



SCOTTISH BORDERS HOUSING ASSOCIATION
REPORT AND FINANCIAL STATEMENTS
For the year ended 31st March 2017

“Created by tenants for tenants, our mission is to deliver the best housing choices, solutions and services that we possibly can. We aim to maximise our ability to invest in homes and communities, partnerships and our people”

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

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Board of Management, Executive Officers and Advisers

Board of Management

Chair - Simon Mountford

Vice Chair - Michael Grieve

Tenant Shareholder Board Members

Marlen Jones	(Re-elected 21.09.16)
Michael Grieve	(Re-elected 21.09.16)
Robin Cowan	
Julie Black	(Elected 21.09.16)
William Elliot	(Elected 21.09.16)

Council Nominee Board Members

Vicky Davidson	(Stood Down 10.05.17)
Simon Mountford	(Stood Down 10.05.17)
Bill Herd	(Stood Down 10.05.17)

Independent Shareholder Board Members

David Pye	(Re-elected 21.09.16)
Ian MacDonald	(Re-elected 21.09.16)
John Paton-Day	
Harriet Campbell	(Resigned 07.12.16)
Eric Glass	(Resigned 07.12.16)
Phillip Morrison-Gale	(Elected 21.09.16, Resigned 22.03.17)
Robin Hill	(Appointed 07.12.16)
Simon Mountford	(Appointed 10.05.17)

Co-optees

Robin Hill	(Co-opted 23.09.16, then Appointed 07.12.16)
John Montgomery	(Resigned 01.06.16)
David Gwyther	(Resigned 21.09.16)

Secretary to the Association

Julia Mulloy

Chief Executive

Board of Management, Executive Officers and Advisers (continued)

Directors

Carly Stewart	Director of Finance
Maria Lyle	Director of Customer Services
Pamela Nichol-Littlejohn	Director of Business Support (Appointed 01.11.16)
Henry Coyle	Director of Assets and Property Services

External Auditor

RSM UK Audit LLP
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Internal Auditor

Scott Moncrieff
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G2 6NL

Solicitors

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

Bankers

Lloyds TSB Bank plc
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25 Gresham Street
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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 2017. 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 2017, 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 5,653 rented and 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. As at 31 March 2017 there was one independent community representative vacancy and two Co-optee vacancies which are currently not being actively sought due to the Governance Review currently being undertaken. 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 commissions a series of initiatives to maximise opportunities for broader Tenant involvement; 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 40% 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, with the achievement of the Scottish Housing Quality Standard (SHQS) in 2015 which continues to be sustained (subject to abeyances and exemptions).

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 2016-17 for Registered Social Landlords in the Scottish Borders area and annual rent increases reflect the need to continue services and invest in homes and communities.

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 REVIEW OF BUSINESS PLAN AND FUTURE STRATEGY

During the year, the Strategic Plan for 2016-2021 was approved by the Board of Management following a comprehensive process involving stakeholders throughout its development and final consultation. A vision statement for the Organisation was developed and SBHA's mission statement and values were also updated alongside the review.

Sixteen projects in total were identified and prioritised, each aligning 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 those 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 2017, which maintained the assumption of increasing bad debts in light of the Welfare Reform implications. Increasing inflation levels are included in the plan, and strengthen overall viability of the plan, construction costs will be monitored carefully, which when they increase above inflation, become a high concern for the Association.

Taking forward projects identified in the Asset Management Strategy (2016-2020) the financial outcomes of the new 6 year Planned Maintenance Programme including delivery of EESSH were included in the review and will continue to be monitored as stock condition surveys are undertaken in the coming year to confirm data held. Similar to the previous year, 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 Tenant Participation Strategy is currently under review and is being developed in conjunction with SBTO. Similarly, the People Strategy has been developed with input from the Leadership team and Employee Strategy Group and both Strategies will be presented for approval by the Board of Management following consultation with relevant stakeholders early in 2017-18. This will be followed by a comprehensive review of SBHA's IT Strategy.

Mission Statement

"Created by Tenants for Tenants, our mission is to deliver the best housing choices, solutions and services. We will maximise our ability to invest in the quality of our homes and communities, partnerships and people."

Vision Statement

"Enhancing lives by providing quality homes and great places to live across the Scottish Borders."

Values



4.0 SBHA'S 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

During the year implementation of SBHA's Organisation restructure was completed and the new Solutions team went live, providing a centralised call handling and administration service. The Solutions team creates a knowledgeable one stop shop, will ensure a clear history of contact and actions are maintained to allow improved communications and enhance outcomes for Tenants. The surgery model was implemented in SBHA's two area offices to ensure services and resources align with Tenants needs.

Development of the Customer Relationship Management (CRM) system has continued with positive results experienced in the first stages of implementation, for the recording and case handling of complaints, ASB and general enquiries. Extensive development of the processing of repairs, including a diagnostic tool allows for a streamlined approach with benefits being realised immediately. This will be followed later in 2017 by mobile working, allowing the Community teams to process repairs, carry out planned maintenance surveys, void inspections and access all required data in and around SBHA's Neighbourhoods. Alongside this SBHA's Self service portal will be developed which will ultimately enable Tenants to raise and schedule their own repair.

SBTO continues to work in partnership with SBHA to ensure that Tenant's voices are being heard in decision making. Following the 2016 Tenant Satisfaction Survey (TSS) carried out, over six in ten Tenants are satisfied with the opportunities given for Tenant participation. Whilst overall satisfaction and dissatisfaction levels are similar to previous years, there has been significant growth in the proportion very satisfied compared to 3 years ago, whilst the proportion of very dissatisfied now stands at just 1%.

Over three quarters of Tenants rate SBHA as good at keeping them informed of services and decisions, and amongst those who are interested in being kept informed, 85% rate SBHA as good at keeping them informed. Continual improvement programmes have been identified, especially addressing the lettable standard, the day to day repairs service and managing neighbourhoods, with a range of short to long term actions identified.

A further successful scrutiny project was carried out in the summer of 2016 alongside the employment of a second student intern. This reviewed SBHA's Grounds Maintenance and progress is underway to ensure that the recommendations are implemented, working in partnership with SBHA's contractors. Another scrutiny project will be carried out in the summer of 2017 together with the employment of a student intern.

SBHA's Tenant Participation Manager won the award for Tenant Participation Champion of the Year (Individual Employee) at last years TPAS Conference, in recognition of her work involving Tenants in decision making through a variety of ways, including workshops, door-to-door visits, pop-up shops, visits to and from other Housing Associations. Members of SBTO ran a workshop at the conference, highlighting good practice in involving Tenants through the strategic planning process.

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 with over 200 units having been addressed over the last 5 years. The 2016/17 new build programme has delivered 38 new homes, 34 as part of the Stonefield Regeneration project and 4 new homes in Torwoodlee, Galashiels. Plans over the next year will deliver 10 new homes in Rose Court, Galashiels along with 6 refurbished flats as part of the continued regeneration in Stonefield, with proposals being developed for potential new homes in Tweed Court, Kelso and Heriotfield, Oxtou. Extensive works in difficult to let and unlettable properties have been successful with many of these properties now re-let.

SBHA will invest in the region of £10m over the next 3 years to ensure maximum compliance with the Energy Efficiency for Scottish Social Housing (EESH) 2020 target. In 2016/17 over 500 heating systems were replaced which included installing gas infrastructure and gas central heating to areas previously not connected to the gas network.

Longer term plans have been developed and approved for delivering the Planned Maintenance Programme on a 6 year Neighbourhood basis starting in 2017/18, using customer and property insight to determine priorities. The Asset Insight tool was developed and populated during the year and will provide greater information on which to base investment decisions going forward and maximise SBHA's asset base.

The strategic aim to reduce reactive maintenance by increasing proactive cyclical maintenance programmes is supported by the identification of a long term budget, the Great Places Fund. Criteria has been developed and will be taken forward next year. A draft of the SBHA Standard is nearing completion and is being developed with SBTO to extend beyond the home to include Neighbourhoods and the wider environment. The Standard will be modernised to reflect current priorities that Tenants say are important to them.

Following a review in the previous year of the governance and management of all Health and Safety matters, new processes and arrangements have continued to be embedded with progress made on the action plan. Recruitment for key posts in this area has remained a challenge, but external support is providing policy and process advice as well as practical support to ensure continuous improvement.

SBHA WILL INSPIRE AND DEVELOP OUR PEOPLE TO MAKE CHANGE HAPPEN

As part of SBHA's Borders without Barriers change programme, a major organisational staff restructure has been successfully implemented, following a job matching process, 44 people were matched to existing roles and 2 members of staff were redeployed. Recruitment was required for 16 roles and, of these, 10 internal candidates and 4 external candidates were appointed. The new structure complements 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. Additionally the Association has taken steps to reshape the workforce in the property division to ensure that it is fit for purpose.

The developing People Strategy looks to describe the ways in which SBHA will work with staff to deliver the strategic outcomes set out in the Associations 2016-2021 strategic plan. A Leadership Development Programme has been commissioned to help build the leadership capability needed to drive forward the strategic agenda. In addition a Customer Excellence Programme has also been commissioned to shape service delivery to ensure customers continue to be at the heart of the Associations approach.

In Autumn 2016 SBHA achieved Investors In Young People (IYYP) Silver accreditation. This reflects SBHA's commitment to developing and investing in young people and builds on it's Investors in People (IIP) accreditation previously achieved. 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 and in the year a working group, Healthy Working Lives, was established putting in place a programme of health promotion to support staff.

SBHA is in the process of considering its working practices and rewards, working with an external pay specialist to review links between job roles, the grading structure and staff pay.

SBHA WILL DELIVER EXCELLENT VALUE FOR MONEY

The Transformation Fund was established in the 2011-16 Strategic Plan, to support the implementation of strategic commitments and organisational objectives. This is funded from the delivery of significant savings in annual budget spend and since its inception has resulted in over £3m of savings being identified, allowing the Business Plan to be re-shaped by reinvesting into services, to reinforce income collection, infrastructure and the development of new homes as well as opportunities for transforming existing homes.

SBHA continue to support Tenants to manage the change to their benefits under Welfare Reform, minimising the risk to SBHA's financial viability. To date 153 Tenants are in receipt of Universal Credit (current plans by the DWP for Universal Credit indicate that the full roll out to the Scottish Borders will be completed by March 2018). SBHA continue to attend quarterly liaison meetings with DWP and other partner agencies to highlight ongoing issues with UC claims and the arrears arising from delays in payments. Pending cases account for approximately £32,000 of current Tenant rent arrears.

An assessment of the impact on SBHA and its Tenants in relation to proposed future changes to cap the level of Housing Benefit for social housing tenants under the age of 35 to Local Housing Allowance rates has been completed. Forecasting suggests that around 118 Tenants will be impacted when the change is introduced in April 2018 and potential shortfalls could peak over £200,000 per annum to SBHA. This is a significant risk which has required future bad debt provisions to be retained at those previously increased to mitigate the risk. New Tenants under 35 years old are being informed of the forthcoming changes at sign up, with specialist support on offer to those households.

As part of the 2017-18 Rent Increase consultation, a survey was carried out in the year by telephone, social media and newsletters, which provided positive feedback on SBHA's proposed increase and rent levels with 86% of tenants agreeing that SBHA provided value for money. Tenants also supported a rent freeze on bedsit accommodation, in response to the above welfare reform measures, seeking to ensure SBHA can provide suitable housing options for under 35 year olds and that rent levels for this property type reflect demand.

The Neighbourhood performance framework has focussed on outcomes such as income collection and tenancy sustainability. This is now being developed to include broader Community Team targets and budgets, and will take into account the varying issues, needs and requirements by Neighbourhood to strengthen SBHA's overall outcomes.

In the year, SBHA jointly commissioned a Socio-Economic Impact Assessment with Berwickshire Housing Association to understand their wider impact on the Borders, which was carried out by an independent specialist. Alongside highlighting the significant social benefits that SBHA provides in its area of operation, the report showed that SBHA's activities supported 470 jobs across Scotland, which included 325 in the Scottish Borders. The Association's economic impact was also significant, with its activities creating £21.7 million of annual income for the Scottish economy, of which £14.4 million was in the Scottish Borders.

SBHA's Governance review which aims to strengthen and future proof SBHA's Governance, has been developed by a working group consisting of Board members and staff with external support and advice. Key changes are to streamline the structure, increase the focus to that of a skills-based Board, rather than constituency based and reduce the size of the Board of Management to 12 (currently 15). The SGM held in May 2017 approved the Governance Review and will allow implementation of the new constitution and its supporting Standing Orders at SBHA's AGM in September 2017

SBHA WILL ANTICIPATE OPPORTUNITIES TO DEVELOP AND GROW

SBHA is committed to increasing housing supply and being a part of the Scottish Government's target to build 50,000 affordable homes across Scotland over the next 3 years. Internally generated savings will also be supplemented by new financing where possible, ensuring that SBHA is maximising its financial capacity.

In the year an additional £295,000 of income for Tenants was generated through the provision of dedicated welfare benefits and financial support services. This includes the Big Lottery funded Financial Inclusion Services, a joint project with Berwickshire Housing Association and Waverley Housing, which supplements SBHA's own financial support team.

SBHA's Employability Project 'Go4It' continues to support young Tenants to enhance their employability skills and access jobs. Since the project began in 2014, 18 Tenants have secured full time jobs and 15 have completed a work placement. The project has also supported two Tenants into apprenticeships and a further two into full time education at the local college. In order to ensure the service continues, SBHA have submitted a grant funding application to Scottish Government's People and Communities Fund for continued funding for 2017-18.

Wider Role activities continued throughout the year with the Big Lottery funding and contingency budget in place from SBHA and SBC to enable continuation of the Transitions Project until December 2017 at Albert Place, until future funding is secured.

This funding, being sought in partnership with Berwickshire Housing Association, will seek to deliver the Transitions Project for a further 4 years and extend service provision, with the establishment of a similar facility to Albert Place in Berwickshire and additional funding to employ a Wellbeing Worker to provide emotional and mental well being support as part of the Transitions Service to Care Leavers.

5.0 KEY PERFORMANCE INDICATORS 2016-17

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 2016-17	VARIANCE	ACTUAL 2015-16
Current Arrears (as at rent year end)	<£800,000	£816,737	+2.1%	£818,203
Rent Collection %	98.80%	99.79%	+0.99%	98.50%
Gross Arrears as a % of Rent Due	7.19%	7.32%	+0.13%	7.64%
Lettable Stock Void Loss %	1.34%	1.99%	+0.65%	1.48%
Average days to let empty homes	34	51	+26	36
Emergency Repairs Completed within Target	98%	84%	-14%	97%
Average days for non-emergencies	6	9	+3	8
First Time Fix (Repairs)	90%	82%	-8%	86%

Net Debt per Unit	£6,298	£3,637	-£2,661	£3,635
Loan to Value Ratio (EUV-SH)	110%	280%	+170%	253%
Staff Attendance	>96%	94.05%	- 1.95%	94.09%

- SBHA implemented significant organisational changes during 2016-17. This included a substantial staff structure change, re-aligning resources and skills to transform service delivery and improve performance in key areas. This was supported by infrastructure changes and the implementation of a new Customer Relationship Management system. Performance improvement is expected to be achieved during the forthcoming year as these changes become embedded within the organisation with improvements already being noted in the latter months of 2016-17 in some areas.
- Rent collection increased during 2016-17 and rent arrears reduced as a result of focussed efforts to maximise rental income. This has been achieved by improving practice and processes with increased activity at the forefront to engender a payment culture. Additional investment in frontline staffing and a coaching programme to enhance skills in rent collection supported this positive performance shift and reflected in increased levels of tenancy sustainment. Continued improvements in rent collection will remain a key focus during the forthcoming year.

Efforts to mitigate the impact of Welfare Reform continued during the year as the number of Tenants moving over onto Universal Credit increased. Further action to mitigate future changes under Welfare Reform will be introduced during the forthcoming year, such as the freezing of SBHA's bedsit rents to 2016-17 levels to maintain affordability for younger Tenants who will be impacted by the future capping of housing benefit to Local Housing Allowance levels.

- Rent lost as a result of lettable empty homes increased during the year, reflecting the increase in the average days taken to re-let these homes. Tenancy turnover reduced during the year however this remains higher than the Scottish average. Tackling low demand for some properties remains challenging as it is acknowledged that there are many factors that contribute to this and these factors vary across local housing market areas. While efforts have been made to address this issue, such as increased targeted marketing and additional works to harder to let properties, further action is required including improvements to working practices and greater collaboration across teams. Considerable efforts have been made to bring long term empty homes back into use during the year reducing these from 98 to 67 and a further 38 new build homes were created.

Ensuring that empty homes are let as efficiently and effectively as possible will remain a key area for improvement in the coming year. Increased levels of information management and monitoring of the performance process will be an early focus during in the forthcoming year, alongside increased co-ordination between teams with coaching provided to staff involved in void management to help reinforce collective responsibility and improve working practices. Further analysis and programmes of work will be carried out during 2017-18 to tackle existing and emerging low demand properties.

- The number of repairs carried out during the year increased with a significant rise in the number of emergency repairs. The level of repairs completed right first time has fallen. Locally agreed targets for the completion of reactive repairs were set 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 2016-17, SBHA achieved 93% and 86% respectively in meeting these targets.

SBHA changed its gas contractor in April 2016 and an interim contractor was appointed at short notice with a key aim to raise quality assurance and compliance.

The short mobilisation period impacted on performance of the contractor in the time taken to respond to repairs. SBHA worked closely with the contractor to improve this and significant improvements were achieved over the latter quarter of 2016/17.

In 2017/18, the focus will be on improving gas repairs performance and reducing response times to reactive repairs while improving the level of repairs carried out right first time. The gas contract will be procured during the year enabling sufficient time for the contractor to prepare for mobilisation at handover of the contract.

- The reported Net Debt per Unit and Loan to value ratio as at 31st March 2017, were comfortably within levels agreed SBHA's funder. A desktop valuation of housing properties was undertaken by Jones Lang LaSalle as at 31st March 2017, with a value of £77,255,000 using the value method EUV-SH and £151,544,000 based on Market Value-Subject to Tenancies which equates to a loan to value ratio of 549%. Net debt per unit remains below the covenant due to expenditure requirements to draw down further debt being delayed until 2017-18.
- Staff attendance is below target, but increased in the last quarter of the year, reflecting increased and consistent absence management throughout the Organisation. Next steps are to update the People Strategy for the period 2017-2022. This strategy will describe the vision, values and objectives for the people related work of SBHA and will set out the expectations and aspirations as well as projects to improve on this key indicator.

FINANCIAL REPORT

1.0 FUNDING

SBHA is debt funded and the funding required to expedite the transfer referred to in Section 3, of this Financial Report 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 2017, SBHA complied fully with all its Loan Covenants.

2.0 STATEMENT OF COMPREHENSIVE INCOME (SOCI) 2016-17

Annual Turnover increased 2.1% to £20.99m during the year. The principal source of turnover for the Association is rental income and related service charges. Weekly rents were increased by an average of 2.6% from previous year levels. The reduction of 23 properties through Right to Buy and reconfiguration during the year and a small increase in lettable void loss partially offset the rent increase levels.

Operating Costs increased from £15.0m to £16.8m during the year, an increase of 10.6%. The most significant increase was expenditure in relation to Planned and Cyclical maintenance costs rising by £1.2m (£2.6m increase when adding back components capitalised as is highlighted in note 11b). This reflects efforts to ensure the budgeted programme is fulfilled and reduce future carry overs of improvements still required.

Reactive Maintenance costs reduced by £270,000 as a result of realising efficiencies in the delivery of the service by Property Services. The strategic aim being to use funds saved in reactive costs to fund an increase in preventative cyclical programmes of work.

Management and maintenance administration costs increased during the year by £494,000 due to the new Organisation structure being implemented, carrying additional transition costs of approximately £145,000; £203,000 relating to the Pension service cost for LGPS under the new FRS 102 reporting was expensed; and £140,000 staffing costs for a voluntary redundancy scheme under the Property Services restructure. Bad Debt expense has decreased which reflects the increase in rent collection performance in the year.

This year a gain on sale of housing properties and land was achieved of £113,765 slightly higher than the previous year. 23 Right to Buy sales were achieved in 2016-17 as opposed to 16 in the previous year, with the proceeds being lower due to the property mix having a lower valuation, 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 £508,224 (2016: £286,989), giving a net loss on sale of £405,087 (2016: £185,491).

The average rate of loan interest payable remained at 6.05%.

The net impact was a surplus prior to actuarial loss for the year of £2.1m (2015-16 surplus of £3.7m). The actuarial loss for the year of £2,249,000 (£136,000 2015/16) results in a deficit for the year of £131,441 (£3.6m surplus 2015/16).

3.0 STATEMENT OF FINANCIAL POSITION (SOFP) AS AT 31st MARCH 2017

At 31st March 2017, 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 26, 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 2017 where those assets are generally able to be realised within one year, exceeded liabilities generally payable in the same period. The liquidity ratio for 2017 was 1.76 (2016 2.16).

At 31st March 2017, the Association owned 5,656 properties against 5,641 at 31st March 2016, 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 £1,738,000 in 2015-16 to a liability of £4,246,000 in the year. The report is based on a triennial valuation at 31st March 2014 rolled forward, the main impact on the increasing deficit was the falling corporate bond rate which determines the discount rate used for determining liabilities and an increase in inflation assumptions also having an increasing impact on liabilities. The increase in liabilities is partially offset by the growth in assets.

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 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 a small new build programme. These programmes are being funded from a mixture of the cash balance and the loan facility.

4.0 TREASURY MANAGEMENT

SBHA's Treasury Management Policy was reviewed 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. This scheme moved to a Career Average Revalued Earnings (CARE) calculation method in 2015, which replaced the Final salary valuation method.

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 2014 and, following this valuation, SBHA's employer's contributions were set at 19% of pensionable pay. The Association adopted Financial Reporting Standard (FRS) 102 in full and recognises a Net Pension liability of £4,246,000 (2016: £1,738,000) at 31st March 2017.

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. 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.
- **Property 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 2017

The Board of Management acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that are 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 2016-21 was reviewed and approved in June 2016 with the financial part of the Business Plan being approved in February 2017;
- 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 4 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 annually. The Top 3 risk areas currently identified are:

Corporate Risk	Detail	Actions to Mitigate
Failure to achieve Rental Income through Welfare Reform measures and localised shifts in demand.	Welfare Reform increases the risk of bad debts exceeding assumptions and increasing operating costs. Local demographics and supply and demand of various types of properties increase the risk of higher unlet properties.	Tenant profiling undertaken; Targets set for arrears and voids to achieve top quartile ; 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; Increased staff awareness of collective responsibility, specialist consultant to be appointed to assist
Poor financial and logistical management of significant capital developments including Planned Maintenance Projects results in an overspend and a potential breach of loan covenants.	SBHA has a significant planned maintenance, regeneration and new build programme in place and these will require tight control to ensure that they are delivered within budget .	Regular financial and operational monitoring of project profile and spend; Use of lead developer to support monitor of New Build programme; Monthly Management accounts to Executive team; Potential issues identified early and plans made to alleviate risk.

Corporate Risk	Detail	Actions to Mitigate
Construction and Maintenance costs rise faster than RPI.	Negotiation of cost increases have been carried out for some 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 cost reviews being undertaken; Delivery of Procurement Strategy

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 2017. 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.

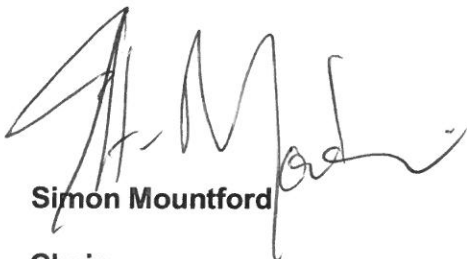
2.0 GOING CONCERN

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 were re-appointed as auditors following a retendering process during the year. The new contract is for a period of 3 years plus the option to extend for a further 2 years subject to good performance and will be subject to annual approval at the AGM of SBHA.

By Order of the Board of Management



Simon Mountford
Chair

Date: 23 August 2017

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 2017

Opinion on financial statements

We have audited the financial statements of Scottish Borders Housing Association for the year ended 31st March 2017 on pages 20 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".

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2017 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.

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

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

Respective responsibilities of the Board and auditor

As explained more fully in the Board's Responsibilities Statement set out on page 14 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.

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.

RSM UK AUDIT LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG
Date: ~~23~~ August 2017

REPORT BY THE AUDITORS TO THE MEMBERS OF SCOTTISH BORDERS HOUSING ASSOCIATION ON CORPORATE GOVERNANCE MATTERS FOR THE YEAR ENDED 31ST MARCH 2017

In addition to our audit of the Financial Statements, we have reviewed your statement on Page 15 concerning the Association's compliance with the information required by the Regulatory Standards for systemically important RSLs 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 for systemically important RSLs 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
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: ~~21~~ August 2017

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31st MARCH 2017

	Note	2017 £	2016 £
Turnover	2	20,989,916	20,555,549
Operating Expenditure	2	(16,774,254)	(15,002,103)
Operating Surplus	2,8	4,215,662	5,553,446
(Loss) on disposal of property, plant and equipment	9	(405,087)	(185,491)
Interest receivable	6	25,591	30,810
Interest payable and financing costs	7	(1,718,607)	(1,710,870)
Surplus for the Year	20	2,117,559	3,687,895
Actuarial (loss) in respect of Pension Schemes	20	(2,249,000)	(136,000)
TOTAL COMPREHENSIVE (EXPENDITURE)/ INCOME FOR THE YEAR		(131,441)	3,551,895

Results for the year relate wholly to continuing activities.

The accompanying notes on pages 24 to 46 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION as at 31st MARCH 2017

	Note	2017 £	2016 £
Fixed Assets			
Intangible Assets	11a	303,371	221,716
Housing Properties – Depreciated Costs	11b	65,294,726	61,552,479
Other Fixed Assets	11c	1,983,320	2,091,744
Investment in Subsidiary Company	12	1	1
		<u>67,581,418</u>	<u>63,865,940</u>
Current Assets			
Properties held for sale	13a	12,278	-
Stock	13b	79,369	47,010
Trade and Other Debtors	14	1,763,562	1,820,474
Cash and Cash Equivalents		7,331,734	7,288,468
		<u>9,186,943</u>	<u>9,155,952</u>
Current Liabilities			
Creditors: Amounts falling due within one year	15	(5,284,021)	(4,220,538)
Net Current Assets		<u>3,902,922</u>	<u>4,935,414</u>
Total Assets less Current Liabilities		<u>71,484,340</u>	<u>68,801,354</u>
Creditors:			
Amounts falling due after more than one year	16	(31,866,838)	(31,560,391)
Provision for Liabilities:			
Pension Provision	24	(4,246,000)	(1,738,000)
		<u>(36,112,838)</u>	<u>(33,298,391)</u>
Total Net Assets		<u>35,371,502</u>	<u>35,502,963</u>
Reserves			
Income and Expenditure Reserve	20	35,371,299	35,502,740
Share Capital	20	203	223
Total Reserves		<u>35,371,502</u>	<u>36,502,963</u>

The Board of Management approved these Financial Statements and authorised them for issue on 23rd August 2017 and they were signed on their behalf by:

Simon Mountford

Chair

David Pye

Board Member

Julia Mulloy

Secretary

The notes on pages 24 to 46 form part of these Financial Statements

STATEMENT OF CHANGES IN RESERVES for the year ended 31st March 2017

	Note	Income & Expenditure Reserve £	Total £
Balance as at 1st April 2015		31,950,845	31,950,845
Surplus for the Year		3,687,895	3,687,895
Pension (Liability) Movement	24	(136,000)	(136,000)
Balance as at 31st March 2016		35,502,740	35,502,740
Surplus for the Year	20	2,117,559	2,117,559
Pension Actuarial Loss	24	(2,249,000)	(2,249,000)
Balance at 31st March 2017		35,371,299	35,371,299

The notes on pages 24 to 46 form part of these Financial Statements

STATEMENT OF CASHFLOWS for the year ended 31st MARCH 2017

	Note	2017 £	2016 £
Net Cash generated from operating activities	21	9,806,297	8,765,953
Cashflow from Investing Activities			
Purchase of Tangible Fixed Assets		(8,299,396)	(10,767,011)
Proceeds from Sale of Tangible Fixed Assets		331,485	231,644
Grants Received		388,916	3,668,922
Interest Received		25,591	30,810
Net Cash From/(Used in) Investing Activities		(7,553,404)	(6,835,635)
Cashflow from Financing Activities			
Interest Paid		(1,662,607)	(1,710,870)
Payments to Defined Benefit Liability		(547,000)	(563,000)
Loans Repaid		-	(43,200)
Shares (Cancelled)		(20)	(23)
Net Cash (Used In) Financing Activities		(2,209,627)	(2,317,093)
Net (Decrease) in Cash and Cash Equivalents		43,266	(386,775)
Cash and Cash Equivalents at Beginning of Year		7,288,468	7,675,243
Cash and Cash Equivalents at End of Year		7,331,734	7,288,468

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. Scottish Borders Housing Association is a public benefit entity.

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 they comply with the Determination of Accounting Requirements 2015, and are prepared under the historical cost convention, modified to include certain financial instruments at fair value.

The financial statements are prepared in Sterling (£).

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 analysis 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.

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.

Amortisation – Intangible Assets: The Association's assets are written off evenly over their expected useful lives as follows:

Asset Type	Useful Economic Life (Yrs)
IT Software	4

A full year's amortisation is charged on these assets in the year of becoming operational, 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 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 £	2016 £
Affordable Lettings Activities	3	20,669,179	(16,573,626)	4,095,553	5,440,182
Other Activities	4	320,737	(200,628)	120,109	113,264
Total for 2017		20,989,916	(16,774,254)	4,215,662	5,553,446
Total for 2016		20,555,549	(15,002,103)	5,553,446	

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

	2017	2016
	£	£
Rent receivable net of service charges	20,950,530	20,451,246
Management Voids	(315,400)	(375,568)
Service charges	<u>202,840</u>	<u>204,100</u>
Gross income from rents and service charges	20,837,970	20,279,778
Less voids	<u>(502,092)</u>	<u>(380,540)</u>
Net Income from rents and service charges	20,335,878	19,899,238
Grants Released from Deferred Income (Note 17)	110,612	143,077
Grants from Scottish Ministers	222,689	162,785
Other Revenue Grants	<u>-</u>	<u>53,505</u>
Total turnover from social letting activities	<u>20,669,179</u>	<u>20,258,605</u>
Management and maintenance administration costs	5,195,889	4,701,396
Service costs	175,245	185,190
Planned and cyclical maintenance including major repairs cost	4,144,306	2,972,919
Reactive Maintenance costs	2,827,724	3,096,066
Grounds Maintenance	256,358	361,878
Bad debts rents and service charges	351,782	499,797
Depreciation of Affordable Let Properties	<u>3,622,322</u>	<u>3,001,177</u>
Operating Costs for Affordable Letting Activities	<u>16,573,626</u>	<u>14,818,423</u>
Operating surplus for Affordable Letting Activities	<u>4,095,553</u>	<u>5,440,182</u>

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

(b) AVERAGE RENTS

	2017	2016
	£	£
The average weekly rent (48 week basis) per property available to let at the period end was:	77.35	74.29

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

	Total Turnover	Other Operating Costs	Operating (Deficit)/ Surplus	Operating (Deficit)/ Surplus 2016
	£	£	£	£
Other Agency/Management Services	21,176	(36,677)	(15,501)	(9,101)
Factoring	15,895	(6,302)	9,593	6,797
Other Activities	283,666	(157,649)	126,017	115,568
Total from other activities 2017	320,737	(200,628)	120,109	113,264
Total from other activities 2016	296,944	(183,680)	113,264	

Other Activities include commercial lets of £264,218 (2016: £240,544) less related costs of £121,421(2016: £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 2016-17, with nil in the previous accounting period of 2015-16, which require disclosure.

5. ACCOMODATION IN MANAGEMENT

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

	2017	2016
General Needs Housing	5,599	5,584
Homeless Lets	54	54
Mid Market Lets – leased to SBHA Plus	3	3
	5,656	5,641

Stock movements during the year: Disposals: 23 Right to Buy sales. Additions for the year include 34 new builds at Stonefield, Hawick and 4 new builds at Torwoodlee, Galashiels.

6. INTEREST RECEIVABLE

	2017	2016
	£	£
Interest Receivable	25,591	30,810
	25,591	30,810

7. INTEREST PAYABLE AND FINANCE COSTS

	2017 £	2016 £
Loan Interest	1,571,369	1,621,675
Pension scheme Interest	56,000	-
Non-utilisation Fees	86,215	89,195
Arrangement Fees	5,023	-
	<u>1,718,607</u>	<u>1,710,870</u>

8. OPERATING SURPLUS

Operating surplus is stated after charging:

	2017 £	2016 £
Depreciation of Housing Properties (Note 11b)	3,659,410	3,031,905
Depreciation of Other Tangible Assets (Note 11c)	132,788	161,882
Deficit on Disposal of Tangible Fixed Assets (Note 9)	405,087	185,492
Operating Lease Rental (Note 23)	251,459	326,924

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:

	2017	2016
External auditors remuneration:		
Audit Service	24,967	25,660
Non Audit Services for entities related to Auditor	4,244	2,202
	<u>29,211</u>	<u>27,862</u>
Internal Auditors Remuneration	<u>15,923</u>	<u>13,724</u>

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

	Total 2017 £	Total 2016 £
Disposal Proceeds	332,644	231,646
Carrying Value of Fixed Assets	(737,731)	(417,137)
Net loss	<u>(405,087)</u>	<u>(185,491)</u>
Capital Grant Repaid	-	-
(Loss) on Sale	<u>(405,087)</u>	<u>(185,491)</u>

The gross proceeds include the sale of 23 (2016:16) properties under Right to Buy. Future income foregone relating to the current year's sales is £298,976 (2016: £213,259).

The Asset Cost less Depreciation includes the loss on disposal of obsolete housing property component assets £518,851 (2016: £286,989).

10. EMPLOYEES

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

	2017	2016
	£	£
Wages and Salaries	5,119,532	4,992,993
Social Security Costs	475,914	392,316
Defined Contribution Pension costs	610,614	659,442
	<u>6,206,060</u>	<u>6,044,751</u>
Average number employed during the year of full time equivalents (including key personnel) was:		
Directorate and Senior Management	12	11
Supervisory and Administrative	88	87
Tradesmen and other weekly paid	93	97
	<u>193</u>	<u>195</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. During 2017, a voluntary Redundancy Scheme was offered to employees involved in the Property Services Restructure, nine employees took up this offer at a cost to the Association of £138,450.

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:

	2017	2016
£ 60,000 - £70,000	2	-
£ 70,001 - £80,000	1	3
£ 80,001 - £90,000	-	2
£ 90,001 -£100,000	1	-

During the year, 2 Directors (2016:3 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.

	2017	2016
	£	£
Aggregate emoluments for the above key management personnel (excluding pension contributions)	<u>304,034</u>	<u>392,900</u>
The emoluments of the Chief Executive(excluding pension contributions)	<u>93,813</u>	<u>89,111</u>
Aggregate Pension Contributions in relation to the above key management personnel	<u>38,637</u>	<u>41,865</u>

11.A INTANGIBLE ASSETS

	2017 £	2016 £
Cost		
At 1 st April 2016	280,605	102,585
Additions	123,364	178,020
At 31 st March 2017	<u>403,969</u>	<u>280,605</u>
Amortisation		
At 1 st April 2016	(58,889)	(19,191)
Charge for Year	(41,709)	(39,698)
At 31 st March 2017	<u>(100,598)</u>	<u>(58,889)</u>
Net Book Value	<u>303,371</u>	<u>221,716</u>

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 2017 £
Cost				
At 1 st April 2016	76,245,359	892,590	2,861,218	79,999,167
Additions	-	-	2,274,841	2,274,841
Works to Existing Properties	5,876,827	-	-	5,876,827
Transfer to Housing For Let	5,867,972	(865,003)	(5,002,969)	-
Disposals	(1,148,036)	-	-	(1,148,036)
Transfer to Current Assets(Note 13a)	(21,153)	-	-	(21,153)
At 31 st March 2017	<u>86,820,969</u>	<u>27,587</u>	<u>133,090</u>	<u>86,981,646</u>
Depreciation and Impairment				
At 1 st April 2016	(18,332,554)	(56,910)	(57,224)	(18,446,688)
Charge for Year	(3,769,043)	55,071	54,562	(3,659,410)
Disposals	410,302	-	-	410,302
Transfer to Current Assets(Note 13a)	8,876	-	-	8,876
At 31 st March 2017	<u>(21,682,419)</u>	<u>(1,839)</u>	<u>(2,662)</u>	<u>(21,686,920)</u>
Net Book Value				
At 31 st March 2016	<u>57,912,805</u>	<u>835,680</u>	<u>2,803,994</u>	<u>61,552,479</u>
At 31 st March 2017	<u>65,138,550</u>	<u>25,748</u>	<u>130,428</u>	<u>65,294,726</u>

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

EXPENDITURE ON WORKS TO EXISTING PROPERTIES

	2017 £	2016 £
Replacement component spend capitalised	5,995,686	4,312,996
Amounts charged to income and expenditure	4,184,812	3,263,020
Total Major Repairs Spend	<u>10,180,498</u>	<u>7,576,016</u>

The Association's Housing property was independently valued as at 31st March 2017 at £77,255,000 (seventy seven million and two hundred and fifty five thousand pounds) by Jones Lang LaSalle on the Existing Use Value for Social Housing Units (EUV-SH) and £151,544,000 using Market Value Subject to Tenancy (MVT) valuation methods.. 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 and are independent from SBHA. Neither valuation has been recognised in these Financial Statements.

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 280% compared to the 110% required by the lender on EUV-SH basis and 549% compared to 125% on MVT.

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 2016	2,828,245	35,425	147,129	1,347,719	116,770	1,537	4,476,825
Additions	-	-	-	22,075	2,289	-	24,364
At 31 st March 2017	2,828,245	35,425	147,129	1,369,794	119,059	1,537	4,501,189
Depreciation and Impairment							
At 1 st April 2016	(788,674)	(35,425)	(147,129)	(1,325,922)	(86,394)	(1,537)	(2,385,081)
Charge for the year	(79,984)	-	-	(21,858)	(30,946)	-	(132,788)
At 31 st March 2017	(868,658)	(35,425)	(147,129)	(1,347,780)	(117,340)	(1,537)	(2,517,869)
Net Book Value							
At 31 st March 2016	2,039,571	-	-	21,797	30,376	-	2,091,744
At 31 st March 2017	1,959,587	-	-	22,014	1,719	-	1,983,320

Office premises includes 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% (2016: 100%)	General commercial company with an emphasis on housing related activities
Scottish Borders Building Service Ltd	Ordinary	100% (2016: 100%)	Dormant

The income of SBHA Plus in 2017 was £89,057 (2016: £92,185) with costs of £87,446 (2016: £82,725), interest receivable of £21 (2016: £33) resulting in a surplus for the year before tax of £1,632 (2016: £9,493). The net assets of the company as at 31 March 2017 were £18,811 (2016: £17,179).

13. STOCK

- a) At the year end, £12,278 of housing properties were transferred from Tangible Fixed Assets- Housing Properties to properties held for sale and are due for disposal in the coming year .
- b) A stock of materials in relation to responsive repairs is held to the value as at March 2017 of £79,369 (2016: £47,010)

14. DEBTORS

	2017 £	2016 £
Amounts falling due within one year		
Gross Arrears of Rent and Service Charges	1,351,640	1,302,979
Less: Provision for Bad & Doubtful Debts	(753,584)	(734,964)
	<u>598,056</u>	<u>568,015</u>
Other Debtors	44,240	73,310
Prepayments and Accrued Income	1,040,992	1,149,014
SHG Receivable	46,909	-
Deferred Finance Cost	25,112	30,135
Amount due from Subsidiary Company	8,253	-
	<u><u>1,763,562</u></u>	<u><u>1,820,474</u></u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017	2016
	£	£
Accruals and Deferred Income	1,877,810	1,204,061
Rent and Service Charges in Advance	889,113	683,577
Deferred Capital Grants (Note 17)	110,612	91,846
Trade Creditors	1,729,348	1,558,451
Other Creditors	63,430	66,701
Amount due to Subsidiary Company	-	258
Other Taxes and Social Security	13,708	15,644
Debt (Note 16 & 18)	600,000	600,000
	<u>5,284,021</u>	<u>4,220,538</u>

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

	2017	2016
	£	£
Debt (Note 18)	27,000,000	27,000,000
Deferred Capital Grant (Note 17)	4,866,838	4,560,391
	<u>31,866,838</u>	<u>31,560,391</u>
Included in creditors are:		
Amounts repayable other than by instalments	<u>21,000,000</u>	<u>21,000,000</u>

In agreement with SBHA's funders, Lloyds TSB plc, the Loan Facility is advanced and repaid in line with the Association's Business Plan. The loan is tranching to allow borrowing to be spread across a variety of interest rates and facilities. The loan is secured by way of standard securities 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 2017, £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 2017 was 6.05% (2016: 6.18%).

17. DEFERRED CAPITAL GRANT

	2017	2016
	£	£
As At 1 April	4,652,237	1,126,392
Grants Received in the Year	435,825	3,668,922
Capital Grant Released	(110,612)	(143,077)
	<u>4,977,450</u>	<u>4,652,237</u>
Amounts to be released within one year	<u>(110,612)</u>	<u>(91,846)</u>
Amounts to be released in more than one year	<u>4,866,838</u>	<u>4,560,391</u>

18. DEBT ANALYSIS – BORROWINGS

	2017	2016
	£	£
Creditors: Amounts falling due within one year:		
Bank Loans	<u>600,000</u>	<u>600,000</u>
	<u>600,000</u>	<u>600,000</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 (2016: £27,600,000) are secured against the Association's housing properties.

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

	2017	2016
	£	£
Due within one year	600,000	600,000
Due within one to two years	-	-
Due between two and five years	6,000,000	6,000,000
Due in more than five years	<u>21,000,000</u>	<u>21,000,000</u>
	<u>27,600,000</u>	<u>27,600,000</u>
Less due within one year (Note 15)	<u>(600,000)</u>	<u>(600,000)</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 (104 members currently) 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.

	2017 £	2016 £
Shares of £1 issued and fully paid:		
Active Shares at 31 st March 2016	223	245
Relinquished during the period	(26)	(37)
Issued during the period	6	15
Active Shares at 31 st March 2017	203	223

	2017 £	2016 £
a) Unrestricted Reserve		
At 1 st April 2016	37,240,740	33,951,085
Surplus for the Year	2,117,559	3,687,895
Transfer RTB Income to Capital Programme:	-	(398,240)
Transfer to Pension Reserve	259,000	-
At 31 st March 2017	39,617,299	37,240,740

The total deficit for the year amounts to £131,441 (2016: surplus £3,551,895) of which £2,508,000 (2016: £136,000) relating to a deficit on the pension reserve, is disclosed in Note 20(b).

20. SHARE CAPITAL AND RESERVES (Cont.)

	2017	2016
	£	£
b) <i>Pension Reserve</i>		
At 1 st April 2016	(1,738,000)	(1,602,000)
Transfer from Unrestricted Reserves	(259,000)	-
Actuarial (Loss) in Year	(2,249,000)	(136,000)
At 31 st March 2017	<u>(4,246,000)</u>	<u>(1,738,000)</u>

The Pension Reserve represents the Association's share of the deficit that exists within the pension scheme of which it is a member, in accordance with FRS 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 OPERATIONS

	2017	2016
	£	£
Surplus for the year	2,117,559	3,687,895
<i>Adjustment for non-cash items:</i>		
Depreciation of Tangible Fixed Assets	3,833,907	3,233,485
Defined Benefit Pension Schemes	750,000	0
Increase in Provisions	40,161	94,981
Loss on Disposal of Tangible Fixed Assets	405,087	185,492
Release of Deferred capital grant	(110,612)	(143,077)
Interest Receivable	(25,591)	(30,810)
Interest Payable	1,718,607	1,710,870
Operating cash flows before movements in working capital	<u>8,729,118</u>	<u>8,738,836</u>
(Increase)/Decrease in Stock	(32,359)	54,476
Decrease/(Increase) in Debtors	64,821	(272,394)
Increase in Creditors	1,044,717	245,035
Cash Generated from operations	<u>9,806,297</u>	<u>8,765,953</u>
	2017	2016
	£	£
Cash and Cash equivalents represent:		
Cash at Bank	<u>7,331,734</u>	<u>7,288,468</u>

22. CAPITAL COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

	2017 £	2016 £
Capital Expenditure contracted for but not provided in the Financial Statements	<u>2,362,161</u>	<u>2,147,924</u>
Expenditure authorised by the board, but not contracted	<u>9,011,674</u>	<u>6,723,452</u>

The above commitments will be funded through the Associations' current loan facility with Lloyds TSB plc.

23. OPERATING LEASE COMMITMENTS

At 31st March 2017, the Association had total future minimum lease commitments and had made payments under non cancellable operating leases as set out below:-

	2017 Plant & Equipment £	2016 Plant & Equipment £
Within 1 year	189,015	265,162
Between 1-2 years	21,189	158,393
Between 2 – 5 years	15,105	6,205
Total commitment at 31 st March	<u>225,309</u>	<u>429,760</u>
Payments in current year	<u>251,459</u>	<u>265,162</u>

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 £81,365 (2016: £70,354).

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 total pension cost charge for the year amounted to £610,614 (2016: £659,442). At 31st March 2017, the Association had no pension contributions outstanding (2016: nil).

24. PENSION COMMITMENT (Cont.)

Employees' contributions are fixed by statute for SBHA employees. According to the following scale for the year ended 31st March 2017:

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.

Employer's basic contributions are assessed every 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 2017. This calculation was based on rolling forward valuation data as of 31st March 2014 on the basis of a number of financial assumptions that comply with FRS102. The projected unit method of valuation was used to calculate the service cost. The main financial assumptions used included:

Assumptions as at 31 st March	2017	2016
	%	%
RPI increases	3.40	3.15
CPI increases	2.40	2.15
Salary Increases	3.40	3.15
Pension Increases	2.40	2.15
Discount Rate	2.85	3.80

The expected return on assets is based on the long-term future expected investment for each asset class as at 31st March 2017.

Assumed life expectancies from age 65 are:-

		Years
Retiring today	Males	22.9
	Females	23.8
Retiring in 20 years	Males	25.2
	Females	26.1

24. PENSION COMMITMENT (Cont.)

Assets (Employer)	31.03.17	31.03.16
Equities	70%	66%
Gilts	2%	2%
Other Bonds	8%	9%
Property	5%	6%
Cash	0%	0%
Multi Asset Fund	15%	17%
Total	100%	100%

Net Pension (Liability)/Asset as at	31st March 2017 £'000	31st March 2016 £'000	31st March 2015 £'000	31st March 2014 £'000	31st March 2013 £'000
Fair Value of Scheme assets	31,163	25,634	25,416	22,417	20,766
Present value of Funded obligation	(35,409)	(27,372)	(27,018)	(21,854)	(19,571)
Net Pension (Liability) /Asset	(4,246)	(1,738)	(1,602)	563	1,195

Amount recognised in Income & Expenditure Account

	31st March 2017 £'000	31st March 2016 £'000
Service Cost	736	741
Net Interest on the Defined Liability	56	46
Administration Expenses	14	15
Total	806	802

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

	31st March 2017 £'000	31st March 2016 £'000
Opening Defined Benefit Obligation	27,372	27,018
Service Cost	736	741
Interest Cost	1,032	935
Change in Financial Assumptions	6,705	(706)
Estimated Benefits paid (net of transfers in)	(607)	(823)
Contributions by Scheme participants	171	207
Closing Defined Benefit Obligation	35,409	27,372

24. PENSION COMMITMENT (Cont.)

Reconciliation of opening and closing balances of the fair value of Scheme assets	31st March 2017 £'000	31st March 2016 £'000
Opening fair value of Scheme assets	25,634	25,416
Interest on Assets	976	889
Return on Assets Less Interest	4,456	(603)
Other Actuarial gains/(losses)	-	-
Administration Expenses	(14)	(15)
Contributions by employer (including unfunded)	547	563
Contributions by Scheme participants	171	207
Estimated benefits paid (net of transfers in and including unfunded)	(607)	(823)
Fair value of Scheme assets at end of period	<u>31,163</u>	<u>25,634</u>

Projected pension expense for year to 31st March 2018

	Year to 31st March 2018 £000's
Service cost	878
Net Interest on the defined liability / (asset)	114
Administration expenses	17
Total	<u>1,009</u>
Employer Contributions	<u>£000's £519</u>

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31st March 2017.

These projections are based on the assumptions as at 31st March 2017, as described earlier.

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, William Elliot, Michael Grieve, Julie Black and Robin Cowan are also Tenants of the Association. During the year £19,149 (2016: £20,295) of rent was receivable from these tenant members. At the year end there was £336 (2016: £0.50) of rent arrears and £345 credit due to/ 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 (2016: £Nil) 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 (retired 21/09/16), Marlen Jones and Simon Mountford.

Carly Stewart, the Director of Finance 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 2017 SBHA recharged SBHA Plus Ltd the sum of £67,306 (2015-16: £75,575) 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 2017 was £8,253 (2015-16: £649).

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 2017.

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 2016 or 2017.

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 2016-17 amounted to £66,942 (2016: £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 2016-17, the Association's total expenditure on Tenant Participation was £55,392 (2016: £51,194).