



SCOTTISH BORDERS HOUSING ASSOCIATION
REPORT AND FINANCIAL STATEMENTS
For the year ended 31st March 2016

“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 Co-operative and Community Benefit Society (CCBS) Act 2014 - Registered Number
– SP2573RS
Scottish Housing Regulator Housing Scotland Act 2010 – Registered Number 313

Financial Statements for the year ended 31st March 2016

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Board of Management, Executive Officers and Advisers

Board of Management

Ray Licence – Chair	(Resigned as Chair 21.09.15)
Simon Mountford – Chair	(Elected as Chair 21.09.15)
Marlen Jones – Tenant Vice Chair	(Resigned as Vice Chair 21.09.15)
Michael Grieve – Vice Chair	(Elected as Vice Chair 21.09.15)

Tenant Shareholder Board Members

Frances Wilkie	(Resigned 13.08.15)
Ann Knight	(Re-elected 21.09.15, Resigned 7.12.15)
Marlen Jones	
Michael Grieve	
Robin Cowan	(Elected 21.09.15)
Julie Black	(Appointed 24.02.16)

Council Nominee Board Members

Vicky Davidson
Simon Mountford
Bill Herd

Independent Shareholder Board Members

Ray Licence	(Resigned 21.09.15)
David Pye	(Re-elected 21.09.15)
Ian MacDonald	(Re-elected 21.09.15)
John Paton-Day	(Re-elected 21.09.15)
Harriet Campbell	(Elected 21.09.15)
Eric Glass	(Appointed 7.12.15)

Co-optees

Eric Glass	(Transferred 7.12.15, Co-opted 15.09.14)
John Montgomery	(Co-opted 24.02.16)
David Gwyther	(Co-opted 24.02.16)

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 (Resigned 18.09.15)
Henry Coyle	Director of Assets and Investments (Appointed 30.03.16)

External Auditor

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

Internal Auditor

Scott Moncrieff
25 Bothwell Street
Glasgow
G2 6NL

Solicitors

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

Bankers

Lloyds TSB Bank plc
3rd Floor
25 Gresham Street
London
EC2V 7HN

Registered Office:

South Bridge House
Whinfield Road
Selkirk
TD7 5DT

Co-operative and Community Benefit Society Registered Number	SP2573R(s)
Scottish Charity Registered Number	SC030751
The Scottish Housing Regulator Registered Number	313

STRATEGIC REPORT OF THE BOARD OF MANAGEMENT

The Board of Management of Scottish Borders Housing Association Ltd (“the Association” or “SBHA”) has pleasure in submitting its report and the audited Financial Statements for the year ended 31st March 2016. This 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 and is registered in the UK.

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 12.

In the year ended 31st March 2016, 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.

2.0 BACKGROUND TO THE ASSOCIATION

SBHA was established to receive the transfer of the housing stock of Scottish Borders Council (SBC) and on 3rd March 2003 commenced trading. The Association is a charitable organisation and manages some 5,641 rented and over 145 factored homes as well as 1,262 non-housing units.

The Association is governed by a Board of Management comprising five Tenants, three Council nominees (Scottish Borders Council), and five independent community representatives. There is also scope for up to 2 Co-optees on the Board and as at 31st March 2016, both were filled. Governance is supported by 3 main Sub-Committees (Housing Services, Technical Services and Audit & Compliance) which include Board of Management Members and local Independent and Tenant members.

Scottish Borders Tenants Organisation (SBTO) is the “umbrella” Tenants representative group for SBHA’s Tenants, with an office in Selkirk, in which 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. SBHA’s Scrutiny model was approved in March 2015, which formalises existing practices for Tenant scrutiny in the future.

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. 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 with a mixture of generic and specialist provision. Effective partnerships are in place locally to increase income collection, prevent homelessness and improve tenancy sustainment.

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. SBHA's high quality, responsive and void repairs service is delivered in-house alongside almost 50% of SBHA's planned maintenance programme.

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 achieved Scottish Housing Quality Standard (SHQS) 100% compliance including exemptions and abeyances by the 31st March 2015 deadline.

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 2015-16 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.

3.0 OBJECTIVES

SBHA has 5 Strategic Objectives which reflect our members' vision for the future:

- SBHA will listen to Tenants and their communities to innovate and improve
- SBHA will create great places to live
- SBHA will inspire and develop our people to make change happen
- SBHA will deliver excellent value for money
- SBHA will anticipate opportunities to develop and grow

SBHA WILL LISTEN TO TENANTS AND THEIR COMMUNITIES TO INNOVATE AND IMPROVE

SBHA's Neighbourhood model was rolled out in the year and is a new way of working, with an identified team working in a community creating a local, knowledgeable point of contact to enhance outcomes for Tenants.

SBTO continues to work in partnership with SBHA to ensure that Tenant's voices are heard in decision making. Following the Tenant Satisfaction Survey (TSS) carried out in 2014 young people and families were showing the least overall satisfaction. In the summer of 2015 focus groups were carried out by BMG Research with this client group to seek their views. Following the TSS carried out in November 2015, this client group is giving a positive rating on communication and opportunities to participate outstripping performance against the Tenant base as a whole. The 2015 TSS has also shown that SBHA has increased satisfaction levels in 5 of the key core indicators.

Following the success of SBTO's first scrutiny project (lettable voids standard) in 2015 and the employment of a student intern, this same process will be taken forward in the summer of 2016 with a further project and intern. The Tenant Participation Strategy will be reviewed in the summer of 2016 in consultation with SBTO, the wider Tenants, SBHA and Stakeholders.

The 2 year implementation programme of a Customer Relationship Management (CRM) system commenced and phase 1 went live at the end of the year for Complaints and Anti-Social Behaviour. The programme will move on to include General Enquiries, Allocations, Rents, Planned Maintenance and Repairs in 2016 aiming to increase accessibility of data and improve the number of customer queries being answered at first contact. The latter programme includes taking the system mobile for staff in the neighbourhood model and self service for Tenants.

SBHA WILL CREATE GREAT PLACES TO LIVE

SBHA has continued to deliver its commitment to gradually increase its new build programme and address long term empty homes. This has included the remodelling and refurbishment of three blocks in Stonefield Estate, Hawick (27 homes). The new build programme has delivered 10 new homes, as part of the Stonefield Regeneration project, with a further 34 being delivered in 2016/17. A further 8 new homes have been delivered in Deanfield, Hawick and work has begun on 4 new homes at Torwoodlee in Galashiels, expected to be completed by Autumn 2016.

Following an extensive survey of the Energy Efficiency of SBHA homes it is anticipated that SBHA will invest in the region of £10m over the next 5 years to ensure maximum compliance with Energy Efficiency for Scottish Social Housing (ESSH) 2020 target. Internal elements of homes will continue to be replaced as part of the life cycle programme. An external survey was commissioned during the year to provide information in regards to external stock condition, which will be the basis for future investment programmes.

SBHA continues to deliver a high quality, responsive repairs service and is expanding investment in cyclical maintenance. This year the time taken to repair empty homes has reduced by 5 working days and repairs completed first time increased by 2% from the previous year. Improving first time fix is a priority and services are being reviewed to ensure continuous improvement. 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.

Further efficiencies within the Maintenance Division has allowed the cyclical painting programme to be allocated in-house in the 2016/17 plan and resources for a new Great Places Fund, to support a transition from reactive to cyclical maintenance regimes. In 2015-16 half of the programme was continued to be carried out by the maintenance division, with resultant savings in VAT on labour costs, as well as a high level of Tenant satisfaction.

The Board of Management is aware of its responsibilities on all matters relating to health and safety. The Association has reviewed the management and governance of Health & Safety during the year. This includes allocation of new responsibilities for Sub-Committees and an investment in additional roles specialising in construction related areas

SBHA WILL INSPIRE AND DEVELOP OUR PEOPLE TO MAKE CHANGE HAPPEN

In April 2015 SBHA achieved Investors In People (IIP) accreditation. This reflects SBHA's commitment to developing and investing in its People. 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.

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. In 2015 the revised Learning and Development Policy was

approved by the Board, which outlines the Association's continuing objective to support and develop its staff. This is accompanied by a Board Learning and Development Plan.

SBHA investment in Young People continues and in 2015-16, SBHA supported 9 apprentices studying towards their required SVQ and work placements were put in place for 17 college and school students. SBHA works in partnership with agencies such as Borders College, Scottish Enterprise and Scottish Borders Council.

As part of SBHA's change programme a staff restructure was designed and implementation is progressing. The new structure aims to complement new service delivery models such as the neighbourhood model, information centre and surgeries to improve customer satisfaction, meet business plan commitments and allow for growth.

SBHA WILL DELIVER EXCELLENT VALUE FOR MONEY

A review of the Maintenance Division set out various projects including financial analysis, operational planning and the implementation of new and existing IT. This is increasing efficiencies and reduced costs in reactive repairs going forward.

In response to the Scottish Housing Charter's theme, Value for Money and to allow for increased transparency and benchmarking, SBHA has joined Housemark in the year. The development of a value for money statement is being progressed and will be published in the Annual Return of the Charter report in the Autumn.

The risks surrounding the impact of the Welfare Reform change to benefits continue to be managed to support tenants and protect SBHA's financial position. Universal Credit (UC) went live in the Scottish Borders during the year, and to date around 50 Tenants are receiving their Housing Benefit in this way. Further phases of UC will be rolled out during 2016, with a greater number of tenants being affected.

SBHA continues to manage the ongoing risk of housing benefit eligibility for Tenants who under occupy their homes and work with Scottish Borders Council to maximise access to the Discretionary Housing Payment (DHP). A long term sustainable solution to this issue is awaited.

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. As part of the 2016-17 Rent Increase Consultation, a telephone survey was carried out in the year, which provided positive feedback to SBHA's proposed increase and rent levels

SBHA WILL ANTICIPATE OPPORTUNITIES TO DEVELOP AND GROW

SBHA's Financial Support Worker (providing financial education, including money management), a core service now provided by SBHA, was supplemented in 2013-14 by the Financial Inclusion Service, via 5 year funding provided by the Big Lottery Fund in partnership with Berwickshire Housing Association and Waverley Housing. SBHA also continue to provide dedicated welfare benefits support, and in 2015/16 an additional £227,000 income for Tenants was generated through benefit maximisation.

Wider Role activities continued throughout the year, with Big Lottery funding in place until December 2016 for the Transitions Project at Albert Place, Galashiels, which is governed by SBHA Plus. 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 from the Scottish Government's People in Communities Fund and DWP in 2014 to introduce an Employability Service for young SBHA Tenants aged 18 – 24 years old. This service has assisted 46 Tenants to enhance their employability skills, with 13 Tenants securing full time jobs, 2 securing part time jobs, reducing dependency on

benefits. Further funding has been secured from both the Scottish Government and DWP to continue this service into 2016/17. Links with partner organisations have been strengthened through the service, with the Employability Officer being invited to sit on the Adult Learners Award planning group.

4.0 REVIEW OF BUSINESS PLAN AND FUTURE STRATEGY

During the year, the Strategic Plan has been reviewed and updated, with a final draft of the plan for the next 5 years being presented to the Board of Management in Summer 2016 following consultation with Stakeholders. Other key documents that underpin the Strategic Plan will also be updated such as Tenant Participation, People and Financial Inclusion Strategies.

Fifteen projects in total have been identified and prioritised through the Strategic Plan review process in 2015/16. Each of the projects identified align with an SBHA objective and broader Scottish Borders Community Planning Partnership strategic priorities. The projects include further implementation of the "Borders without Barriers" project, 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 include projects aimed to increase Tenant experience, development of the SBHA Plus Strategy and projects aimed at income maximisation while continuing to deliver Value for Money for Tenants.

The annual review of the budget and 30 year Business Plan was undertaken and concluded in February 2016, 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 impact of lower RPI was modelled and contingencies for the effects of longer term low RPI will be set aside going forward.

The Asset Management Strategy was updated (2016–20) and sets out a framework within which SBHA can make effective investment decisions for its assets. The strategy correlates with SBHA's 5 Strategic Objectives and utilises the Scottish Housing Regulator's (SHR) ten strands for asset management. A 5-year Investment Plan is being developed to support implementation.

5.0 KEY PERFORMANCE INDICATORS 2015-16

SBHA records and monitors at Board level, 11 key areas of performance covering rent collection (arrears) and levels of void houses, repairs completed first time and within target timescales, loan facility covenants, and staffing performance. The out-turn performance across these categories is noted in the table overleaf.

PERFORMANCE	TARGET	ACTUAL 2015-16	VARIANCE	ACTUAL 2014-15
Current Arrears (as at rent year end)	<£785,000	£818,203	+£33,203	£814,974
Rent Collection %	99.40%	98.50%	-0.9%	99.02%
Gross Arrears as a % of Rent Due	6.63%	7.64%	+1.01%	7.53%
Lettable Stock Void Loss %	1.1%	1.48%	+0.38%	1.47%
Average days to let empty homes	26	36	+10	39
Emergency Repairs Completed within Target	98%	97%	-1%	98%
Average days for non-emergencies	7	8	+1	8
First Time Fix (Repairs)	87%	86%	-1%	86%
Net Debt per Unit	£5,570	£3,635	-£1,935	£3,556
Loan to Value Ratio	105%	253%	+148%	253%
Staff Attendance	>97%	94.09%	- 2.91%	>94.94%

- Recognising that rent collection was decreasing and the level of arrears were increasing, a Rent Arrears Strategy was introduced in September 2015. This includes the realignment of staffing resources, the employment of additional frontline officers, a rent arrears coaching programme and a Rent Ethic Marketing Plan. The shift in trend in the last quarter of the year suggests that efforts to improve performance are positive and these will continue, recognising some actions will take time to embed before results materialise.

Plans to mitigate the impact of future reforms such as the restriction of level of benefit to under 35 year olds in 2018 is a current and future priority and financial inclusion services will be targeted to those groups of tenants affected over the coming year.

- Lettable Stock Void Loss has remained at similar levels to 2014-15 and the average days to let have reduced by 3. This highlights an improvement in the overall voids performance, however the volume of voids remain higher than pre Welfare Reform and the levels of low demand properties remain a challenge. In order to improve performance in the letting of empty homes a focus will be on attracting local demand using local solutions to increase interest in SBHA homes. Further analysis and feasibility studies are ongoing to identify options for reconfiguration or refurbishment of unlettable properties to stimulate demand in these areas.
- The total number of reactive repairs continues to reduce which reflects SBHA's significant investment in and commitment to planned programmes of work including improvements, upgrades and cyclical maintenance over the years. Further work to reduce reactive repairs and deliver a more proactive approach to asset management will continue.

The level of repairs completed right first time has been sustained in the year, which is encouraging but work will continue to improve on this in the coming year in recognition of this being a key driver to tenant satisfaction. SBHA has set local targets for the completion of reactive repairs in consultation with Tenants, giving consideration to the wide geographical rural area in which SBHA operates as a landlord. The target agreed for non-

emergency repairs is 25 days and 4 hours for emergencies. During 2015-16, SBHA achieved 93% and 97% respectively in meeting these targets.

Tenants value the repairs by appointment system offered and SBHA strives to honour appointments in all cases. A contributing factor to the reduction in the number of appointments kept and the average time taken to respond to non-emergency repairs was the severe adverse weather experienced in the Scottish Borders in the winter, where communities were affected by flooding and storm damage requiring emergency responses from SBHA's repairs service, impacting on resource availability for non-emergency repairs.

Performance levels in responding to non-emergency repairs has been maintained but improvements are sought. A full health check of the works scheduling processes and systems was undertaken at the end of the year and actions have been put in place to improve the number of appointments kept. Early indications show that performance is improving as a result.

- The reported Net Debt per Unit and Loan to value ratio as at 31st March 2016, were comfortably within levels agreed with our Funder. A full valuation of housing properties was undertaken by Jones Lang LaSalle as at 31st March 2016, with a value of £70,956,000.
- Staff attendance is still below target. SBHA will complete a review of the HR framework during the Summer 2016 to ensure that policies and procedures are robust in order to increase staff awareness of absence.

FINANCIAL REPORT

1.0 FUNDING

SBHA is debt funded and the funding required to expedite the transfer referred to in Section 2, Para. 2.1 of these Financial Statements are provided by Lloyds TSB Bank plc ('The Funder') in the form of a loan facility of £43m. The facility is split between £33m at fixed rates and £10m 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 31st March 2016, SBHA complied fully with all its Loan Covenants.

2.0 STATEMENT OF COMPREHENSIVE INCOME (SOI) 2015-16

Annual Turnover increased from £19.93m to £20.56m during the year, an increase of 3.10%. The principal source of turnover for the Association is rental income and related service charges. Weekly rents were increased by an average of 3.6% from previous year levels. The reduction of 16 properties through Right to Buy and reconfiguration during the year and a small increase in lettable void loss partially offset the rent increase levels. Grant funding of £216,290 included funding for SBHA's Wrap up Warm and Employability projects.

Operating Costs decreased from £15.3m to £15.0m during the year, a decrease of 2%. The most significant decrease was expenditure in relation to Planned and Cyclical maintenance costs, with a higher value being capitalised in the year. The cash cost of this expenditure was comparable, but the value capitalised was £1m more than the previous year due to more expenditure falling within SBHA's capitalisation policy. Note 11a details the total cost of planned maintenance contracts, broken into capitalised and expensed amounts.

Bad Debt expense has increased which reflects the increase in higher case arrears and the reduction in rent collected. The write off 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. Bad Debts also reflect the new SORP and the requirement to discount payment arrangements, which means a higher provision is required.

This year a gain on sale of housing properties and land was achieved of £101,948, in comparison to a £58,715 loss in the prior year. 16 Right to Buy sales were achieved this year as opposed to 9 in the previous year, with the proceeds being lower due to the property mix having a lower valuation, with higher Tenant discounts and costs being higher due to capitalised components in the properties sold. A loss on disposal of components previously capitalised amounted to £286,989 (£1,357,730 in 2014/15), giving a net loss on sale of £185,491 (£1,338,722 in 2014/15).

The average rate of loan interest payable decreased slightly to 6.047% from 6.05%. This year included a full year charge of non-commitment fees for the additional £3m facility in place from April 2015.

The net impact was a surplus prior to actuarial gain or loss for the year of £3.7m (2014-15 a restated surplus of £1.9m). The actuarial loss for the year of £136,000 (£2,502,000 2014/15) reduced the net surplus to £3.6m (£615k deficit 2014/15).

3.0 STATEMENT OF FINANCIAL POSITION (SOFP) AS AT 31st MARCH 2016

At 31st March 2016, the Association showed a positive Statement Of Financial Position where assets, including the Local Government Pension Scheme liability, exceeded liabilities. This is a continuing trend from 2010-11 where increasing revenue reserves have maintained a positive Statement of Financial Position. 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 (j) on page 25, 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 31st March 2016 where those assets are generally able to be realised within one year, exceeded liabilities generally payable in the same period. The liquidity ratio for 2016 was 2.16 (2015 – 2.99).

At 31st March 2016, the Association owned 5,641 properties against 5,666 at 31st March 2015, the movements are explained in note 5. SBHA's current Accounting Policy is to show Properties at original cost plus capitalised amounts on the Statement of Financial Position.

The net Pension liability of the LGPS increased from a deficit of £1,602,000 in 2014-15 to a liability of £1,738,000 in the year. The report is based on a triennial valuation at 31st March 2015 rolled forward and whilst the fund is performing well, the main impact on the scheme was a mixture of asset returns and the falling corporate bond rate which determines the discount rate used for determining liabilities.

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 Statement of Financial Position, 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 £7.3 million and is at levels greater than anticipated, due to the delayed expenditure in the planned maintenance programme and the Regeneration (including New Build) 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 in the year. 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 set out in the Scottish Housing Regulator's Standard on Recommended Practice for Treasury Management

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. The overriding principles of the policy have been emphasised around the requirement to ensure that risk is managed, understood by the Board of management and that a cautious approach of risk over potential returns is taken.

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 (triennial) was as at 31st March 2015 and, following this valuation, SBHA's employer's contributions were set at 19% of pensionable pay. The Association has adopted Financial Reporting Standard (FRS) 102 in full in 2015-16 and recognised a Net Pension liability of £1,738,000 at 31st March 2016.

During the year changes to the Local Government Pension Schemes, of which the SBCPF is a member, were confirmed and communicated to all affected employees. The main change to the scheme, which came in to force on 1st April 2015, was the move to a Career Average Revalued Earnings (CARE) calculation method which replaced the Final Salary valuation method.

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 were auto-enrolled into from 1st 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.

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.

STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES UNDER CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETIES (CCBS) ACT 2015 FOR A REGISTERED SOCIAL LANDLORD

The Co-operative and Community Benefit Societies Act 2015 and registered social housing legislation require the Board of Management to ensure that financial statements are prepared for each financial year, which give a true and fair view of the state of affairs of the Association's state of affairs and of the surplus or deficit for that period. In preparing these financial statements, the Board of Management 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 of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Association. The Board of Management must ensure that the financial statements comply with the Co-Operative and Community Benefit Societies Act 2014, The Housing (Scotland) Act 2010 and the Determination of Accounting Requirements April 2014. It is responsible for safeguarding the assets of the Association and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

As far as each of the Board of Management is 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 too required standards.

BOARD OF MANAGEMENT'S STATEMENT OF INTERNAL FINANCIAL CONTROLS FOR THE YEAR ENDED 31ST MARCH 2016

The Board of Management acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate for the business environment 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 mis-statement or loss or failure to meet objectives.

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.

Key elements of the Association's systems include ensuring that:

- 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 2014-18 was reviewed and approved on 9th September 2013 with the financial part of the Business Plan being approved on 24th February 2016;
- Experienced and suitably qualified staff take responsibility for important business functions and annual appraisal procedures have been established to maintain standards of performance;
- The Association's Financial Regulations were replaced by a suite of Financial Policies which were updated and approved on 20th 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 of Management 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 of Management;
- 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 Officers, comprised of the Chief Executive and 3 Directors, receives and monitors the management accounts on a monthly basis;
- The Board of Management 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;

- Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the governing body;
- 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 Officers and to the Audit and Compliance Sub-Committee; and
- Formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports; 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 Advice Note: Internal Financial Controls and the Regulatory Standards.

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, arrears and voids level, and staff attendance levels. Actual performance is set out at page 9.

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.	Carry out Tenant analysis; Set targets for arrears and voids to achieve top quartile by 2016; Maximise DHP; Business Plan amended 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 in place to September 2016
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 .	Obtain and review financial information including bank statements during tendering process and thereafter on at least a quarterly basis; Procurement of Suppliers via PCS; Maximise use of Frameworks.

Costs to the Association in respect of Construction and Maintenance rise faster than RPI.	Negotiation of cost increases have been carried out for all long term contracts and consultancy costs. Schedule of Rates has been developed. Role of internal suppliers maximises VAT benefits/ control cost increases.	Monthly Finance Monitoring; Internal costs review taking place as part of the MD review
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The effectiveness of the Association's system of internal financial control has been reviewed by the Audit and Compliance Sub-Committee and Board of Management for the year ended 31 March 2016. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in these financial statements or in the auditor's report on the financial statements.

2.0 FINANCIAL REPORTING STANDARD 102 AND GOING CONCERN

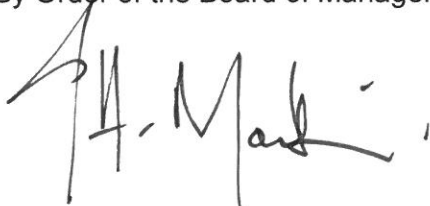
The financial statements reflect the introduction of Financial Reporting Standard 102 ('FRS 102') and the Statement of Recommended Practice for registered social landlords 2014 for the first time. Comparative figures have been updated accordingly. See note 30 to the financial statements for further detail.

The Management Committee has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3.0 EXTERNAL AUDITORS

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) were appointed as auditors as of 14th October 2009. This contract is due for re-tendering and a resolution regarding the outcome will be proposed at the next Annual General Meeting.

By Order of the Board of Management



Position CHAIRMAN

Date: 29.6.16.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH BORDERS HOUSING ASSOCIATION REGISTERED UNDER THE CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETIES ACT 2014 FOR THE YEAR ENDED 31ST MARCH 2016

We have audited the financial statements of Scottish Borders Housing Association for the year ended 31st March 2016 on pages 19 to 46. 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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Association's members as a body, in accordance with part 7 of Co-operative and Community Benefit Societies Act 2014. 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 12 to 13 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 Financial Reporting Council's website at 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 2016 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – December 2014.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 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.

RSM UK Audit LLP

RSM UK AUDIT LLP (formerly Baker Tilly UK Audit LLP)
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: *21 July*2016

REPORT BY THE AUDITORS TO THE MEMBERS OF SCOTTISH BORDERS HOUSING ASSOCIATION ON CORPORATE GOVERNANCE MATTERS FOR THE YEAR ENDED 31ST MARCH 2016

In addition to our audit of the Financial Statements, we have reviewed your statement on Pages 14-16 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council through enquiry of certain members of the Management Committee and Officers of the Association and examination of relevant documents. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on page 15 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

..... RSM UK Audit LLP

RSM UK AUDIT LLP (formerly Baker Tilly UK Audit LLP)
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: 21 July 2016

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31st MARCH 2016

	Note	2016 £	2015 £
Turnover	2	20,555,549	19,955,955
Operating Expenditure	2	(15,002,103)	(15,307,680)
Operating Surplus	2,8	5,553,446	4,648,275
(Loss) on disposal of property, plant and equipment	9	(185,491)	(1,362,538)
Interest receivable	6	30,810	364,894
Interest and financing costs	7	(1,710,870)	(1,745,946)
Surplus for the Year		3,687,895	1,904,685
Actuarial (loss) in respect of Pension Schemes		(136,000)	(2,502,000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,551,895	(597,315)

Results for the year relate wholly to continuing activities.

The accompanying notes on pages 23 to 46 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION as at 31st MARCH 2016

	Note	2016	2015
		£	£
Fixed Assets			
Intangible Assets	11a	221,716	83,394
Housing Properties – Depreciated Costs	11b	61,552,479	54,247,884
Other Fixed Assets	11c	2,091,744	2,165,303
Investment in Subsidiary Company	12	1	1
		<u>63,865,940</u>	<u>56,496,582</u>
Current Assets			
Stock	13	47,010	101,486
Trade and Other Debtors	14	1,820,474	1,643,061
Cash and Cash Equivalents		7,288,468	7,675,243
		<u>9,155,952</u>	<u>9,419,790</u>
Current Liabilities			
Creditors: Amounts falling due within one year	15	(4,220,538)	(4,011,606)
Net Current Assets		<u>4,935,414</u>	<u>5,408,184</u>
Total Assets less Current Liabilities		<u>68,801,354</u>	<u>61,904,766</u>
Creditors:			
Amounts falling due after more than one year	16	(31,560,391)	(28,038,080)
Provision for Liabilities:			
Pension Provision	24	(1,738,000)	(1,602,000)
		<u>(33,298,391)</u>	<u>(29,640,080)</u>
Total Net Assets		<u>35,502,963</u>	<u>32,264,686</u>
Reserves			
Income and Expenditure Reserve	20a	35,502,740	32,264,441
Share Capital	20	223	245
Total Reserves		<u>35,502,963</u>	<u>32,264,686</u>

The Board of Management approved these Financial Statements and authorised them for issue on 29nd June 2016 and they were signed on their behalf by:

Simon Mountford

Chair.....

David Pye

Board Member.....

Julia Mulloy

Secretary.....

The notes on pages 23 to 46 form part of these Financial Statements

STATEMENT OF CHANGES IN RESERVES for the year ended 31st March 2016

Notes	Income & Expenditure Reserve £	Total £
Balance as at 1st April 2014	32,848,775	32,848,775
Surplus/(Deficit) for the Year	1,904,685	1,904,685
Pension (Liability)/Asset Movement	(2,502,000)	(2,502,000)
Release Excess Gains to RTB	12,981	12,981
Balance as at 31st March 2015	32,264,441	32,264,441
Surplus/(Deficit) for the Year	3,687,895	3,687,895
Prior Year Adjustment	84,644	84,644
Pension (Liability)/Asset Movement	(136,000)	(136,000)
Transfer RTB Grant to Statement of F.P.	(398,240)	(398,240)
Balance at 31st March 2016	35,502,740	35,502,740

The notes on pages 23 to 46 form part of these Financial Statements

STATEMENT OF CASHFLOWS for the year ended 31st MARCH 2016

	Note	2016 £	2015 £
Net Cash generated from operating activities	21	7,208,919	7,203,219
Cashflow from Investing Activities			
Purchase of Tangible Fixed Assets		(9,914,219)	(6,690,631)
Proceeds from Sale of Tangible Fixed Assets		278,411	127,883
Grants Received		3,763,397	-
Interest Received		30,810	46,894
Net Cash From/(Used in) Investing Activities		(5,841,601)	(6,515,854)
Cashflow from Financing Activities			
Interest Paid		(1,710,870)	(1,745,946)
Repayment of Borrowings		(43,200)	(86,400)
Shares (Cancelled)		(22)	(6)
Net Cash (Used In) Financing Activities		(1,754,092)	(1,832,352)
Net (Decrease) in Cash and Cash Equivalents		(386,775)	(1,114,987)
Cash and Cash Equivalents at Beginning of Year		7,675,243	8,820,230
Cash and Cash Equivalents at End of Year		7,288,468	7,675,243

The notes on pages 23 to 46 form part of these Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

LEGAL STATUS

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered by The Financial Conduct Authority (formerly the FSA), registered in Scotland with their registered Head Office in Selkirk, as detailed on page 2.

BASIS OF ACCOUNTING

The Financial Statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), the Housing SORP 2014 "Statement of Recommended Practice for Registered Housing Providers" and the comply with the Determination of Accounting Requirements 2015, and under the historical cost convention, modified to include certain financial instruments at fair value.

The financial statements are prepared in Sterling (£).

CHANGE IN ACCOUNTING POLICY

These financial statements are the first financial statements of Scottish Borders Housing Association prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102). The financial statements of Scottish Borders Housing Association for the year ended 31 March 2015 were prepared in accordance with previous UK GAAP. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP.

Consequently, the directors have amended certain accounting policies to comply with FRS 102. Comparative figures have been restated to reflect the adjustments made. Reconciliations and descriptions of the effect of the transition to FRS 102 on; (i) reserves at the date of transition to FRS 102; (ii) reserves at the end of the comparative period; and (iii) income or expenditure for the comparative period reported under previous UK GAAP are given in note 26.

CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

A summary of the principal accounting policies and areas of critical judgements of the Association are set out below:-

- (a) **Financial Instruments:** The Association has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Association becomes a party to the contractual provisions of the instrument, and are offset only when the Association currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

FINANCIAL ASSETS

Debtors

Debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Where the arrangement with a trade debtor constitutes a financing transaction, the debtor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

A provision for impairment of debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in income and expenditure.

FINANCIAL LIABILITIES

Trade Creditors

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Where the arrangement with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

Borrowings

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

Commitments to receive a loan are measured at cost less impairment.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

- (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.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids.

(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 Co-operative and Community Benefit Societies Act 2015. 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 Statement of Financial Position.

(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) **Government Grants:** Government grants include grants receivable from the Scottish Government, local authorities and other government bodies. Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Government grants received for housing properties are recognised in income over the useful economic life of the structure of the asset and, where applicable, the individual components of the structure (excluding land) under the accruals model.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, then any unamortised grant remaining is derecognised as a liability and recognised as income. Where there is a requirement to repay a grant a liability is included in the Statement of Financial Position to recognise this obligation.

(i) **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.

(j) **Fixed Assets – Housing Land and Buildings:** Housing properties are properties for the provision of social housing or to otherwise provide social benefit and are principally properties available for let. Completed housing properties are stated at cost less accumulated

depreciation and impairment losses. 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.

(k) **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.

(l) **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
Solar Panels	20
Area Offices	10
Tenant Improvements	over the initial term of the lease
Furniture and fittings	5
Office Equipment and Info Systems	4
Plant	4 (vehicle fixtures over 3 year lease)
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.

- (m) **Impairment of Fixed Assets:** An assessment is made at each reporting date of whether there are indications that a fixed asset (including housing properties) may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, SBHA estimates the recoverable amount of the asset. Indications of impairment can include environmental factors, contamination etc.

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.

- (n) **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.
- (o) **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.
- (p) **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.
- (q) **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.
- (r) **Pensions – Defined Benefit:** 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 net defined benefit liability in the year represents the present value of the defined benefit obligation minus the fair value of plan assets out of which obligations are to be settled. Any asset resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the plan.

The rate used to discount the benefit obligations to their present value is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

Gains or losses recognised in other comprehensive income:

- Actuarial gains and losses.
- The difference between the interest income on the plan assets and the actual return on the plan assets.

Pensions – Defined Contribution: For defined contribution schemes the amount charged to income and expenditure is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

- (s) **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.
- (t) **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.
- (u) **Taxation:** The Association is a registered charity and is generally not subject to Corporation Tax, either on its income or on any capital gains.
- (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.
- (w) **Other Income:** Interest Income is accrued on a time-apportioned basis, by reference to the principal outstanding at the effective interest rate.
- (x) **Provisions:** Provisions are recognised when the RSL has an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and that obligation can be estimated reliably. Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability.
- (y) **Employee Benefits:** The costs of short-term employee benefits are recognised as a liability and an expense. Employees are entitled to carry forward any unused holiday entitlement at the reporting date. The cost of any unused entitlement is recognised in the period in which the employee's services are received.

2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

	Note	Turnover £	Operating Costs £	Operating Surplus £	2015 £
Affordable Lettings Activities	3	20,258,605	(14,818,423)	5,440,182	4,536,031
Other Activities	4	296,944	(183,680)	113,264	112,244
Total for 2016		20,555,549	(15,002,103)	5,553,446	4,648,275
Total for 2015		19,955,955	(15,307,680)	4,648,275	

3(a) PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS FROM AFFORDABLE LETTING ACTIVITIES

	General Needs Housing	Total for Previous Accounting Period
	£	£
Rent receivable net of service charges	20,451,246	19,806,498
Management Voids	(375,568)	(462,000)
Service charges	<u>204,100</u>	<u>227,694</u>
Gross income from rents and service charges	20,279,778	19,572,192
Less voids	<u>(380,540)</u>	<u>(359,203)</u>
Net Income from rents and service charges	19,899,238	19,212,989
Grants Released from Deferred Income (Note 17)	143,077	23,817
Grants from Scottish Ministers	162,785	390,022
Other Revenue Grants	<u>53,505</u>	<u>38,878</u>
Total turnover from social letting activities	<u>20,258,605</u>	<u>19,665,706</u>
Management and maintenance administration costs	4,701,396	4,533,895
Service costs	185,190	217,512
Planned and cyclical maintenance including major repairs cost	2,972,919	3,934,973
Reactive Maintenance costs	3,096,066	2,990,942
Grounds Maintenance	361,878	344,564
Bad debts rents and service charges	499,797	442,890
Depreciation of Affordable Let Properties	3,001,177	2,664,899
Operating Costs for Affordable Letting Activities	<u>14,818,423</u>	<u>15,129,675</u>
Operating surplus for Affordable Letting Activities	<u>5,440,182</u>	<u>4,536,031</u>
Operating surplus for Affordable Letting Activities for previous reporting period		<u>4,536,031</u>

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

3(b) AVERAGE RENTS

	2016	2015
	£	£
The average weekly rent (48 week basis) per property available to let at the period end was:	74.29	71.43

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 2015
	£	£	£	£
Other Agency/Management Services	25,377	(34,478)	(9,101)	(9,955)
Factoring	17,199	(10,402)	6,797	6,577
Other Activities	254,368	(138,800)	115,568	115,622
Total from other activities 2016	296,944	(183,680)	113,264	112,244
Total from other activities 2015	290,249	(178,005)	112,244	

Other Activities include commercial lets of £240,544 less related costs of £123,007.

In line with paragraph 12.2 of the Determination of Accounting Requirements – April 2012, there was no income falling under Grants from Scottish Ministers and Other Revenue Grants in relation to Other Activities for 2015-16, with nil in the previous accounting period of 2014-15, which require disclosure.

5. ACCOMODATION IN MANAGEMENT

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

	2016	2015
General Needs Housing	5,584	5,609
Homeless Lets	54	54
Mid Market Lets – leased to SBHA Plus	3	3
	5,641	5,666

Stock movements during the year: Disposals include 16 Right to Buy sales, 3 houses removed by scheme reconfiguration and 24 properties demolished at Rose Court Galashiels. Additions for the year include 8 new builds at Deanfield in Hawick and 10 new builds at Stonefield in Hawick.

6. INTEREST RECEIVABLE

	2016	2015
	£	£
Interest Receivable	30,810	46,894
Other Interest on Pension Scheme	-	318,000
	30,810	364,894

7. INTEREST PAYABLE AND FINANCE COST

	2016	2015
	£	£
Loan Interest	1,621,675	1,642,332
Other Interest on Pension Scheme	-	27,000
Non-utilisation Fees	89,195	69,414
Arrangement Fees	-	7,200
	<u>1,710,870</u>	<u>1,745,946</u>

8. OPERATING SURPLUS

Operating surplus is stated after charging:

	2016	2015
	£	£
Depreciation of Housing Properties (Note 11b)	3,031,905	2,800,677
Depreciation of Other Tangible Assets (Note 11c)	161,882	181,560
Deficit on Disposal of Tangible Fixed Assets (Note 9)	185,492	1,362,538
Operating Lease Rental (Note 23)	326,924	189,296
	<u>3,706,203</u>	<u>4,534,071</u>

Fees payable to RSM UK Audit LLP and its associates in respect of both audit and non-audit services included in operating expenditure are as follows:

External auditors remuneration:

Audit Service	25,660	27,160
Non Audit Services for entities related to Auditor	2,202	2,184
	<u>27,862</u>	<u>29,344</u>
Internal Auditors Remuneration	<u>13,724</u>	<u>12,900</u>

9. SURPLUS OR DEFICIT ON SALE OF FIXED ASSETS – HOUSING PROPERTIES

	Total	Total
	2016	2015
	£	£
Disposal Proceeds	231,644	127,882
Carrying Value of Fixed Assets	(417,137)	(1,490,421)
Net Loss	<u>(185,491)</u>	<u>(1,362,538)</u>
Capital Grant Repaid	-	-
(Loss)/Gain on Sale	<u>(185,491)</u>	<u>(1,362,538)</u>

The gross proceeds include the sale of 16 properties under Right to Buy (RTB). Future income foregone relating to the current year's sales is £213,259.

The Asset Cost less Depreciation includes the loss on disposal of obsolete housing property component assets £286,989 (2015: £1,357,730).

10. EMPLOYEES

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

	2016	2015
	£	£
Wages and Salaries	4,992,993	4,756,347
Social Security Costs	392,316	368,249
Defined Contribution Pension costs	659,442	627,504
	<u>6,044,751</u>	<u>5,752,100</u>
Average number employed during the year of full time equivalents (including key personnel) was:		
Directorate and Senior Management	11	11
Supervisory and Administrative	87	88
Tradesmen and other weekly paid	97	93
	<u>195</u>	<u>192</u>

Key Management Personnel are defined as the members of the Board of Management, the Chief Executive and the Executive Directors and are named at pages 1 and 2. No emoluments were paid to any member of the Board of Management during the year.

The number of Key Management Personnel who received emoluments (excluding employer's pension contributions) in excess of £60,000 during the reporting period fell within the following bands:

	2016	2015
£60,000 - £70,000	-	2
£70,001 - £80,000	3	1
£80,001 -£90,000	2	1

During the year, 3 Directors (2014-15, 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.

	2016	2015
	£	£
Aggregate emoluments for the above key management personnel (excluding pension contributions)	<u>392,900</u>	<u>339,500</u>
The emoluments of the Chief Executive (excluding pension contributions)	<u>89,111</u>	<u>85,839</u>
Aggregate Pension Contributions in relation to the above key management personnel	<u>41,865</u>	<u>44,396</u>

No payment or fees or other remuneration was made to the Boards members during the year.

11.A INTANGIBLE ASSETS

	2016 £	2015 £
Cost		
At 1 st April 2015	102,585	102,585
Additions	178,019	-
At 31 st March 2016	280,605	102,585
Amortisation		
At 1 st April 2015	(19,191)	-
Charge for Year	(39,698)	(19,191)
At 31 st March 2016	(58,889)	(19,191)
Net Book Value	221,716	83,394

The intangible assets relate to IT Software, including the Customer Relationship Management system.

11.B TANGIBLE FIXED ASSETS: HOUSING PROPERTY

	Housing for Let	Under Construction Components	Under Construction Housing Properties	Total 2016 £
Cost				
At 1 st April 2015	65,714,375	2,800,174	1,747,379	70,261,928
Additions	-	-	6,187,674	6,187,674
Works to Existing Properties	4,312,996	-	-	4,312,996
Schemes Completed	6,981,419	(1,907,584)	(5,073,835)	
Disposals	(763,431)	-	-	(763,431)
At 31 st March 2016	76,245,359	892,590	2,861,218	79,999,167
Depreciation and Impairment				
At 1 st April 2015	(15,874,387)	(139,657)	-	(16,014,044)
Charge for Year	(3,057,428)	82,747	(57,224)	(3,031,905)
On Disposals	599,261	-	-	599,261
At 31 st March 2016	(18,332,554)	(56,910)	(57,224)	(18,446,688)
Net Book Value				
At 31 st March 2015	49,839,988	2,660,517	1,747,379	54,247,884
At 31 st March 2016	57,912,805	835,680	2,803,994	61,552,479

11.B TANGIBLE FIXED ASSETS: HOUSING PROPERTY (Cont)

EXPENDITURE ON WORKS TO EXISTING PROPERTIES

	2016 £	2015 £
Replacement component spend capitalised	4,312,996	4,488,197
Amounts charged to income and expenditure	<u>3,263,020</u>	<u>3,972,748</u>
Total Major Repairs Spend	<u>7,576,016</u>	<u>8,460,945</u>

The Association's Housing property was independently valued as at 31st March 2016 at £70,956,000 (seventy million and nine hundred and fifty six thousand pounds) by Jones Lang LaSalle. Jones Lang LaSalle are a financial and professional services firm which specialise in commercial real estate services and investment management, providing surveying and valuation services around the World. The valuer is independent and their valuation is at 31st March 2016 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 252% compared to the 105% required by the lender.

11.C TANGIBLE FIXED ASSETS: OTHER

Cost	Office Premises	Tenant Improvements	Furniture & Fittings	Office Equip & Information Systems	Plant	Motor Vehicles	Total
	£	£	£	£	£	£	£
At 1 st April 2015	2,777,865	35,425	147,129	1,309,777	116,769	1,537	4,388,502
Additions	50,380	-	-	37,942	-	-	88,322
At 31 st March 2016	2,828,245	35,425	147,129	1,347,719	116,769	1,537	4,476,824

Depreciation and Impairment

At 1 st April 2015	(702,584)	(35,425)	(147,129)	(1,283,925)	(52,599)	(1,537)	(2,223,199)
Charge for the year Released on Disposal	(86,090)	-	-	(41,997)	(33,795)	-	(161,882)
At 31 st March 2016	(788,674)	(35,425)	(147,129)	(1,325,922)	(86,394)	(1,537)	(2,385,081)

Net Book Value

At 31 st March 2015	2,075,281	-	-	25,852	64,170	-	2,165,303
At 31 st March 2016	2,039,571	-	-	21,797	30,376	-	2,091,744

There were £194,643 capital commitments in relation to other fixed assets at the year end 2016 (2015: £207,418)

Office premises includes the solar panels on the Head Office roof.

12. SUBSIDIARY UNDERTAKINGS

Name of Undertaking	Class of Shareholding	Proportion of nominal value held directly	Nature of Business
SBHA Plus (2009)	Ordinary	100% (2015 100%)	General commercial company with an emphasis on housing related activities
Scottish Borders Building Service Ltd	Ordinary	100% (2015 100%)	Dormant

The income of SBHA Plus in 2015-16 was £92,185 (2014-15 £92,283) with costs of £86,113 (2014-15 £87,142) resulting in a surplus for the year of £6,105 (2014-15: £5,142). The net assets of the company as at 31 March 2016 were £16,150 (2015 £10,071).

13. STOCK

A stock of materials in relation to responsive repairs is held to the value as at March 2016 of £47,010 (2015: £101,486)

14. DEBTORS

	2016	2015
	£	£
Amounts falling due within one year		
Gross Arrears of Rent and Service Charges	1,302,979	1,228,437
Less: Provision for Bad & Doubtful Debts	(734,964)	(639,983)
	<u>568,015</u>	<u>588,454</u>
Other Debtors	73,310	26,216
Prepayments and Accrued Income	1,149,014	1,018,084
Deferred Finance Cost	30,135	-
Amount due from Subsidiary Company	-	10,307
	<u><u>1,820,474</u></u>	<u><u>1,643,061</u></u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Accruals and Deferred Income	1,204,061	1,232,389
Rent and Service Charges in Advance	683,577	625,828
Deferred Capital Grants (Note 17)	91,846	88,313
Trade Creditors	1,558,451	1,247,264
Other Creditors	66,701	59,141
Amount due to Subsidiary Company	258	-
Other Taxes and Social Security	15,644	115,471
Debt (Note 16 & 18)	600,000	643,200
	<u>4,220,538</u>	<u>4,011,606</u>

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

	2016	2015
	£	£
Debt (Note 18)	27,000,000	27,000,000
Deferred Capital Grant (Note 17)	4,560,391	1,038,080
	<u>31,560,391</u>	<u>28,038,080</u>

Included in creditors are:

Amounts repayable other than by instalments	<u>21,000,000</u>	<u>21,000,000</u>
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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 and 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 31st March 2016, £27,000,000 (100%) of the loan was at fixed rates for a period of one year or more. The average rate of interest on all borrowings for the year ended 31st March 2016 was 6.18% (2015 6.10%).

17. DEFERRED CAPITAL GRANT

	2016	2015
	£	£
As At 1 April	1,126,392	1,127,680
Grants Received in the Year	3,668,922	123,139
Capital Grant Released	<u>(143,077)</u>	<u>(124,427)</u>
	<u>4,652,237</u>	<u>1,126,392</u>
Amounts to be released within one year	<u>(91,846)</u>	<u>(88,313)</u>
Amounts repayable other than by instalments	<u>4,560,391</u>	<u>1,038,080</u>

18. DEBT ANALYSIS – BORROWINGS

	2016	2015
	£	£
Creditors: Amounts falling due within one year:		
Bank Loans	<u>600,000</u>	<u>643,200</u>
	<u>600,000</u>	<u>643,200</u>
Creditors: Amounts falling due after more than one year:		
Bank Loans	<u>27,000,000</u>	<u>27,000,000</u>
	<u>27,000,000</u>	<u>27,000,000</u>

Borrowings are denominated and repaid in pounds sterling, have contractual interest rates that are either fixed rates or variable rates linked to LIBOR that are not leveraged, and do not contain conditional returns or repayment provisions other than to protect the lender against credit deterioration or changes in relevant legislation or taxation.

Bank borrowings of £27,600,000 (2015 £27,643,200) are secured against the Associations housing properties.

Based on the lender's earliest repayment date, borrowings are repayable as follows:

	2016	2015
	£	£
Due within one year	600,000	643,200
Due between one and five years	12,000,000	6,000,000
Due in more than five years	<u>15,000,000</u>	<u>21,000,000</u>
	<u>27,600,000</u>	<u>27,643,200</u>
Less due within one year (Note 17)	<u>(600,000)</u>	<u>(643,200)</u>
	<u>27,000,000</u>	<u>27,000,000</u>

19. PROVISIONS

Contingent Liability

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 1st April 2015, 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.

20. SHARE CAPITAL AND RESERVES

The Association is limited by guarantee and consequently has no share capital. Each of the Association's members agrees to contribute £1 in event of the Association 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.

	2016	2015
	£	£
Shares of £1 issued and fully paid:		
Active Shares at 31 st March 2015	245	251
Relinquished during the period	(37)	(19)
Issued during the period	15	13
Active Shares at 31 st March 2016	<u>223</u>	<u>245</u>

	2016	2015
	£	£
a) Unrestricted Reserve		
At 1 st April 2015	33,866,441	31,961,756
Surplus for the Year	3,687,895	1,904,685
Prior Year Adjustment	84,644	-
Transfer RTB Income to Capital Programme:	(398,240)	-
At 31 st March 2016	<u>37,240,740</u>	<u>33,866,441</u>

The total surplus for the year amounts to £3,687,895 (2015, £1,904,685) of which £136,000 (2015, £337,000) relating to a surplus on the pension reserve, is disclosed in Note 20(b).

	2016	2015
	£	£
b) Pension Reserve		
At 1 st April 2015	(1,602,000)	563,000
Surplus in Year	-	337,000
Actuarial (Loss) in Year	(136,000)	(2,502,000)
At 31 st March 2016	<u>(1,738,000)</u>	<u>(1,602,000)</u>

20. SHARE CAPITAL AND RESERVES (Cont.)

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 102 calculations. Assets are now valued on a bid value rather than mid market value basis (Note 24).

21. CASH FLOW

RECONCILIATION OF SURPLUS TO NET CASH GENERATED FROM/ (USED IN) OPERATIONS

	2016	2015
	£	£
Surplus for the year	5,553,446	4,648,275
<i>Adjustment for non-cash items:</i>		
Depreciation of Tangible Fixed Assets	3,107,188	2,685,967
Non-Cash Adjustment on Additions/Disposals	-	(332)
Defined Benefit Pension Schemes	(136,000)	(19,000)
Increase in Provisions	66,164	61,589
Loss on Disposal of Tangible Fixed Assets	185,492	1,362,538
Interest Receivable	(30,810)	(46,894)
Interest Payable	(1,710,870)	(1,745,946)
Operating cash flows before movements in working capital	<u>7,034,610</u>	<u>6,946,197</u>
Decrease/(Increase) in Stock	54,476	(54,265)
(Increase) in Debtors	(177,413)	(257,435)
Increase/(Decrease) in Creditors	297,246	568,722
Cash Generated from /(used in) operations	<u>7,208,919</u>	<u>7,203,219</u>
	2016	2015
	£	£
Cash and Cash equivalents represent:		
Cash at Bank	<u>7,288,468</u>	<u>7,675,243</u>

22. CAPITAL COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

	2016	2015
	£	£
Capital Expenditure contracted for but not provided in the Financial Statements	<u>2,147,924</u>	<u>6,874,867</u>
Expenditure authorised by the board, but not contracted	<u>6,723,452</u>	<u>6,375,064</u>

23. OPERATING LEASE COMMITMENTS

At 31st March 2016, the Association had aggregate annual commitments and had made payments under non cancellable operating leases as set out below:-

	2016 Plant & Equipment £	2015 Plant & Equipment £
Expiring within 1 year	326,924	261,510
Expiring within 1 – 5 years	508,604	648,294
Expiring after 5 years	1,888	211,059
Total commitment at 31 st March	837,416	1,120,863
Payments in current year	326,924	189,296

24. PENSION COMMITMENT

The Association participates in a defined contribution scheme for all qualifying employees in the United Kingdom. The assets of the scheme are held separately from those of the Company in an independently administered fund. The contributions payable by the Association charged to income and expenditure amount to £633,234 (2015: £660,155).

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.

The pension cost charge for the year amounted to £659,443 (2015 - £645,118). At 31st March 2016, the Association had no pension contributions outstanding (2015 – nil).

Employees' contributions are fixed by statute for SBHA employees. According to the following scale for the year ended 31st March 2016:

Pensionable Salary	% Payable
£0 - £20,500	5.50
£20,500 - £25,000	7.25
£25,000 - £34,400	8.50
£34,400 - £45,800	9.50
Above £45,800	12.00

Employer's contributions currently stand at 19% based on the pensionable salary of the previous year.

24. PENSION COMMITMENT (Cont.)

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 102 Schedule 28, on retirement benefits, the Fund's actuaries undertook a pension expense calculation as at 31st March 2016. This calculation was based on rolling forward valuation data as of 31st March 2015 to 31st March 2016 on the basis of a number of financial assumptions. The projected unit method of valuation was used to calculate the service cost. The main financial assumptions used included:

Assumptions as at 31st March	2016 %
RPI increases	3.15
CPI increases	2.15
Salary increases	3.15
Pension increases	2.15
Discount rate	3.80

The expected return on assets is based on the long-term future expected investment for each asset class as at 31st March 2016.

Assumed life expectancies from age 65 are:-

		Years
Retiring today	Males	22.8
	Females	23.7
Retiring in 20 years	Males	25.0
	Females	26.0

Assets (Employer)	31.03.16	31.03.15
Equities	66%	66%
Gilts	2%	2%
Other Bonds	9%	9%
Property	6%	5%
Cash	0%	1%
Multi Asset Fund	17%	17%
Total	100%	100%

**24. PENSION COMMITMENT
(Cont.)**

Net Pension (Liability)/Asset as at	31st March 2016 £'000	31st March 2015 £'000	31st March 2014 £'000	31st March 2013 £'000	31st March 2012 £'000
Fair Value of Scheme assets	25,634	25,416	22,417	20,766	18,063
Present value of Funded obligation	(27,372)	(27,018)	(21,854)	(19,571)	(16,843)
Net Pension (Liability) /Asset	(1,738)	(1,602)	563	1,195	1,220

Amount recognised in Income & Expenditure Account

	31st March 2016 £'000	31st March 2015 £'000
Service Cost	741	552
Net Interest on the Defined Liability	46	(27)
Administration Expenses	15	17
Total	802	542

**Reconciliation of opening and closing balances of the
present value of the defined benefit obligation**

	31st March 2016 £'000	31st March 2015 £'000
Opening Defined Benefit Obligation	27,018	21,854
Service Cost	741	552
Interest Cost	935	1,009
Change in Financial Assumptions	(706)	3,931
Change in Demographic Assumptions	-	(825)
Experience loss/(gain) on defined benefit obligation	-	892
Estimated Benefits paid (net of transfers in)	(823)	(597)
Contributions by Scheme participants	207	202
Closing Defined Benefit Obligation	27,372	27,018

24. PENSION COMMITMENT (Cont.)

Reconciliation of opening and closing balances of the fair value of Scheme assets	31st March 2016 £'000	31st March 2015 £'000
Opening fair value of Scheme assets	25,416	22,417
Interest on Assets	889	1,036
Return on Assets Less Interest	(603)	1,928
Other Actuarial gains/(losses)	-	(142)
Administration Expenses	(15)	(17)
Contributions by employer (including unfunded)	563	589
Contributions by Scheme participants	207	202
Estimated benefits paid (net of transfers in and including unfunded)	(823)	(597)
Fair value of Scheme assets at end of period	25,634	25,416

Projected pension expense for year to 31st March 2017

	Year to 31st March 2017 £000's
Service cost	712
Net Interest on the defined liability / (asset)	56
Administration expenses	16
Total	784
Employer Contributions	£574,000

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31st March 2016.

These projections are based on the assumptions as at 31st March 2016, as described in paragraphs 22.5 and 22.7.

25. RELATED PARTIES

Board members Vicky Davidson, Simon Mountford and Bill Herd 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.

Board Members Marlen Jones, Ann Knight, Michael Grieve, Julie Black, Frances Wilkie (resigned 13.08.15) and Robin Cowan are also Tenant of the Association. During the year £20,295 (2015: £19,802) of rent was receivable from these tenants members. At the year end there was £0.50 (2015: £344) of rent arrears due from these tenants. Amounts outstanding are unsecured, non-interest bearing and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year (2015: £0) in respect of bad debts from related parties. 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.

25. RELATED PARTIES (Cont.)

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 being Vicky Davidson, Michael Grieve and Simon Mountford.

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 1st April 2010 and remains in place until a fundamental change occurs within the business of SBHA Plus which will trigger a review of this agreement.

During the year ended 31st March 2016 SBHA recharged SBHA Plus Ltd the sum of £75,575 (2015: £71,933) 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 31st March 2016 was £649 (2015: £10,307).

Scottish Borders Building Services Limited (SBBS Ltd), a company incorporated in Scotland, is a related party by virtue of being a wholly owned subsidiary of SBHA. SBBS Ltd is controlled by its own Board of Directors which is appointed by the Board of Management of SBHA. SBBS Ltd was dormant during the year to 31st March 2016.

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

Simon Mountford, 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 31st March 2015 or 2016.

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 2015-16 amounted to £81,973, as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2015-16, the Association's total expenditure on Tenant Participation was £51,194.

26. FIRST TIME ADOPTION OF FRS102

The financial statements have been prepared in accordance with FRS102 for the year ended 31 March 2016. The transition to FRS102 has impacted on the following accounting policies adopted and as such the comparative figures have been restated accordingly.

A – Grant Accounting

Previously all capital grants received were netted off against the cost of housing properties. In line with FRS102 and SORP 2014 capital government grants are now treated under the accrual model and as such are shown as deferred income and amortised to income over the expected useful life of the housing property structure (excluding land on a pro-rata basis).

B – Depreciation of Housing Properties

Previously depreciation on housing properties was calculated on the net cost of properties after capital grant. In line with FRS102, and as noted above in A, grants are no longer netted off against the cost of housing properties and as such depreciation is now calculated on the gross cost of housing properties.

26. FIRST TIME ADOPTION OF FRS102 (Cont.)

C – Discounting of Payment Arrangements

FRS102 requires the Association to recognise the future value of payment arrangements by discounting the total value due for payment at the current value to determine the future value payable. The Association discounts the total value payable by the cost of borrowing to the Association.

D – Pension Scheme Interest

Under FRS102, the Association is required to recognise the cost of interest incurred by Defined Benefit Pension Schemes which the Association employees are members of.

E – Holiday Pay Accrual

FRS102 requires the Association to recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the reporting period. Therefore at 31 March 2015 a provision has been made of £89,323 reflecting the value of holiday pay entitlement which had not been taken as at that date by employees.

F – Cash Flow Statements

Under FRS 102, the Statement of Cash Flows presents changes in cash and cash equivalents (which include cash in hand, deposits repayable on demand and overdrafts and short-term, highly liquid investments), showing changes arising from operating activities, investing activities and financing activities separately. Under previous UK GAAP, the Cash Flow Statement presented changes in cash (which includes cash in hand, deposits repayable on demand and overdrafts) under the headings of operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources, and financing.

RECONCILIATION OF RESERVES

	Notes	1 st April 2014 £	31 March 2015 £
Reserves as previously reported under UK GAAP		32,967,734	32,449,349
Grant Accounting	A	100,610	124,429
Depreciation	B	(115,826)	(157,034)
Discounting Payment Arrangement	C	(3,714)	(35,980)
Pension Scheme Interest	D	-	(27,000)
Holiday Pay Accrual	E	<u>(100,030)</u>	<u>(89,323)</u>
Reserves Reported under FRS102		<u>32,848,775</u>	<u>32,264,441</u>

RECONCILIATION OF SURPLUS OR DEFICIT

	Notes	Year Ended 31 March 2015 £
Surplus or deficit as previously reported under UK GAAP		1,970,637
Grant Accounting	A	23,815
Depreciation	B	(41,208)
Payment Arrangement	C	(32,266)
Pension Scheme Interest	D	(27,000)
Holiday Pay Accrual	E	<u>10,707</u>
Surplus reported under FRS 102		<u>1,904,685</u>