



SCOTTISH BORDERS HOUSING ASSOCIATION
REPORT AND FINANCIAL STATEMENTS
For the year ended 31 March 2018

“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

Elected Board Members

Marlen Jones

Michael Grieve

Julie Black

Ian MacDonald (Re-elected 21.09.17)

John Paton-Day (Resigned 29.03.18)

David Pye (Appointed to a casual vacancy 21.09.17)

Allen Tills (Elected 21.09.17)

Robin Hill (Re-elected 21.09.17)

Appointed Board Members

Simon Mountford (Appointed 10.05.17)

Andrew Limmer (Appointed 20.10.17)

Ian McDonald (Appointed 20.10.17)

Tenant Shareholder Board Members

Robin Cowan (Resigned 21.09.17)

William Elliot (Removed 17.06.17)

Council Nominee Board Members

Vicky Davidson (Stood Down 04.05.17)

Simon Mountford (Stood Down 04.05.17)

Bill Herd (Stood Down 04.05.17)

Secretary to the Association

Julia Mulloy Chief Executive (Secretary to 21.09.17)

Carly Stewart Director of Finance (Secretary from 21.09.17)

Executive Team

Julia Mulloy Chief Executive

Carly Stewart Director of Finance

Maria Lyle Director of Customer Services

Pamela Nichol-Littlejohn Director of Business Support

Henry Coyle Director of Assets and Property Services

Board of Management, Executive Officers and Advisers (continued)

External Auditor

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

Internal Auditor

Scott Moncrieff
25 Bothwell Street
Glasgow
G2 6NL

Solicitors

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

Bankers

Lloyds TSB Bank plc
3rd Floor
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London
EC2V 7HN

Registered Office:

South Bridge House
Whinfield Road
Selkirk
TD7 5DT

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

Strategic Report of the Board of Management

The Board of Management of Scottish Borders Housing Association Ltd (“the Association” or “SBHA”) has pleasure in submitting its report and the audited Financial Statements for the year ended 31 March 2018. 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 31 March 2018, 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 3 March 2003 commenced trading. The Association is a charitable organisation and manages some 5,636 rented and 145 factored homes as well as 1,262 non-housing units.

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 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.

3.0 GOVERNANCE

A fundamental review of SBHA’s governance was completed and implemented in the year with a change to the overall governance structure, as well as size and composition of the Board of Management. From the September 2017 AGM, the Association has been governed by a skills based Board of Management comprising up to 4 Appointed Members and up to 8 Elected Members (of which 4 are Tenant and 4 non-Tenant). Governance is supported by 3 Sub-Committees (Audit and Compliance, the Customer Board and Remuneration and Nominations). The Customer Board comprises 5 Board Members and 3 Independent 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 driven by SBHA’s Tenant Engagement Strategy. 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 is governed by SBO and has proven to be a practical and effective tool to ensuring Tenants shape SBHA’s services.

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

5.0 REVIEW OF BUSINESS PLAN AND FUTURE STRATEGY

SBHA’s 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 commenced with a Board away-day in October 2017 to discuss progress of the Strategic plan projects and re-align priorities as well as identify key financial risks and opportunities. Tenant roadshows throughout SBHA’s main communities were held to discuss rents and gauge priorities for spend. The updated plan was finalised and approved in February 2018, with a focus to ensure key financial risks and service improvements are mitigated and supported by increasing resource.

SBHA Strategies approved by the Board of Management in the year:

- Tenant Engagement Strategy was reviewed and developed in conjunction with SBTO.
- People Strategy was developed with input from the Leadership team and Employee Strategy Group.
- IT Strategy was reviewed with input from the Leadership team
- Treasury Management Strategy with JCRA, SBHA’s treasury advisors.

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



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

The Tenant and Community Engagement Strategy 2017-20 seeks to contribute towards the achievement of SBHA’s Strategic Objective of “Listening to Tenants and Communities to Innovate and Improve”. It supports the delivery of the identified Strategic Project to ‘Increase Tenant Satisfaction’ with an action plan of 23 actions across 6 themes. Key satisfaction indicators in the year were disappointingly low and as part of the drive to improve in this area, more frequent satisfaction surveys will be commissioned in 2018. This will highlight at an earlier stage the results from the Tenant insight, allowing SBHA to be more agile in its response to improve.

SBHA’s Community Team model has developed and embedded the principles of its design. Established estate walkabouts, increased working out in their communities, and starting to utilise the first phase of mobile working technologies, is reducing processing time. In the year, two significant roadshow campaigns were led by the teams across SBHA’s main towns, with initial themes being to promote and shape SBHA’s Governance, Allocations and Neighbourhood services. These fish supper events were held in local venues, with the teams being supported by the Tenant Participatory Advisory Service (TPAS). This was followed by Roadshows consulting on rent increases and gauging feedback on investment priorities, to ensure the budget and more detailed neighbourhood business plans reflected Tenant needs.

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 2017-18 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. A fundamental rent policy review commencing in 2018 will aim to ensure the above objectives are met and ongoing increases meet current and future customer and business needs. This will build on initial positive findings from the outputs of utilising the SFHA rent affordability tool launched in 2017.

Implementation of SBHA’s re-organisation has been established for over a year and the benefits of the change are transpiring in better outcomes. The Solutions team provide a centralised call handling and administration service which is improving communications with Tenants, supported by the CRM system, to ensure a clear history of contact and actions are maintained.

Improved customer complaint handling indicates a strength of this model, with the number of complaints reducing and times to respond much improved.

A Customer Excellence Group was established in the year as a 2nd phase and to continue momentum from the Organisation wide Customer Excellence learning and development programme. The group, a joint partnership between SBHA teams and Tenants, aim to improve the customer experience by focusing on key service delivery improvements. Outcomes from this and other business initiatives will be relayed back to customers as part of SBHA's "You said We did" features.

SBHA WILL CREATE GREAT PLACES TO LIVE

Year 1 of the new 6 year Planned Maintenance Plan saw investment of £7.9m, with a huge presence in these 2 patches covered, early success of the impact of this plan is highlighted in Tenant feedback with some indications of shifts in responsive repair trends and volumes.

SBHA will invest in the region of £7.4m over the next 2/3 years to ensure maximum compliance with the Energy Efficiency for Scottish Social Housing (EESH) 2020 target. In the year compliance with the standard was raised to 61.1%. Good procurement is key to this, as is programme management to this complex area, in order to ensure that, the overall planned maintenance budget is spent, provides value for money and underspends are minimised.

The strategic aim to reduce reactive maintenance by increasing proactive cyclical maintenance programmes is supported by the identification of an annual budget, the Great Places Fund. Criteria were developed and spend of this fund along with estate improvement funds devolved to Community teams has commenced a commitment to raise the standard of the environment in SBHA's communities, which tenants have told us is one of their highest priorities. A newly established gutter cleaning programme in line with the 6 year plan, has also provided early benefits, with it reducing the potential impact of the snow this winter.

The SBHA Standards for Property Improvement Works and Managing Neighbourhoods was developed with SBTO to extend beyond the home to include Neighbourhoods and the wider environment. It was modernised to reflect current priorities that Tenants say are important to them and will be implemented at the start of 2018-19.

Following a fundamental review in 2016 of the governance and management of all Health and Safety matters, new processes and arrangements have continued to be embedded. A new action plan was formed after a mini-review and this was acknowledged, along with progress achieved in an internal audit, which provided assurance to SBHA's Governance. Particular improvements are in the strength of the newly procured contract for Gas service and maintenance.

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 6 years. Since 2013 SBHA has built 59 new homes, and committed to a further 35 homes for development over the next year, as well as evaluating opportunities for land acquisitions. Extensive works in difficult to let and unlettable properties have been successful with a further 12 properties in Stonefield being progressed in 2017.

SBHA WILL INSPIRE AND DEVELOP OUR PEOPLE TO MAKE CHANGE HAPPEN

SBHA's five year People Strategy was approved with a focus on the following:

- Strengthening a culture of commitment to the Association's customers, vision and values, where diversity is valued highly;
- Sustaining a happy, healthy and motivated workforce with high performance levels;
- Developing flexible working practice and rewards;
- Equipping the Association with the right people in the right place at the right time.

A number of projects from the strategy action plan were completed through the year, which will support these aims and also to sustain SBHA's Investors in People and Investors in Young People Accreditation. This is supported by colleagues having a number of opportunities to provide feedback and shape change through their involvement in the Employee Strategy, Healthy Working Lives and the Customer Excellence Groups, as well as other ad-hoc projects.

Supporting the theme to ensure SBHA is equipping its people, an extensive programme of learning and development activities were undertaken, led by personal plans. These ranged from CDM compliance to lone working & personal safety, to equalities & diversity as well as individual knowledge based learning.

SBHA's Leadership Development Programme, for both the Executive Team and the wider Leadership Team, ran throughout 2017. This included both workshop style learning in the form of masterclasses and coaching sessions, with some key principle strands which have been adopted by SBHA to support its customer first approach by empowering front line colleagues – The "Customer Back Model".

The People Survey was designed and rolled out in the year. The findings from this survey were received at the end of the year and initially shared with SBHA's Board of Management and SBHA's Leadership Team, who are developing a plan of activities for improved engagement going forward.

SBHA is in the final stages of the project of considering its working practices and rewards, having worked with an external pay specialist to review links between job roles, the grading structure and pay.

SBHA WILL DELIVER EXCELLENT VALUE FOR MONEY

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 180 Tenants are in receipt of Universal Credit (UC), with attributing arrears of £48,000 (full roll out in the Scottish Borders will commence in June 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 as well as learning from those who have gone through roll-out. Trusted Partnership Status was given by the DWP, which gives SBHA access to the landlord portal.

An impact assessment of the roll out of Universal Credit has been undertaken with scenarios indicating SBHA could suffer a cash flow impact of increased arrears of c.£120,000. To mitigate this, the budget includes 2 extra Housing Officers and an increase to the budgeted level of bad debts.

As part of the 2018-19 Rent Increase consultation, a survey was carried out in the year by telephone, newsletters and the Roadshows highlighted above, which provided positive feedback on SBHA's proposed increase and rent levels with 85% of tenants agreeing that SBHA provided value for money. Tenants also continued to support a rent freeze on bedsit accommodation, in response to providing affordable homes for younger and older customers and to increase desirability of this property type.

Cost benchmarking highlighted that overall SBHA's costs positively vary from the median to upper quartile of its peer group. Being a member of Housemark and its "Haymarket Group" has given SBHA a tool to make effective business decisions on value for money. For instance, where costs were lower and service outcomes require to improve, resources have started to be re-aligned in the budget and Business Plan.

Continued focus on providing value for money through SBHA's in-house contractor, Property Services, has meant that reactive repair budgets were reduced and inflationary increases were not passed on. The realignment of resources to operational requirements have improved financial performance.

Utilising frameworks has identified savings in procuring materials, allowing the cost saving to be passed on to SBHA's Planned Maintenance Programme. This has been important when faced with other challenging costs. Procurement will continue to be an important aspect of value for money and in 2018 an increase in the number of longer term contracts will be put in place, especially around the delivery of Planned Maintenance and EESSH.

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 £540,000 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, 24 Tenants have secured full time jobs and 20 have completed a work placement. The project has also supported 3 Tenants into apprenticeships and a further 4 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 2018-19.

Other activities continued throughout the year with a carry over of Big Lottery funding, and further match funding from SBHA and SBC to enable continuation of the Transitions Project until March 2019 at Albert Place, Galashiels.

6.0 KEY PERFORMANCE INDICATORS 2017-18

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 below.

PERFORMANCE	ACTUAL 2017-18	ACTUAL 2016-17	TARGET
Current Arrears (as at rent year end)	£859,678	£816,737	<£800,000
Rent Collection %	98.31%	99.79%	98.80%
Gross Arrears as a % of Rent Due	7.56%	7.32%	7.16%
Lettable Stock Void Loss %	1.86%	1.99%	1.35%
Average days to let empty homes	57	52	34
Ave Time to Complete Emergency Repairs (hrs)	2.17hrs	3.42hrs	1.73hrs
Average days for non- emergencies	6.7	8.7	6
First Time Fix (Repairs)	89%	82%	90%
Net Debt per Unit	£3,501	£3,637	£6,318
Interest Cover	4.39	4.59	1.59
Staff Attendance	95.26%	94.05%	>96%

Rent Collection: There has been a reduction in rent collection during the year. Reflecting this, gross rent arrears have increased as a result. Although the number of tenants in arrears has reduced, the value of arrears has increased. A number of factors have been identified that have contributed to this increase including an increase in Universal Credit (UC) with an average arrear equivalent to 3 weeks rent. Enforcement action due to arrears has also increased in the year reflecting increasing arrears levels, including an increase in notice of court proceedings issued and court actions initiated. The level of Former Tenant arrears written off was due to an extensive exercise carried out during the year to identify historical debt deemed unrecoverable.

With the roll-out of Full Service UC due in June 2018, additional investment has been made in front-line resources again this year to mitigate and manage the impact of this. Recognising that SBHA remains in the bottom quartile for rent arrears, continued improvements in rent collection will remain a key focus during the forthcoming year.

Empty Homes Management: The management of empty homes has steadily improved over the year, despite the increase in average days, which related to letting long term empty homes. The 2-year Empty Homes Strategy 2017 and Action Plan was introduced in the year with a focus on responding to changing market demands and aspirations, as well as improving working practices in the management of empty homes. Indicators relevant to this service area show that improvements are being achieved, including the reduction in the number of empty homes (including longer term empty homes); reduced rent loss as a result; reduced tenancy turnover; increasing tenancy sustainment and increased Tenant Satisfaction with the property condition when moving in.

Repairs & Maintenance: The number of reactive repairs reduced in the year (down from 18,730 last year to 13,411) reflecting the benefits of programmes of cyclical and improvement works undertaken, as well as work undertaken during the year to accurately record and report on repair requests in accordance with the Technical Guidance.

Emergency repairs have significantly reduced from 4,028 to 2,947 and the time taken to complete these has reduced to 2.17hrs and is well within the locally agreed target agreed with Tenants of 4 hours. Non-emergency repairs performance has also improved, down from an average time taken of 8.7 days the previous year to 6.65 days and Right First Time has also improved (up to 89% from 82% the previous year). This reflects the focus on improving these areas after a dip the previous year.

Appointments kept have reduced, however, down from 95.42% to 94.24%. Severe weather in the latter part of the year and responding to resultant emergencies, as well as restrictions to travel caused by snow impacted on performance in honouring some appointments. The Tenant Satisfaction Survey 2017 feedback highlights this as a key driver to improving satisfaction with the service and continuous improvements in this service being pursued in the coming year. A review of the Repairs and Maintenance Policy is currently underway in consultation with Tenants.

Bank Covenants: The reported Net Debt per Unit and Interest Cover as at 31 March 2018 were comfortably within levels agreed SBHA's funder. Both indicators remain below the covenant due to expenditure requirements to draw down further debt being delayed into 2018. Maximising spend on investment in current homes and New Build budgets, whilst attaining value is an Organisation wide focus for SBHA.

Employee Attendance: Absence has reduced this year and is at the lowest it has been over the last 5 years, reflecting the continuing trend from the end of the previous year and the increased & consistent absence management throughout the Organisation.

SECTION 2 – 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 is provided by Lloyds TSB Bank plc ('The Funder') in the form of a loan facility of £43m. The facility is split between a £33m term facility and £10m Revolving facility based on LIBOR ('London Inter Bank Offered Rate') and no amounts were drawn in the year.

In November 2012, Lloyds TSB Bank plc transferred a part of its rights to SBHA's Loan Facility to Scottish Widows, a subsidiary of the Lloyds Banking Group. This transfer was part of a Lloyds Banking Group strategy to align long term liabilities and assets, to allow Lloyds TSB Bank plc to free up short term liquidity.

At 31 March 2018, SBHA complied fully with all its Loan Covenants.

2.0 STATEMENT OF COMPREHENSIVE INCOME (SOC) 2017-18

Annual Turnover increased 4.6% to £21.96m 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 3.2% from previous year levels. A reduction of 13% of total voids is offset by a reduction of 18 properties through Right to Buy and reconfiguration during the year which also accounts for the increase in turnover.

Operating Costs increased from £16.8m to £17.4m during the year, an increase of 3.7%. The most significant increase was expenditure in relation to Planned and Cyclical maintenance costs rising by 6.2% and in cash terms when adding back those components capitalised £940,000 (9.2%) as highlighted in note 11b. This reflects efforts to ensure the budgeted programme is fulfilled and a reduction to future carry overs of improvements, but as explored in the KPI's this still requires improvement.

Reactive Maintenance costs reduced for the 2nd year, by £115,000, 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. Grounds Maintenance did increase by £94,000 and is expected to reduce again in future years, after a programme to ensure all areas of SBHA land were brought to a maintainable standard.

Management and maintenance administration costs have steadily increased during the year by £228,000 mainly due to an increase of £120,000 relating to the element of the LGPS Pension Scheme cost that is expensed under FRS 102 reporting; Bad Debt expense increased due to an increase in arrears falling to former Tenants and the value of current arrears in higher bandings.

This year a loss on sale of housing properties and land was achieved of £27,046 opposed to last years gain of £113,765. The final 12 Right to Buy sales were achieved opposed to 23 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 £777,336 (2017: £508,244), giving a net loss on sale of £803,223 (2017: £405,087).

The average rate of loan interest payable slightly increased to 6.25% (6.05%).

3.0 STATEMENT OF FINANCIAL POSITION (SFP) AS AT 31 MARCH 2018

At 31 March 2018, the Association showed a positive Statement of Financial Position where assets exceeded liabilities, including the Local Government Pension Scheme liability. 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 (m) on page 27, where it is deemed to extend the useful life of the property or provides an enhancement of economic benefits or the component is replaced), is capitalised and added to the original cost of that property rather than being treated as an expense.

The Association showed net current assets at 31 March 2018 where those assets are generally able to be realised within one year, exceeded liabilities generally payable in the same period. The liquidity ratio for 2018 was 1.65 (2017 1.74).

At 31 March 2018, the Association owned 5,639 properties against 5,656 at 31 March 2017, 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 decreased from £4,246,000 in 2016-17 to a liability of £286,000 in the year. The report is based on a triennial valuation at 31 March 2017 rolled forward, the main impact on the falling deficit was the increasing corporate bond rate which determines the discount rate used for determining liabilities and a small decrease in inflation assumptions also having an decreasing impact on liabilities. The decrease in liabilities is 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 £8.1 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 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.

The Scottish Housing Regulator reviewed SBHA's Treasury Management in March 2018 and were provided with assurance about SBHA's approach and highlighted the strengths of its treasury functions in respect of the Regulatory Standards of Governance and Financial Management.

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 31 March 2017 and, following this valuation, SBHA's employer's contributions have been set at 20.3% of pensionable pay with effect from 1 April 2018. The Association recognises a Net Pension liability of £286,000 (2017: £4,246,000) at 31 March 2018.

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 1 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.

SECTION 3 – CONTROLS

1.0 BOARD OF MANAGEMENT AND EXECUTIVE OFFICERS

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

Each Board Member holds one fully paid, non refundable share of £1 in the Association. The Board of Management have no beneficial interest in the Association's share capital. The Chief Executive and the Directors of the Association also have no beneficial interest in the Association's share capital and they act within the authority delegated by the Board of Management.

Statement of Board of Management's Responsibilities under Co-operative and Community Benefit Societies (CCBS) Act 2014 for a Registered Social Landlord

The Co-operative and Community Benefit Societies Act 2014 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 December 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 - is the specialist Sub-Committee with responsibility 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.

Customer Board – is the Sub-Committee responsible for overseeing the joined up customer experience delivered by SBHA. This includes actively promote and monitor the delivery of good customer care and tenant satisfaction in all areas of service delivery; monitoring performance relating to voids, rent arrears, repairs, the Planned Maintenance Programme, anti-social behaviour, and overall Tenant satisfaction; review the output of the Customer Audit Team's Scrutiny Projects; ensure that any new developments meet customer and housing need in order to inform the investment decisions of the Board.

Remuneration & Nominations Sub-Committee - has a limited remit to oversee Chief Executive pay, Governance nominations and succession planning, and urgent staffing issues.

Board of Management's Statement of Internal Financial Controls

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.

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 2018;
- 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 20 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, Human Resources, Customer Services and Assets & Property 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 Policy. The Executive team meets on a regular basis to assess Strategic and key Operational 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 8.

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 2018. 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.

SBHA's Board of Management have commenced a Self-Assessment review against the Scottish Housing Regulation Standards and have established a working group to assess the remaining standards in 2018.

2.0 RISK MANAGEMENT

A review of SBHA's risk management was undertaken in the year, with the framework of policy and procedures being updated. This identified 8 Strategic risks, with 26 operational risks/causes being recognised, monitored and controlled. The principal risks 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. The Top 3 risk areas currently identified are:

STRATEGIC RISK	OPERATIONAL RISK/CAUSE	MITIGATING ACTIONS
<p>FINANCIAL</p> <p><i>Fail to manage our finances effectively</i></p>	<ul style="list-style-type: none"> • Significant reduction in income due to Universal Credit • Costs increase above inflation • Major variance from budget in Capital Developments and PMP • Unable to secure affordable loan funding in line with long term financial planning • SBHA is the victim of fraud 	<ul style="list-style-type: none"> • Governance of detailed management accounts, monthly/Qrtly; Covenant compliance • Realistic Business Plan assumptions/stress testing • Bad Debt and working capital increases; Engage with DWP • Non lettable and lettable void action plan • Retention of Treasury advisor; Financing review • Internal controls; Cyber security review
<p>CONFIDENCE & TRUST</p> <p><i>Fail to build and maintain an environment of trust</i></p>	<ul style="list-style-type: none"> • Fail to effectively communicate and engage with Tenants and take effective action • Fail to understand expectations and take effective action • Failure to manage health & safety effectively 	<ul style="list-style-type: none"> • Customer Excellence Groups focussing on service improvement • Health and Safety action plan in place; • Key roles in place • Suite of Policies around conduct/values/fraud & theft etc • Communications Strategy • Implement Tenant Engagement Strategy
<p>ORGANISATIONAL</p> <p><i>Inability to design and implement effective improvement strategies</i></p>	<ul style="list-style-type: none"> • Inability to adapt to changing skill set requirements • Ineffective succession planning arrangements • Ineffective performance management of our teams and individuals 	<ul style="list-style-type: none"> • Implemented change programme, Org design and CRM software • Increased Tenant engagement/consultation • Customer Excellence Groups focussing on service improvement • Asset Management Strategy being actioned - EESSH, 6 year plan • Reviewed SBHA Standard and increased cyclical regimes • Property Services, budgets realigned, resources

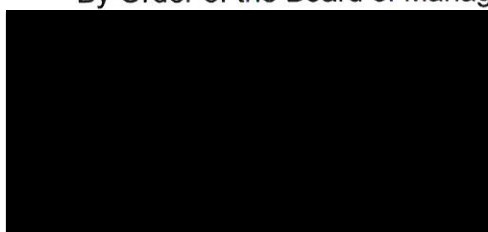
3.0 GOING CONCERN

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.

4.0 EXTERNAL AUDITORS

RSM UK Audit LLP were re-appointed as auditors following a retendering process in 2016. The contract is for a period of 3 years plus the option to extend for a further 2 years subject to satisfactory performance and will be subject to annual approval at the AGM of SBHA.

By Order of the Board of Management



Date: 23 August 2018

Independent Auditor's Report to the Members of the Scottish Borders Housing Association registered under the Co-operative and Community Benefit Societies Act 2014

Opinion

We have audited the financial statements of Scottish Borders Housing Association (the 'Association') for the year ended 31 March 2018 which comprise the statement of comprehensive income, statement of financial position, statement of changes in reserves, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

Responsibilities of the Board

As explained more fully in the Board's responsibilities statement set out on page 13, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of this report

This report is made solely to the Association's members as a body, in accordance with Part 7 of the 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: 24 August 2018

Report by the Auditors to the Members of Scottish Borders Housing Association on Corporate Governance Matters

In addition to our audit of the Financial Statements, we have reviewed your statement on Pages 14 and 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 pages 14 and 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
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: 24 August 2018

Statement of Comprehensive Income

	Note	2018 £	2017 £
Turnover	2	21,961,307	20,989,916
Operating Expenditure	2	<u>(17,389,144)</u>	<u>(16,774,254)</u>
Operating Surplus	2, 8	4,572,163	4,215,662
(Loss) on disposal of property, plant and equipment	9	(803,223)	(405,087)
Interest receivable	6	15,955	25,591
Interest payable and financing costs	7	<u>(1,844,600)</u>	<u>(1,718,607)</u>
Surplus for the Year		1,940,295	2,117,559
Actuarial gain/ (loss) in respect of Pension Schemes	21	<u>4,397,000</u>	<u>(2,249,000)</u>
Total Comprehensive Income/(Expenditure) for the Year		<u>6,337,295</u>	<u>(131,441)</u>


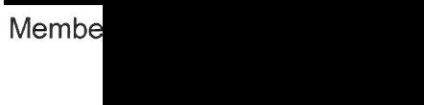
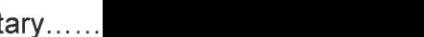
The results relate wholly to continuing activities.

The accompanying notes on pages 24 to 47 form part of these financial statements.

Statement of Financial Position

	Note	2018 £	2017 £
Fixed Assets			
Intangible Assets	11a	238,215	303,371
Housing Properties – Depreciated Costs	11b	67,844,262	65,294,726
Other Fixed Assets	11c	1,973,749	1,983,320
Investment in Subsidiary Company	12	1	1
		<u>70,056,227</u>	<u>67,581,418</u>
Current Assets			
Properties Held for Sale	13	15,974	12,278
Stock	14	114,623	79,369
Trade and Other Debtors	15	1,745,331	1,763,562
Cash and Cash Equivalents		<u>8,174,333</u>	<u>7,331,734</u>
		<u>10,050,261</u>	<u>9,186,943</u>
Current Liabilities			
Creditors: Amounts falling due within one year	16	<u>(6,092,361)</u>	<u>(5,284,021)</u>
Net Current Assets		<u>3,957,900</u>	<u>3,902,922</u>
Total Assets less Current Liabilities		<u>74,014,127</u>	<u>71,484,340</u>
Creditors: Amounts falling due after more than one year	17	(32,019,342)	(31,866,838)
Pension Liabilities:			
Defined Benefit Pension Liability	25	<u>(286,000)</u>	<u>(4,246,000)</u>
		<u>(32,305,342)</u>	<u>(36,112,838)</u>
Total Net Assets		<u>41,708,785</u>	<u>35,371,502</u>
Reserves			
Income and Expenditure Reserve	21	41,708,594	35,371,299
Share Capital	21	<u>191</u>	<u>203</u>
Total Reserves		<u>41,708,785</u>	<u>35,371,502</u>

The Board of Management approved the Financial Statements on pages 20 to 47 and authorised them for issue on 23 August 2018 and they were signed on their behalf by:

Simon Mountford	Chair	
Robin Hill	Board Member	
Carly Stewart	Secretary	

Statement of Changes in Reserves

	Note	Income & Expenditure Reserve £	Total £
Balance as at 1 April 2016		35,502,740	35,502,740
Surplus for the Year		2,117,559	2,117,559
Pension Actuarial (Loss)	25	<u>(2,249,000)</u>	<u>(2,249,000)</u>
Balance as at 31 March 2017		35,371,299	35,371,299
Surplus for the Year	21	1,940,295	1,940,295
Pension Actuarial Gain	25	<u>4,397,000</u>	<u>4,397,000</u>
Balance at 31 March 2018		<u><u>41,708,594</u></u>	<u><u>41,708,594</u></u>

Statement of Cashflows

	Note	2018 £	2017 £
Net Cash generated from Operating Activities	22	<u>10,040,227</u>	<u>9,806,297</u>
Cashflow from Investing Activities			
Purchase of Tangible Fixed Assets		(7,349,558)	(8,299,396)
Proceeds from Sale of Tangible Fixed Assets		168,802	331,485
Grants Received		147,785	388,916
Interest Received		<u>15,955</u>	<u>25,591</u>
Net Cash From/(Used in) Investing Activities		<u>(7,017,016)</u>	<u>(7,553,404)</u>
Cashflow from Financing Activities			
Interest Paid		(1,729,600)	(1,662,607)
Payments to Defined Benefit Liability		(451,000)	(547,000)
Loans Repaid		-	-
Shares (Cancelled)		<u>(12)</u>	<u>(20)</u>
Net Cash (Used In) Financing Activities		<u>(2,180,612)</u>	<u>(2,209,627)</u>
Net Increase in Cash and Cash Equivalents		<u>842,599</u>	<u>43,266</u>
Cash and Cash Equivalents at Beginning of Year		<u>7,331,734</u>	<u>7,288,468</u>
Cash and Cash Equivalents at End of Year		<u>8,174,333</u>	<u>7,331,734</u>

Notes to the Financial Statements

1. STATEMENT OF ACCOUNTING POLICIES

a) 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.

b) 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 2014, and are prepared under the historical cost convention, modified to include certain financial instruments at fair value. The financial statements are prepared in Sterling (£).

c) Accounting Estimates and Areas of Judgement

Preparation of the financial statements requires management to make critical judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included below:

- Valuation of housing property – see m) Fixed Assets – Housing Land & Buildings
- Useful lives of housing property – see n) Depreciation – Housing Properties
- Components of housing properties – see m) Fixed Assets and n) Depreciation
- The measurement of the recoverable amount of assets for impairment reviews – see q) Impairment of Fixed Assets
- Recoverable amount of rent arrears and other debtors – see d) Financial Instruments
- Pension provision – see cc) Pension Schemes

d) 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.

e) 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.

f) Turnover

Turnover represents:

- Rental and Service Charge income (net of voids); and
- Fees and other types of income as shown in Notes 3 and 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.

g) 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.

h) 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.

i) Investments

Long term investments are classified as fixed assets. Subsidiary undertakings are stated at cost in the Statement of Financial Position.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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

A full year's depreciation is charged on these components in the year of purchase, but no charge is made in the year of disposal. Land is not depreciated.

o) 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.

p) 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. Amortisation is charged to operating costs in the Statement of Comprehensive Income.

q) 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.

r) 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.

s) Major Repairs

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.

t) 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.

u) 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.

v) 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.

w) 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.

x) 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.

y) Taxation

The Association is a registered charity and is generally not subject to Corporation Tax, either on its income or on any capital gains.

z) 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.

aa) Other Income

Interest Income is accrued on a time-apportioned basis, by reference to the principal outstanding at the effective interest rate.

bb) 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.

cc) Pension Schemes

Defined Benefit Scheme

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.

Defined Contribution Scheme

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.

dd) Provisions

Provisions are recognised when the Association 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.

2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

	Note	Turnover £	Operating Costs £	Operating Surplus £	2017 £
Affordable Lettings Activities	3	21,565,372	(17,174,505)	4,390,867	4,095,553
Other Activities	4	395,935	(214,639)	181,296	120,109
Total for 2018		21,961,307	(17,389,144)	4,572,163	4,215,662
Total for 2017		20,989,916	(16,774,254)	4,215,662	

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

	Note	2018 £	2017 £
Rent receivable net of service charges		21,361,458	20,635,130
Service charges		204,757	202,840
Gross income from rents and service charges		21,566,215	20,837,970
Less voids		(479,427)	(502,092)
Net Income from rents and service charges		21,086,788	20,335,878
Grants Released from Deferred Income	18	176,275	110,612
Grants from Scottish Ministers		302,309	222,689
Total turnover from social letting activities		21,565,372	20,669,179
Management and maintenance administration costs		5,424,269	5,195,889
Service costs		245,485	175,245
Planned and cyclical maintenance including major repairs cost		4,399,816	4,144,306
Reactive Maintenance costs		2,712,855	2,827,724
Grounds Maintenance		350,990	256,358
Bad debts rents and service charges		376,287	351,782
Depreciation of Affordable Let Properties		3,664,803	3,622,322
Operating Costs for Affordable Letting Activities		17,174,505	16,573,626
Operating surplus for Affordable Letting Activities		4,390,867	4,095,553

SBHA owns no other accommodation except for General Needs Housing Accommodation and 3 homes for Mid Market rent leased to SBHA Plus Limited.

3(b) AVERAGE RENTS

	2018 £	2017 £
The average weekly rent (48 week basis) per property available to let at the period end was:	79.73	77.35

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

	Total Turnover £	Other Operating Costs £	Operating (Deficit)/ Surplus £	Operating (Deficit)/ Surplus 2017 £
Other Agency / Management Services	20,970	(36,951)	(15,981)	(15,501)
Factoring	16,375	(10,539)	5,836	9,593
Other Activities	358,590	(167,149)	191,441	126,017
Total from other activities 2018	395,935	(214,639)	181,296	120,109
Total from other activities 2017	320,737	(200,628)	120,109	

Other Activities include commercial lets of £268,247 (2017: £264,218) less related costs of £129,207 (2017: £121,421).

In line with paragraph 12.2 of the Determination of Accounting Requirements – December 2014, there was no income falling under Grants from Scottish Ministers and Other Revenue Grants in relation to Other Activities for 2017-18 which require disclosure, with nil in the previous accounting period of 2016-17.

5. ACCOMODATION IN MANAGEMENT

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

	2018 No.	2017 No.
General Needs Housing	5,581	5,599
Homeless Lets	55	54
Mid Market Lets – leased to SBHA Plus	3	3
	<u>5,639</u>	<u>5,656</u>

Stock movements during the year: Disposals: 12 Right to Buy sales; 6 reduced due to reconfiguration at Stonefield, Hawick. Additions for the year include 1 buy-back at Stonefield, Hawick.

6. INTEREST RECEIVABLE

	2018 £	2017 £
Interest Receivable	15,955	25,591
	<u>15,955</u>	<u>25,591</u>

7. INTEREST PAYABLE AND FINANCE COSTS

	2018	2017
	£	£
Loan Interest	1,642,068	1,571,369
Pension scheme Interest	115,000	56,000
Non-utilisation Fees	82,509	86,215
Arrangement Fees	5,023	5,023
	<u>1,844,600</u>	<u>1,718,607</u>

8. OPERATING SURPLUS

Operating surplus is stated after charging:

	Note	2018	2017
		£	£
Amortisation of Intangible Assets	11a	113,720	41,709
Depreciation of Housing Properties	11b	3,698,525	3,659,410
Depreciation of Other Tangible Assets	11c	86,783	132,788
Deficit on Disposal of Tangible Fixed Assets	9	803,223	405,087
Operating Lease Rental	24	254,090	251,459
Cost of Stock recognised as expense		2,022,199	1,838,656

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

External auditors remuneration:

Audit Service	25,913	24,967
Non Audit Services for entities related to Auditor	1,674	4,244
	<u>27,587</u>	<u>29,211</u>
Internal Auditors Remuneration	<u>22,184</u>	<u>15,923</u>

9. DEFICIT ON SALE/DISPOSAL OF FIXED ASSETS – HOUSING PROPERTIES

	2018	2017
	£	£
Disposal Proceeds	168,802	332,644
Carrying Value of Fixed Assets	<u>(972,025)</u>	<u>(737,731)</u>
Net loss	(803,223)	(405,087)
Capital Grant Repaid	-	-
(Loss) on Sale	<u>(803,223)</u>	<u>(405,087)</u>

The gross proceeds include the sale of 12 (2017:23) properties under Right to Buy. Future income foregone relating to the current years' sales is £157,990 (2017: £298,976).

The Asset Cost less Depreciation includes the loss on disposal of obsolete housing property component assets £820,566 (2017: £518,851).

10. EMPLOYEES

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

	2018	2017
	£	£
Wages and Salaries	5,058,546	5,119,532
Social Security Costs	471,627	475,914
Defined Contribution Pension costs	550,756	610,614
	<u>6,080,929</u>	<u>6,206,060</u>
Average number employed during the year of full time equivalents (including key personnel) was:	No.	No.
Directorate and Senior Management	12	12
Supervisory and Administrative	83	88
Tradesmen and other weekly paid	87	93
	<u>182</u>	<u>193</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 page 1. No emoluments were paid to any member of the Board of Management during the year.

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

	2018	2017
	No.	No.
£ 60,000 - £70,000	1	2
£ 70,001 - £80,000	3	1
£ 80,001 - £90,000	-	-
£ 90,001 -£100,000	1	1

During the year, 2 Directors (2017:2 Directors) participated in the Association's defined benefit pension scheme. The Chief Executive Officer is an ordinary member of the Association's pension scheme. No enhancements or special terms apply to membership and they had no other pension arrangements to which the Association contributes.

	2018	2017
	£	£
Aggregate emoluments for the above key management personnel (excluding pension contributions)	<u>378,731</u>	<u>302,696</u>
The emoluments of the Chief Executive(excluding pension contributions)	<u>98,896</u>	<u>92,787</u>
Aggregate Pension Contributions in relation to the above key management personnel	<u>42,078</u>	<u>38,637</u>

11(a) INTANGIBLE ASSETS

	2018	2017
Cost	£	£
At 1 April 2017	403,969	280,605
Additions	48,564	123,364
At 31 March 2018	<u>452,533</u>	<u>403,969</u>
Amortisation		
At 1 April 2017	(100,598)	(58,889)
Charge for Year	(113,720)	(41,709)
At 31 March 2018	<u>(214,318)</u>	<u>(100,598)</u>
Net Book Value	<u>238,215</u>	<u>303,371</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 2018
Cost	£	£	£	£
At 1 April 2017	86,820,969	27,587	133,090	86,981,646
Additions	35,000	885,855	842,514	1,763,368
Works to Existing Properties	5,460,413	-	-	5,460,413
Transfer to Housing For Let	617,142	(27,587)	(589,555)	-
Disposals	(1,476,055)	-	-	(1,476,055)
Transfer to Current Assets (Note 13)	(28,814)	-	-	(28,814)
At 31 March 2018	<u>91,428,655</u>	<u>885,855</u>	<u>386,049</u>	<u>92,700,559</u>
Depreciation and Impairment				
At 1 April 2017	(21,682,419)	(1,839)	(2,662)	(21,686,920)
Charge for Year	(3,671,761)	(29,426)	2,662	(3,698,525)
Disposals	504,030	-	-	504,030
Transfer to Current Assets (Note 13)	25,118	-	-	25,118
At 31 March 2018	<u>(24,825,032)</u>	<u>(31,265)</u>	<u>-</u>	<u>(24,856,297)</u>
Net Book Value				
At 31 March 2017	<u>65,138,550</u>	<u>25,748</u>	<u>130,428</u>	<u>65,294,726</u>
At 31 March 2018	<u>66,603,623</u>	<u>854,590</u>	<u>386,049</u>	<u>67,844,262</u>

11(b) TANGIBLE FIXED ASSETS: HOUSING PROPERTY (Cont)

EXPENDITURE ON WORKS TO EXISTING PROPERTIES

	2018	2017
	£	£
Replacement component spend capitalised	6,436,967	5,995,686
Amounts charged to income and expenditure	<u>4,445,705</u>	<u>4,184,812</u>
Total Major Repairs Spend	<u><u>10,882,672</u></u>	<u><u>10,180,498</u></u>

The Association's Housing property was independently valued as at 31 March 2018 at £90,268,000 (ninety million and two hundred and sixty eight thousand pounds) by Jones Lang LaSalle on the Existing Use Value for Social Housing Units (EUV-SH) and £151,378,000 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 327% compared to the 110% required by the lender on EUV-SH basis and 548% compared to 125% on MVT.

Included in the Housing Properties is £2,815,562 (2017: £2,824,800) in respect of land which is not depreciated.

11(c) TANGIBLE FIXED ASSETS: OTHER

	Office Premises £	Tenant Improvements £	Furniture & Fittings £	Office Equip & Information Systems £	Plant £	Motor Vehicles £	Total £
Cost							
At 1 April 2017	2,828,245	35,425	147,129	1,369,794	119,059	1,537	4,501,189
Additions	-	-	-	77,212	-	-	77,212
Disposals	-	(35,425)	-	-	-	-	(35,425)
At 31 March 2018	2,828,245	-	147,129	1,447,006	119,059	1,537	4,542,976
Depreciation and Impairment							
At 1 April 2017	(868,658)	(35,425)	(147,129)	(1,347,780)	(117,340)	(1,537)	(2,517,869)
Charge for the year	(58,195)	-	-	(28,016)	(572)	-	(86,783)
On disposals	-	35,425	-	-	-	-	35,425
At 31 March 2018	(926,853)	-	(147,129)	(1,375,796)	(117,912)	(1,537)	(2,569,227)
Net Book Value							
At 31 March 2017	1,959,587	-	-	22,014	1,719	-	1,983,320
At 31 March 2018	1,901,392	-	-	71,210	1,147	-	1,973,749

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 Limited	Ordinary	100% (2017: 100%)	General commercial company with an emphasis on housing related activities
Scottish Borders Building Services Ltd	Ordinary	100% (2017: 100%)	Dormant

The income of SBHA Plus in 2018 was £74,651 (2017: £89,057) with costs of £69,922 (2017: £87,446), interest receivable of £27 (2017: £21) resulting in a surplus for the year before tax of £4,756 (2017: £1,632). The net assets of the company as at 31 March 2018 were £22,337 (2017: £18,485).

13. PROPERTIES HELD FOR SALE

	Note	2018 £	2017 £
As at 1 April		12,278	0
Additions during the year	11b	3,696	12,278
As at 31 March		15,974	12,278

14. STOCK

A stock of materials in relation to responsive repairs is held to the value as at March 2018 of £114,623 (2017: £79,369).

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £	2017 £
Gross Arrears of Rent and Service Charges	1,215,077	1,351,640
Less: Provision for Bad & Doubtful Debts	(511,466)	(753,584)
	703,611	598,056
Other Debtors	53,459	44,240
Prepayments and Accrued Income	704,974	1,040,992
SHG Receivable	263,197	46,909
Deferred Finance Cost	20,090	25,112
Amount due from Subsidiary Company	-	8,253
	1,745,331	1,763,562

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2018 £	2017 £
Accruals and Deferred Income		2,513,658	1,877,810
Rent and Service Charges in Advance		873,397	889,113
Deferred Capital Grants	18	145,906	110,612
Trade Creditors		1,553,437	1,438,859
Other Creditors		381,395	353,919
Amount due to Subsidiary Company		7,995	-
Other Taxes and Social Security		16,573	13,708
Debt	19	<u>600,000</u>	<u>600,000</u>
		<u>6,092,361</u>	<u>5,284,021</u>

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

	Note	2018 £	2017 £
Deferred Capital Grant	18	5,019,342	4,866,838
Debt	19	<u>27,000,000</u>	<u>27,000,000</u>
		<u>32,019,342</u>	<u>31,866,838</u>

Included in creditors are:

Amounts repayable other than by instalments	<u>21,000,000</u>	<u>21,000,000</u>
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In agreement with SBHA's funders, Lloyds TSB plc, the Loan Facility is advanced and repaid in line with the Association's Business Plan. The loan is tranching to allow borrowing to be spread across a variety of interest rates and facilities. The loan is secured by way of standard securities and other charges on the Association's housing land and buildings and a first legal charge over 0.75 hectares at South Bridge Street, Selkirk.

As at 31 March 2018, £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 31 March 2018 was 6.25% (2017: 6.05%).

18. DEFERRED CAPITAL GRANT

	Note	2018 £	2017 £
As at 1 April		4,977,450	4,652,237
Grants Received in the Year		364,073	435,825
Capital Grants Released		<u>(176,275)</u>	<u>(110,612)</u>
As at 31 March		<u>5,165,248</u>	<u>4,977,450</u>
Amounts to be released within one year	16	<u>145,906</u>	<u>110,612</u>
Amounts to be released after more than one year	17	<u>5,019,342</u>	<u>4,866,838</u>

19. DEBT ANALYSIS - BORROWINGS

	Note	2018 £	2017 £
Creditors: Amounts falling due within one year:			
Bank Loans	16	<u>600,000</u>	<u>600,000</u>
		600,000	600,000
Creditors: Amounts falling due after more than one year:			
Bank Loans	17	<u>27,000,000</u>	<u>27,000,000</u>
		27,000,000	27,000,000
Total		<u>27,600,000</u>	<u>27,600,000</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 (2017: £27,600,000) are secured against the Association's housing properties.

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

	Note	2018 £	2017 £
Due within one year	16	600,000	600,000
Due in one year and more but less than two years	17	6,000,000	-
Due between two and five years	17	-	6,000,000
Due in more than five years	17	<u>21,000,000</u>	<u>21,000,000</u>
		<u>27,600,000</u>	<u>27,600,000</u>

20. 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 31st March 2017 was around £12.7 million and this will continue to vary with time. A decision was taken to close the scheme to new entrants from 1 April 2013 so that the potential liability could be capped and future increases in pension contribution for new liabilities be reduced. The above liability will not crystallise unless there were no members still in the scheme (98 active members) 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.

21. 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 and these contributions are treated as share capital for the purposes of the financial statements. 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.

	2018 No.	2017 No.
Shares of £1 issued and fully paid:		
Active Shares at 1 April 2017	203	223
Relinquished during the period	(19)	(26)
Issued during the period	7	6
Active Shares at 31 March 2018	191	203

	2018 £	2017 £
a) Unrestricted Reserve		
At 1 April 2017	39,617,299	37,240,740
Surplus for the Year	1,940,295	2,117,559
Transfer from Pension Reserve	437,000	259,000
At 31 March 2018	41,994,594	39,617,299

The total surplus for the year amounts to £6,337,295 (2017: deficit £131,441) of which £3,960,000 (2017: deficit £2,508,000) relating to a surplus on the pension reserve, is disclosed in Note 21b.

	Note 25	2018 £	2017 £
b) Pension Reserve			
At 1 April 2017		(4,246,000)	(1,738,000)
Transfer to Unrestricted Reserves		(437,000)	(259,000)
Actuarial Gain/(Loss) in the Year		4,397,000	(2,249,000)
At 31 March 2018		(286,000)	(4,246,000)

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.

22. CASH FLOW

RECONCILIATION OF SURPLUS TO NET CASH GENERATED FROM OPERATIONS

	2018	2017
	£	£
Surplus for the year	1,940,295	2,117,559
<i>Adjustment for non-cash items:</i>		
Depreciation of Tangible Fixed Assets	3,899,028	3,833,907
Defined Benefit Pension Schemes	773,000	750,000
(Decrease)/Increase in Provisions	(402,336)	40,161
Loss on Disposal of Tangible Fixed Assets	803,223	405,087
Release of Deferred capital grant	(176,275)	(110,612)
Interest Receivable	(15,955)	(25,591)
Interest Payable	1,844,600	1,718,607
Operating cash flows before movements in working capital	<u>8,665,580</u>	<u>8,729,118</u>
(Increase) in Stock	(35,254)	(32,359)
Decrease in Debtors	636,855	64,821
Increase in Creditors	773,046	1,044,717
Cash Generated from operations	<u>10,040,227</u>	<u>9,806,297</u>
Cash and cash equivalents represent:		
Cash at bank	<u>8,174,333</u>	<u>7,331,734</u>

23. CAPITAL COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

	Note	2018	2017
		£	£
Capital Expenditure contracted for but not provided in the Financial Statements		<u>2,736,629</u>	<u>2,362,161</u>
Expenditure authorised by the board, but not contracted		<u>9,685,144</u>	<u>9,011,674</u>

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

24. OPERATING LEASE COMMITMENTS

At 31 March 2018, the Association had total future minimum lease commitments and had made payments under non cancellable operating leases as set out below:

	2018	2017
	£	£
Plant & Equipment		
Within 1 year	196,463	189,015
Between 1-5 years	576,789	21,189
Over 5 years	38,705	15,105
Total commitment at 31 March	<u>811,958</u>	<u>225,309</u>
Payments in current year	<u>254,090</u>	<u>251,459</u>

25. PENSION COMMITMENT

Based on eligibility, SBHA staff are entitled to be members of one of two different pension schemes:

- Scottish Widows
- Scottish Borders Council Local Government Pension Scheme (LGPS)

Scottish Widows

The scheme is 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 amounted to £107,726 (2017: £81,365).

Scottish Borders Council Local Government Pension Fund

The Association is an admitted body of this statutory multi-employer defined benefit scheme administered by Scottish Borders Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended. 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 £449,504 (2017: £610,614). At 31 March 2018, the Association had no pension contributions outstanding (2017: £nil).

Employees' contributions are fixed by statute for SBHA employees according to the following scale for the year ended 31 March 2018:

Pensionable Salary	% Payable
£0 - £20,700	5.50
£20,700 - £25,300	7.25
£25,300 - £34,700	8.50
£34,700 - £46,300	9.50
Above £46,300	12.00

In the year to 31 March 2018 employer's contributions stood at 19% based on the pensionable salary of the previous year; this contribution will rise to 20.3% from 1 April 2018.

25. PENSION COMMITMENT (Cont.)

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 Section 28, on retirement benefits, the Fund's actuaries undertook a pension expense calculation as at 31 March 2018. This calculation was based on rolling forward valuation data as of 31 March 2017 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 March	2018	2017
RPI increases	3.20%	3.40%
CPI increases	2.20%	2.40%
Salary increases	2.20%	3.40%
Pension increases	2.20%	2.40%
Discount rate	2.70%	2.85%

The expected return on assets is based on the long-term future expected investment for each asset class as at 31 March 2018.

Assumed life expectancies from age 65 are:	2018	2017
	Years	Years
Retiring today:		
Males	21.6	22.9
Females	24.2	23.8
Retiring in 20 years:		
Males	23.3	25.2
Females	26.0	26.1

Assets (Employer) as at 31 March	2018	2017
Equities	58%	70%
Gilts	15%	2%
Other bonds	n/a	8%
Property	14%	5%
Cash	0%	0%
Multi asset fund	7%	15%
Private credit	5%	n/a
Infrastructure	1%	n/a
Total	100%	100%

Net Pension (Liability)/Asset as at 31 March	2018	2017	2016	2015	2014
	£'000	£'000	£'000	£'000	£'000
Fair value of scheme assets	32,560	31,163	25,634	25,416	22,417
Present value of funded obligation	(32,846)	(35,409)	(27,372)	(27,018)	(21,854)
Net pension (liability) /asset	(286)	(4,246)	(1,738)	(1,602)	563

PENSION COMMITMENT (Cont.)

Amount recognised in Income & Expenditure Account as at 31 March	2018 £'000	2017 £'000
Service cost	759	736
Net interest on the defined liability	115	56
Administration expenses	14	14
Total	888	806

Reconciliation of opening and closing balances of the present value of the defined benefit obligation as at 31 March	2018 £'000	2017 £'000
Opening defined benefit obligation	35,409	27,372
Service cost	759	736
Interest cost	999	1,032
Change in financial assumptions	(1,121)	6,705
Change in demographic assumptions	(1,051)	-
Experience loss/(gain) on defined benefit obligation	(1,436)	-
Estimated benefits paid (net of transfers in)	(860)	(607)
Contributions by scheme participants	147	171
Closing defined benefit obligation	32,846	35,409

Reconciliation of opening and closing balances of the fair value of Scheme assets as at 31 March	2018 £'000	2017 £'000
Opening fair value of scheme assets	31,163	25,634
Interest on assets	884	976
Return on assets less interest	693	4,456
Other actuarial gains/(losses)	96	-
Administration expenses	(14)	(14)
Contributions by employer (including unfunded)	451	547
Contributions by scheme participants	147	171
Estimated benefits paid (net of transfers in and including unfunded)	(860)	(607)
Fair value of scheme assets at end of period	32,560	31,163

Projected pension expense for year to 31 March 2019	2019 £'000
Service cost	792
Net interest on the defined liability	1
Administration expenses	14
Total	807
Employer contributions	480

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2018.

These projections are based on the assumptions as at 31 March 2018, as described earlier.

26. RELATED PARTIES

Current Board Member Simon Mountford and former Board Members Vicky Davidson 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.

Current Board Members Marlen Jones, Michael Grieve, Julie Black and Allen Tills and former Board Members William Elliot and Robin Cowan are also Tenants of the Association. During the year £23,611 (2017: £19,149) of rent was receivable from these members. At the year end there was £168 (2017: £336) of technical rent arrears and £509 (2017:£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 (2017: £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.

SBHA Plus Ltd, a company incorporated in Scotland in July 2009, is a related party by virtue of being a wholly owned subsidiary of SBHA. SBHA Plus Ltd is controlled by a Board of Directors which is appointed by the Board of Management of SBHA and which contains four members of the Board of SBHA being Marlen Jones, Simon Mountford, Ian McDonald and Allen Tills.

Carly Stewart, the Director of Finance of SBHA and current Secretary of SBHA (from 21st September 2018), is also the secretary of SBHA Plus Ltd.

A Service Level Agreement between SBHA and SBHA Plus Ltd took effect on 1 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 31 March 2018 SBHA recharged SBHA Plus Ltd the sum of £62,925 (2016-17: £67,306) representing costs incurred in connection with Wider Role activities, Mid Market rental and Post Office activities. The amount due to SBHA Plus by SBHA at 31 March 2018 was £7,995 (2016-17: due from SBHA Plus to SBHA £8,253).

Scottish Borders Building Services Limited (SBBS Ltd), a company incorporated in Scotland, is a related party by virtue of being a wholly owned subsidiary of SBHA. SBBS Ltd is controlled by its own Board of Directors which is appointed by the Board of Management of SBHA. SBBS Ltd was dormant during the year to 31 March 2018.

Julia Mulloy, the Secretary (to 21st September 2018) and Chief Executive Officer of SBHA, is 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 31 March 2017 or 2018.

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 2017-18 amounted to £83,790 (2017: £66,942), as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2017-18, the Association's total expenditure on Tenant Participation was £67,523 (2017: £55,392).

