENT (Cont.)

Assumed life expectancies from age 65 are:-

		<b>Years</b>
Retiring today	Males	22.5
	Females	24.8
Retiring in 20 years	Males	24.7
	Females	27.1
<b>Assets (Employer)</b>	<b>31.03.14</b>	<b>31.03.13</b>
Equities	65%	73%
Gilts	3%	4%
Other Bonds	8%	8%
Property	4%	4%
Cash	3%	2%
Multi Asset Fund	17%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

<b>Net Pension Asset/(Liability) as at</b>	<b>31st March 2014 £'000</b>	<b>31st March 2013 £'000</b>	<b>31st March 2012 £'000</b>	<b>31st March 2011 £'000</b>	<b>31<sup>st</sup> March 2010 £'000</b>
Fair Value of Scheme assets	22,417	20,766	18,063	17,541	16,180
Present value of Funded obligation	(21,854)	(19,571)	(16,843)	(18,317)	(20,260)
<b>Net Pension Asset/ (Liability)</b>	<b>563</b>	<b>1,195</b>	<b>1,220</b>	<b>(776)</b>	<b>(4,080)</b>

22.8 Assets are valued on a bid value basis.

<b>Amount recognised in Income &amp; Expenditure Account</b>	<b>31st March 2014 £'000</b>	<b>31st March 2013 £'000</b>
Current Service Cost	544	415
Expected return on scheme assets	(1,187)	(1,081)
Interest on obligation	926	858
<b>Total</b>	<b>283</b>	<b>192</b>
Actual return on scheme assets	1,297	2,587

## 22. PENSION COMMITMENT (Cont.)

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>31st March 2014 £'000</b>	<b>31st March 2013 £'000</b>
Opening Defined Benefit Obligation	19,571	16,843
Service Cost	544	415
Interest Cost	926	858
Actuarial Loss	1,077	1,915
Estimated Benefits paid (net of transfers in)	(471)	(648)
Contributions by Scheme participants	207	188
Closing Defined Benefit Obligation	<u>21,854</u>	<u>19,571</u>
<b>Reconciliation of opening and closing balances of the fair value of Scheme assets</b>	<b>31st March 2014 £'000</b>	<b>31st March 2013 £'000</b>
Opening fair value of Scheme assets	20,766	18,063
Expected return on Scheme assets	1,187	1,081
Actuarial gains	110	1,506
Contributions by employer (including unfunded)	618	576
Contributions by Scheme participants	207	188
Estimated benefits paid (net of transfers in and including unfunded)	(471)	(648)
Fair value of Scheme assets at end of period	<u>22,417</u>	<u>20,766</u>
<b>Projected pension expense for year to 31<sup>st</sup> March 2015</b>	<b>Year to 31<sup>st</sup> March 2015 £000's</b>	
Service cost	561	
Interest cost	1,012	
Return on assets	(1,332)	
Total	<u>241</u>	
Employer Contributions	<u>607</u>	

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31<sup>st</sup> March 2014.

These projections are based on the assumptions as at 31<sup>st</sup> March 2014, as described in paragraphs 22.5 and 22.7.

## 23. OPERATING LEASE COMMITMENTS

At 31<sup>st</sup> March 2014, the Association had aggregate annual commitments and had made payments under non cancellable operating leases as set out below:-

	<b>2014 Plant &amp; Equipment £</b>	<b>2013 Plant &amp; Equipment £</b>
Expiring within 1 year	23,078	46,912
Expiring within 2 – 5 years	28,535	78,860
Annual commitment at 31 <sup>st</sup> March	51,613	125,772
Payments in current year	196,931	281,819

## 24. CONTINGENCIES

At 31<sup>st</sup> March 2014, SBHA had an obligation to transfer 4 properties to another local Housing Association in a swap agreement as part of an area regeneration programme. Should the transfer not take place, SBHA would have to pay that Association the sum of £120,000 being the market value of the properties.

In 2012-13, the Board of Management investigated options in relation to the Scottish Borders Council Pension Fund and in that process obtained an estimate of the potential liability at that time, if the pension scheme was closed to all employees. The value at that time was around £7 million and this will continue to vary with time. A decision was taken to close the scheme to new entrants from 1<sup>st</sup> April 2013, so that the potential liability could be capped and future increases in pension contribution for new liabilities be reduced. The above liability will not crystallise unless there were no members still in the scheme and by that time it is anticipated the assumptions and value will have changed considerably. The Board are reviewing plans to ensure funds are available over the next 10 -20 years to meet any liability that crystallises on cessation of the scheme.

## 25. RELATED PARTIES

Board members Sandy Scott, Vicky Davidson, Simon Mountford, David Paterson, Bill Herd and Alistair Cranston are/have been Councillors during the year. 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.

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 four members of the Board of SBHA including David Pye who is the Chair in addition to Sheila Spence, Michael Grieve and Simon Mountford. Kathleen Beaton stood down from the Board of SBHA and SBHA Plus during the year.

Carly Stewart, the Director of Finance and Corporate Services of SBHA, is also the secretary of SBHA Plus Ltd.

A Service Level Agreement between SBHA and SBHA Plus Ltd took effect on 1<sup>st</sup> April 2010.



During the year ended 31<sup>st</sup> March 2014 SBHA recharged SBHA Plus Ltd the sum of £73,503 (2013: £30,163) representing costs incurred in connection with Wider Role activities, Mid Market rental and Post Office activities. The amount due by SBHA Plus to SBHA at 31<sup>st</sup> March 2014 was £23,667 (2013: £20,163).

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 2014.

Julia Mulloy, the Secretary and Chief Executive Officer of SBHA, is also the Secretary of SBBS Ltd.

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.

There was no trading between SBHA and SBBS Ltd during the years ended 31<sup>st</sup> March 2013 or 2014.

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 2013-14 amounted to £58,392, as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2013-14, the Association's total expenditure on Tenant Participation was £69,872.

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.

## **26. LEGISLATIVE PROVISIONS**

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