



SCOTTISH BORDERS HOUSING ASSOCIATION
REPORT AND FINANCIAL STATEMENTS
For the year ended 31 March 2019

“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 – David Pye

Elected Board Members

Michael Grieve	Convenor of Customer Board
Allen Tills	
Angela Sulo	(Elected 20.09.18)
Marlen Jones	(Resigned 20.09.18)
Julie Black	(Resigned 02.03.19)

Non-Tenant Elected Members

Ian MacDonald	(Re-elected 20.09.18)
David Pye	(Re-elected 20.09.18)
Robin Hill	Convenor of Audit & Compliance Sub-Committee
Philippa Brosnan	(Appointed to Casual Vacancy 28.03.19)

Appointed Board Members

Simon Mountford
Andrew Limmer
Ian McDonald

Secretary to the Association

Carly Stewart

Executive Team

Julia Mulloy	Chief Executive
Carly Stewart	Director of Finance
Maria Lyle	Director of Business Support (Director of Customer Services to 21.10.18)
Pamela Nichol-Littlejohn	Director of Business Support (resigned 27.06.18)
Henry Coyle	Director of Customer Services (Director of Assets and Property Services to 21.10.18)
Caroline Purcell	Director of Assets and Property Services (Appointed 21.10.18)

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
25 Gresham Street
London
EC2V 7HN

Registered Office:

South Bridge House
Whinfield Road
Selkirk
TD7 5DT

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

Strategic Report of the Board of Management

The Board of Management of Scottish Borders Housing Association Ltd (“the Association” or “SBHA”) has pleasure in submitting its report and the audited Financial Statements for the year ended 31 March 2019. 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 (SBHA) 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 entity 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. SBBS and SBHA Plus are non-charitable Companies. 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 2019, 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 5,646 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 in 2017 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 SBTO 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.

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.

In the year, SBHA’s Strategic Plan review began with the shaping of updated objectives and key themes, principles and priorities for 2020-25. SBHA’s Customer Board and the Board of Management Away Days’ reflected on how the world around SBHA is changing and the challenges and opportunities that the Scottish Borders Economy and the National Economy presents.

The review of the 2020-25 Strategy will continue in 2019, with the development of the principles of projects to support the prioritising and evaluation process, and consultation with stakeholders will be progressed. This will include the SBHA Team and SBTO, alongside Community Planning Partners and other key stakeholders, with a Road Show event for Tenants. The final plan will be approved at the end of 2019 and supporting Strategies will be updated in the forthcoming year.

The projects to be progressed in the current Strategic Plan, will form the basis of the transition into the 2020-25 Plan. The Mission Statement, Values, Objectives and updates reflect the current position below.

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



OBJECTIVES

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

The Tenant and Community Engagement Strategy 2018-20 seeks to contribute towards this objective and supports the delivery of the identified Strategic Project to 'Increase Tenant Satisfaction' with an action plan of 23 actions across 6 themes.

SBHA regularly consults with Tenants using a range of methods to gain feedback regarding service delivery and assess how the services provided are valued by our customers and to determine where improvements can be made. This year SBHA shifted away from annual postal Tenant Satisfaction Surveys to quarterly telephone and online surveys, and introduced service specific transactional surveys. This approach provides for more frequent feedback, closer to the time of tenant interaction and helps SBHA to identify and respond to emerging trends more quickly. Survey findings for 2018-19 show that satisfaction in all key indicators has increased, with satisfaction with opportunities to participate in decision making having increased significantly by 11% and levels satisfied that SBHA is good at keeping them informed increasing by almost 9%. Reflecting this, the number of complaints received in the year continues to reduce (from 471 to 267 over 2 years) and times to respond much improved to 77% within target.

SBHA's Community Teams continue to encourage Tenant engagement through a variety of methods, such as regular local estate walkabouts, a programme of local Roadshows and themed surgeries from local offices. This is helping to shape service delivery to meet local community needs and aspirations. During the year, SBHA enhanced its approach to service delivery by working more flexibly. The opening hours for contact with SBHA were extended outwith normal working hours and mobile working technology has enabled frontline teams to bring services to

Tenants and into communities. This has increased opportunities for Tenants to access services and increased productivity and the quality of service offered. SBHA plans to introduce self service for customers early in 2019-20 through a customer portal, which increases channels of access further.

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 2018-19 for Registered Social Landlords in the Scottish Borders area. The SFHA rent affordability tool continued to be used to assess rent levels and increases. Annual rent increases reflect the need to continue services and invest in homes and communities. A fundamental rent policy review commencing in 2019 will aim to ensure the above objectives are met and ongoing increases meet current and future customer and business needs.

SBHA WILL CREATE GREAT PLACES TO LIVE

Year 2 of the 6 year Planned Maintenance Plan saw investment of £8.6m (2018: £7.9m), with concentration in Selkirk and the Weensland/Silverbuthall area of Hawick, success of the impact of this approach is highlighted in Tenant feedback with some indications of shifts in responsive repair trends and volumes. 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

SBHA will invest in the region of £5.7m over the next 2 years to ensure maximum compliance with the Energy Efficiency for Scottish Social Housing (EESH) by the December 2020 target. In the year compliance with the standard was raised from 61% to 79%. A Procurement Strategy has been developed and longer term contracts placed to ensure delivery maximising funding opportunities such as ECO3 and the Warm Homes Fund.

The strategic aim to reduce reactive maintenance by increasing proactive cyclical maintenance programmes continues with the use of the Great Places budget. Full devolvement of the Estate Improvement budget in the year expanded the commitment to raise the standard of the environment in SBHA's communities, which tenants have told us is one of their highest priorities.

The SBHA Standards for Property Improvement Works and Managing Neighbourhoods, developed with SBTO to extend beyond the home to include Neighbourhoods and the wider environment, was implemented and the Standard for Repairs and Maintenance was finalised with SBTO and is awaiting sign off and implementation in summer 2019. This completes the suite of Standards which sets out a clear commitment to service for tenants.

The first full year of the new Gas Servicing & Repairs contract has strengthened the service and assurance in this area. Further work across Water Management, Fire, Electrical and Asbestos safety are culminating in further improvements which will strengthen these areas and give further assurance on tenant safety in 2019.

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 range of projects from the strategy action plan have been completed since the start of the five year People Strategy; together they contributed to SBHA's achievement of Investors in People accreditation at Silver Level in June 2018.

The 2018 SBHA People Survey results have provided a focus for activities around leadership, involvement, communication and empowerment and work continues to strengthen in these areas to ensure customers are at the forefront of all activities.

A focus on sustaining a happy, healthy and motivated workforce resulted in accreditation from Healthy Working Lives being awarded in March 2019. A wide-range of activities facilitated by SBHA's Healthy Living Group have demonstrated a significant positive impact on the physical and mental wellbeing of our people and an improvement in attendance.

SBHA's commitment to equip its people resulted in the completion of a comprehensive range of learning activities led by strategic objectives, personal development plans and legislative compliance. A range of sector and professional conferences were attended, customer service skills were enhanced through intensive phone coach training, GDPR awareness was delivered to all teams and confidence was developed to support vulnerable customers in a number of areas.

The Leadership Development Programme continued with the Executive Team participating in an ongoing programme of masterclasses and coaching sessions. Learning from the workshops has been shared with the Leadership Team and has led to a more open and collaborative approach to problem solving.

SBHA continues to be committed to ensuring people are recognised and rewarded appropriately and in line with affordability and best value for the organisation. Work continues towards this aim through a reward and recognition project.

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. Full roll out of Universal Credit (UC) in the Scottish Borders commenced in June 2018, however migration of existing claimants has been postponed. At 31st March, 563 (2018:180) Tenants are in receipt of UC, with attributing technical arrears of approximately £120,000 (2018: £48,000). 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 the roll-out. Trusted Partnership Status was given by the DWP, which gives SBHA access to the landlord portal and provides invaluable information, albeit a more resource intensive process, in order to manage cases.

As part of the 2019-20 Rent Increase consultation, feedback was received on SBHA's proposed increase and rent levels, with a slight drop to 79% from 82%, agreeing that SBHA provided value for money. The Board of Management have given clear direction that to maintain affordable rents, future increases require to be minimised which includes moving to consumer price index (CPI), deemed relevant to incomes and usually a lower level than RPI.

Good procurement is at the heart of delivering value for money and maintaining affordable rents. SBHA's procurement strategy has continued to be delivered and the first annual report of this was published in the year. SBHA participated in the Scottish Government's Procurement Improvement Programme in Housing by undertaking a Procurement and Commercial Improvement programme (PCIP) assessment. This positive report highlighted SBHA's strengths and also set out areas for improvement. Following a previous focus on large contracts for Planned Maintenance and ESSH programmes, 2019 will focus on sub contracting for Reactive Maintenance.

Continued focus on providing value for money through SBHA's in-house contractor, Property Services, has meant that reactive repair budgets and benchmarked contract values remained at previous year levels and inflationary increases were not passed on. This is managed through

procurements efficiencies such as materials, with longer term contracts being placed in the year, using a variety of frameworks. Challenges around productivity continue to be addressed.

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. Resources have continued to be re-aligned in the budget and Business Plan, mapping performance levels with costs.

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.

The completion of 10 units at Rose Court, Galashiels brings SBHA's new build total to 69 since 2013, and a commitment to a further 22 homes for development over the next year. Continuing to evaluate opportunities for land acquisition and other development partnership opportunities supports SBHA's aspiration to increase SBHA's Development programme.

An additional £582,000 of income for Tenants was generated through the provision of dedicated welfare benefits and financial support services, an increase of £42,000. This includes the Big Lottery funded Financial Inclusion Service, a joint project with Berwickshire Housing Association and Waverley Housing, which supplements SBHA's in house Financial Inclusion Team.

SBHA's Employability Project 'Go4It' continued to support young Tenants to enhance their employability skills and access jobs or work experience. Since the project began in 2014, 27 Tenants have secured jobs and 21 have completed a work placement. The project has also supported 3 Tenants into voluntary work and a further 5 non Tenants into full time education at the local college. SBHA is currently exploring funding opportunities to enable the service to continue in 2019-20 following the end of funding from the Scottish Government's People and Communities Fund.

SBHA funded the 16+ Transitions Project at Albert Place, Galashiels and this valued project has been committed to for a further 3 years, with contributions also being committed by SBC.

6.0 KEY PERFORMANCE INDICATORS 2018-19

SBHA records and monitors, at Board level, 10 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 2018-19	ACTUAL 2017-18	TARGET
Current Arrears (as at rent year end)	£851,047	£859,678	<£850,000
Rent Collection %	98.38%	98.31%	99.00%
Gross Arrears as a % of Rent Due	6.2%	7.56%	5.6%
Lettable Stock Void Loss %	1.49%	1.86%	1.75%
Average days to let empty homes	46	57	45
Av Time to Complete Emergency Repairs (hrs)	1.8hrs	2.17hrs	2.0hrs
Average days for non- emergencies	6.7	6.7	5.5

PERFORMANCE	ACTUAL 2018-19	ACTUAL 2017-18	TARGET
First Time Fix (Repairs)	89.00%	89.00%	92.00%
EESSH Compliance	79.00%	61.00%	77.00%
Staff Attendance	95.91%	95.26%	>96.00%

Rent Collection: There has been a slight reduction in rent arrears during the year which is reflected in the slight increase in rent collected (after technical arrears are removed). This is achieved within a challenging environment in relation to the management of Full Service UC roll out in June 2018. Trends are similar to the previous year with Enforcement action due to rent arrears increasing by almost 50% and the number of decrees awarded and evictions carrying out increasing by a third. Reducing patch sizes to allow for a more manageable workload in larger neighbourhoods and a concentrated focus of resources aims to increase collection and prevent other measures. Recognising that SBHA remains in the bottom quartile for rent arrears, continued improvements in rent collection will remain a key focus in 2019-20.

Empty Homes Management: There has been a significant improvement in the management of empty homes throughout the year which resulted in rent loss due of lettable homes reducing to 1.49% from 1.86% and the average days reducing to 46 from 57. Embedding the actions contained within the Empty Homes Strategy has allowed for a more co-ordinated approach in the management of empty homes, which has resulted in the number of properties available to let at the end of the year reducing to 66 from 99. Further improvements will be sought in the forthcoming year including a comprehensive review of all remaining hard to let properties.

Repairs & Maintenance: The number of reactive repairs increased in the year (up from 13,411 last year to 15,862). The majority of the increase relates to heating repairs with the first full year of the new Heating Contractor 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 increased from 2,947 to 3,279 and the time taken to complete these has reduced to 1.8hrs from 2.17hrs and is well within the locally agreed target agreed with Tenants of 4 hours. Non-emergency repairs performance remained static at 6.7days while numbers of non emergency repairs increased significantly from 10,464 to 12,583, and Right First Time performance has also remained static at 89%. This reflects the focus on building on improvements made in 2017-18.

Appointments kept have further improved from, 94.2% to 95.1% reflecting service improvements undertaken in the year and no severe weather experienced during the winter. A review of the Repairs and Maintenance Policy was completed after consultation with SBTO and is ready for approval and implementation in Summer 2019.

Compliance with EESSH has significantly progressed in the year, from 61% to 79%, reflecting the investment undertaken in new efficient heating systems and other works to improve the affordable warmth for tenants.

Employee Attendance: Absence has continued to reduce 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.

Bank Covenants: The reported Net Debt per Unit and Interest Cover as at 31 March 2019 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 2019. Maximising spend on investment in current homes and New Build budgets, whilst attaining value is an Organisation wide focus for SBHA.

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 2019, SBHA complied fully with all its Loan Covenants.

2.0 STATEMENT OF COMPREHENSIVE INCOME (SOI) 2018-19

Annual Turnover increased 4.1% to £22.87m 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 4.8% from previous year levels. A 0.21% reduction of total voids as a percentage of gross income is offset by a reduction of 2 properties through private sale and the purchase of two properties, one as part of a demolition area and 10 properties brought into let from development at Rose Court. The increase in the release of deferred capital grant, is more than offset by the reduction in revenue grants, mainly for adaptations.

Operating Costs increased from £17.4m to £19.4m during the year, an increase of 11.4%. The most significant increase was expenditure in relation to Planned and Cyclical maintenance costs rising by 18.6% and in cash terms when adding back those components capitalised £1.2m (capitalised costs increased from £6.43m to £6.8m) as highlighted in note 11b. This reflects continued 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 marginally increased, by 0.19%, as a result of benchmarked income being frozen within SBHA's in-house Property Services as part of SBHA's value for money strategy. The strategic aim being to use funds saved in reactive costs to fund an increase in preventative cyclical programmes of work.

Management and maintenance administration costs have increased during the year by £813k, mainly due to three areas and offset by other small savings: a voluntary payment of £347k was made in quarter 4 to the LGPS pension scheme, this was funded from savings accumulated since the scheme was closed to new entrants. A past service cost of £277k arose in the LGPS due to an allowance for the McCloud judgement. SBHA's Head Office refurbishment costing £294k was fully expensed in the year.

Bad Debt expense has risen in the year by 6.37% and though rental arrears (net of technical arrears) in total are slightly lower than last year, this indicates that performance has not improved, with rent collection at a similar level to 2017-18.

This year a loss on disposal of fixed assets almost doubled to £1.5m mainly being the loss on components replaced. A significant amount of those components replaced with a net book value were heating systems as part of SBHA's EESSH strategy, such as electric storage heaters being upgraded to more efficient quantum systems or gas heating where infrastructure is in place.

The average rate of loan interest payable slightly decreased to 6.07% (2018:6.25%).

3.0 STATEMENT OF FINANCIAL POSITION (SOFP) AS AT 31 MARCH 2019

At 31 March 2019, 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 2019 where those assets are generally able to be realised within one year, exceeded liabilities generally payable in the same period. The liquidity ratio for 2019 was 1.39 (2018: 1.65) and fell due to current assets reducing by £883k (mainly lower cash balances and debtors), whilst creditors falling within one year increased by £520k. A revolving loan facility was available to draw, but remained undrawn of £10m.

At 31 March 2019, the Association owned 5,649 properties against 5,639 at 31 March 2018, the movements are explained in note 5. SBHA's current Accounting Policy is to show Properties at original cost plus capitalised amounts on the Statement of Financial Position.

The net Pension liability of the LGPS increased from £286,000 in 2017-18 to a liability of £1,671,000 in the year. The report is based on a triennial valuation at 31 March 2018 rolled forward, the main impact on the increasing deficit was the decreasing gilts rate which determines the discount rate used for determining liabilities and an increase in salary inflation assumptions (previously assumed to reduce when SBHA's flexible working and modernising pay project was implemented) also having an increasing impact on liabilities.

By virtue of being a stock transfer Association, SBHA is not committed to accumulating reserves in order to meet future long term commitments, but has agreed at the outset a loan facility with a specific loan repayment programme. A positive Statement of Financial Position is still anticipated to continue throughout the Association's 30-year Business Plan (which is itself reviewed annually). It should be noted however that the accumulated 'reserves' are counter balanced by an increase in the cost of the Association's properties and not in cash or other type of asset.

Cash in Bank or hand is £7.5 million (2018: £8.2 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 2018 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 £1,671,000 (2018: £286,000) at 31 March 2019.

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 February 2019. 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 Executive Team.

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

- The Association has a 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 aspects of the Business Plan being approved in February 2019;
- 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, receive and monitor 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 2019. 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 has commenced a Self-Assessment review against the Scottish Housing Regulation Standards and has established a working group to assess the remaining standards in 2019.

2.0 RISK MANAGEMENT

A review of SBHA's risk management was undertaken in the previous 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 in the current year and re-scored. 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 strategic risk areas currently identified are:

STRATEGIC RISK	OPERATIONAL RISK/CAUSE	MITIGATING ACTIONS
<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 • Failure to have robust IT security Controls resulting in breach/cyber attack 	<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 • IT controls audit • Penetration Testing
<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 budget and working capital increases; Engage with DWP • Non lettable and lettable void action plan • Retention of Treasury advisor; Financing review • Internal controls; IT controls audit
<p>GROWTH</p> <p><i>Inability to anticipate and/or maximise opportunities to Develop and Grow</i></p>	<ul style="list-style-type: none"> • Ineffective asset management • Lack of resources and financial restrictions/limitations • Inadequate decision making tools, e.g. business case process, benchmarking and project management arrangements 	<ul style="list-style-type: none"> • Use of external consultant to increase expertise • Seek best practise for New Build development, policies and procedures • Financial Capacity review • Increased resources for Land Bank acquisition • Transformation fund in place to capture savings • Approved Development Plan

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

David Pye
Board Member

Date: 22 August 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH BORDERS HOUSING ASSOCIATION

Opinion

We have audited the financial statements of Scottish Borders Housing Association (the 'Association') for the year ended 31 March 2019 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 2019 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 – February 2019.

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 of Management's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board of Management 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 of Management 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.

Opinion on other matters under the Co-operative and Community Benefit Societies Act 2014

In our opinion, the following continued to apply throughout the year of account:

- the reason given by the Board of Management in respect of a previous year of account for SBHA Plus Limited to not be dealt with in the financial statements (having been approved by the FCA under section 99, subsection (3)); and
- the grounds given by the Board of Management for that reason.

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 of Management

As explained more fully in the Board of Management's responsibilities statement set out on page 13, the Board of Management 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 of Management 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 of Management 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 our 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: 26 August 2019

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: 26 August 2019

Statement of Comprehensive Income

	Note	2019 £	2018 £
Turnover	2	22,869,326	21,961,307
Operating Expenditure	2	<u>(19,379,972)</u>	<u>(17,389,144)</u>
Operating Surplus	2, 8	3,489,354	4,572,163
(Loss) on disposal of property, plant and equipment	9	(1,530,137)	(803,223)
Interest receivable	6	39,019	15,955
Interest payable and financing costs	7	<u>(1,690,527)</u>	<u>(1,844,600)</u>
Surplus for the Year	21	307,709	1,940,295
Actuarial (loss)/ gain in respect of Pension Schemes	25	<u>(1,138,000)</u>	<u>4,397,000</u>
Total Comprehensive (Expenditure)/Income for the Year		<u>(830,291)</u>	<u>6,337,295</u>

The results relate wholly to continuing activities.

The accompanying notes on pages 24 to 48 form part of these financial statements.

Statement of Financial Position

	Note	2019 £	2018 £
Fixed Assets			
Intangible Assets	11a	174,794	238,215
Housing Properties – Depreciated Costs	11b	70,619,604	67,844,262
Other Fixed Assets	11c	1,921,857	1,973,749
Investment in Subsidiary Company	12	1	1
		<u>72,716,256</u>	<u>70,056,227</u>
Current Assets			
Properties Held for Sale	13	42,197	15,974
Stock	14	115,452	114,623
Trade and Other Debtors	15	1,512,844	1,745,331
Cash and Cash Equivalents		<u>7,497,242</u>	<u>8,174,333</u>
		<u>9,167,735</u>	<u>10,050,261</u>
Current Liabilities			
Creditors: Amounts falling due within one year	16	<u>(6,612,664)</u>	<u>(6,092,361)</u>
Net Current Assets		<u>2,555,071</u>	<u>3,957,900</u>
Total Assets less Current Liabilities		<u>75,271,327</u>	<u>74,014,127</u>
Creditors: Amounts falling due after more than one year	17	(32,721,843)	(32,019,342)
Pension Liabilities:			
Defined Benefit Pension Liability	25	<u>(1,671,000)</u>	<u>(286,000)</u>
		<u>(34,392,843)</u>	<u>(32,305,342)</u>
Total Net Assets		<u>40,878,484</u>	<u>41,708,785</u>
Reserves			
Unrestricted Reserve	21a	42,493,437	41,994,594
Restricted Reserve	21b	55,866	-
Pension Reserve	21c	(1,671,000)	(286,000)
Share Capital	21	181	191
Total Reserves		<u>40,878,484</u>	<u>41,708,785</u>

The Board of Management approved the Financial Statements on pages 20 to 48 and authorised them for issue on 22 August 2019 and they were signed on their behalf by:

David Pye Board Member.....
Robin Hill Board Member.....
Carly Stewart Secretary.....

Statement of Changes in Reserves

	Note	Unrestricted Reserve £	Restricted Reserve £	Pension Reserve £	Total £
Balance as at 1 April 2017		39,617,299	-	(4,246,000)	35,371,299
Surplus for the Year		1,940,295	-	-	1,940,295
Movement from Pension to Unrestricted Reserve		437,000	-	(437,000)	-
Pension Actuarial Gain	25	-	-	4,397,000	4,397,000
Balance as at 31 March 2018		41,994,594	-	(286,000)	41,708,594
Surplus for the Year	21	307,709	-	-	307,709
Transfer from Unrestricted to Restricted Reserve		(55,866)	55,866	-	-
Transfer from Unrestricted to Pension Reserve		247,000	-	(247,000)	-
Pension Actuarial (Loss)	25	-	-	(1,138,000)	(1,138,000)
Balance at 31 March 2019		42,493,437	55,866	(1,671,000)	40,878,303

Statement of Cashflows

	Note	2019 £	2018 £
Net Cash generated from Operating Activities	22	9,019,049	10,040,227
Cashflow from Investing Activities			
Purchase of Tangible Fixed Assets		(8,494,686)	(7,300,994)
Purchase of Intangible Fixed Assets		(31,108)	(48,564)
Proceeds from Sale of Tangible Fixed Assets		71,085	168,802
Grants Received		1,198,087	147,785
Interest Received		39,019	15,955
Net Cash (Used in) Investing Activities		(7,217,603)	(7,017,016)
Cashflow from Financing Activities			
Interest Paid		(1,679,527)	(1,729,600)
Contributions to Defined Benefit Liability		(799,000)	(451,000)
Shares Issued		4	7
Shares (Cancelled)		(14)	(19)
Net Cash (Used In) Financing Activities		(2,478,537)	(2,180,612)
Net (decrease)/Increase in Cash and Cash Equivalents		(677,091)	842,599
Cash and Cash Equivalents at Beginning of Year		8,174,333	7,331,734
Cash and Cash Equivalents at End of Year		7,497,242	8,174,333

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, 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. 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.

Other income is recognised in the period when it is earned.

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 2014. 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. Loans are classed as basic under FRS 102 and measured at amortised cost.

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 is recognised in the Income and Expenditure Account in operating costs.

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. These are valued at the cost incurred, and where it meets the requirements to recognise as capital the cost is capitalised into fixed assets (see policy (m)).

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.

ee) Reserves

The Association establishes restricted funds for specific purposes where their use is subject to restrictions imposed by third parties.

2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

	Note	Turnover £	Operating Costs £	Operating Surplus £	2018 £
Affordable Lettings Activities	3	22,530,263	(19,150,744)	3,379,519	4,390,867
Other Activities	4	339,063	(229,228)	109,835	181,296
Total for 2019		22,869,326	(19,379,972)	3,489,354	4,572,163
Total for 2018		21,961,307	(17,389,144)	4,572,163	

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

	Note	2019 £	2018 £
Rent receivable net of service charges		22,374,212	21,361,458
Service charges		212,932	204,757
Gross income from rents and service charges		22,587,144	21,566,215
Less voids		(432,490)	(479,427)
Net Income from rents and service charges		22,154,654	21,086,788
Grants Released from Deferred Income	18	208,503	176,275
Grants from Scottish Ministers		167,106	302,309
Total turnover from social letting activities		22,530,263	21,565,372
Management and maintenance administration costs		6,237,226	5,424,269
Service costs		220,637	245,485
Planned and cyclical maintenance including major repairs cost		5,215,991	4,399,816
Reactive Maintenance costs		2,717,901	2,712,855
Grounds Maintenance		341,819	350,990
Bad debts rents and service charges		400,260	376,287
Depreciation of Affordable Let Properties		3,846,937	3,664,803
Impairment of Affordable Let Properties		169,973	-
Operating Costs for Affordable Letting Activities		19,150,744	17,174,505
Operating surplus for Affordable Letting Activities		3,379,519	4,390,867

SBHA owns no other accommodation except for General Needs Housing Accommodation and 3 homes for Mid Market rent leased to SBHA Plus Limited (disclosed in note 5).

3(b) AVERAGE RENTS

	2019 £	2018 £
The average weekly rent (48 week basis) per property available to let at the period end was:	83.57	79.73

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

	Total Turnover £	Other Operating Costs £	Operating (Deficit)/ Surplus £	Operating (Deficit)/ Surplus 2018 £
Other Agency / Management Services	19,212	(40,848)	(21,636)	(15,981)
Factoring	19,077	(13,641)	5,436	5,836
Other Activities	300,774	(174,739)	126,035	191,441
Total from other activities 2019	339,063	(229,228)	109,835	181,296
Total from other activities 2018	395,935	(214,639)	181,296	

Other Activities include commercial lets of £250,876 (2018: £268,247) less related costs of £143,370 (2018: £129,207).

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 2018-19 which require disclosure, with nil in the previous accounting period of 2017-18.

5. ACCOMMODATION IN MANAGEMENT

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

	2019 No.	2018 No.
General Needs Housing	5,593	5,581
Homeless Lets	53	55
Mid Market Lets – leased to SBHA Plus	3	3
Factored Properties	145	145
	<u>5,794</u>	<u>5,784</u>

Stock movements during the year: Disposals: 2 properties sold at market value; Additions for the year include 10 New Build properties at Rose Court, Galashiels and 2 buy-backs.

6. INTEREST RECEIVABLE

	2019 £	2018 £
Interest Receivable	39,019	15,955
	<u>39,019</u>	<u>15,955</u>

7. INTEREST PAYABLE AND FINANCE COSTS

	2019 £	2018 £
Loan Interest	1,570,411	1,642,068
Pension scheme net interest cost	11,000	115,000
Non-utilisation Fees	104,094	82,509
Arrangement Fees	5,022	5,023
	<u>1,690,527</u>	<u>1,844,600</u>

8. OPERATING SURPLUS

Operating surplus is stated after charging:

	Note	2019 £	2018 £
Amortisation of Intangible Assets	11a	94,529	113,720
Depreciation of Housing Properties	11b	3,885,970	3,698,525
Impairment of Housing Properties	11b	169,973	-
Depreciation of Other Tangible Assets	11c	87,848	86,783
Operating Lease Rental	24	248,868	254,090
Cost of Stock recognised as expense		2,097,744	2,022,199

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	27,406	25,913
Non Audit Services for entities related to Auditor	-	1,674
	<u>27,406</u>	<u>27,587</u>
Internal Auditors Remuneration	<u>27,627</u>	<u>22,184</u>

9. DEFICIT ON SALE/DISPOSAL OF FIXED ASSETS

	2019 £	2018 £
Disposal Proceeds	71,085	168,802
Carrying Value of Fixed Assets	<u>(1,601,222)</u>	<u>(972,025)</u>
Net loss	(1,530,137)	(803,223)
Capital Grant Repaid	-	-
(Loss) on Sale	<u>(1,530,137)</u>	<u>(803,223)</u>

The gross proceeds include the private sale of 2 properties (2018: none) at the current market value, the proceeds net of costs are retained by SBHA and will be used in replacement of future Housing Grant (see reserves note 21). The previous year there were 12 sales through the Right to Buy, which ended in that year.

The carrying value of the assets includes the loss on disposal of housing property component assets being replaced £1,589,145 (2018: £820,566) and the cost of disposal for the 2 sales £12,278 (2018: £nil) plus £201 (2018: £nil) for the carrying value on disposal of other fixed assets.

10. EMPLOYEES

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

	2019	2018
	£	£
Wages and Salaries	5,011,131	5,058,546
Social Security Costs	476,479	471,627
Pension costs	872,348	550,756
Agency/Secondment Costs	353,384	239,192
	<u>6,713,342</u>	<u>6,320,121</u>
Average number employed during the year of full time equivalents (including key personnel) was:	No.	No.
Directorate and Senior Management	11	12
Supervisory and Administrative	84	83
Tradesmen and other weekly paid	78	87
	<u>173</u>	<u>182</u>

A voluntary pension payment of £347,000 in 2019 (2018: £nil) was made to the LGPS scheme as additional contributions. This is part of SBHA's funding strategy to reduce the longer term projected deficit (see note 20 Contingent Liability).

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:

	2019	2018
	No.	No.
£ 60,000 - £70,000	1	1
£ 70,001 - £80,000	2	3
£ 80,001 - £90,000	-	-
£ 90,001 - £100,000	-	1
£100,001- £110,000	1	-

During the year, 2 Directors (2018:2 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.

	2019	2018
	£	£
Aggregate emoluments for the above key management personnel (excluding pension contributions)	<u>324,323</u>	<u>378,731</u>
The emoluments of the Chief Executive (excluding pension contributions)	<u>103,441</u>	<u>98,896</u>
Aggregate Pension Contributions in relation to the above key management personnel	<u>43,420</u>	<u>42,078</u>

11(a) INTANGIBLE ASSETS

Cost	£
At 1 April 2018	452,533
Additions	31,108
At 31 March 2019	483,641
Amortisation	
At 1 April 2018	(214,318)
Charge for Year	(94,529)
At 31 March 2019	(308,847)
Net Book Value at 31 March 2018	238,215
Net Book Value at 31 March 2019	174,794

The intangible assets relate to IT Software, including the Customer Relationship Management system. Additions in the year were not amortised as the costs relate to phase 3 of CRM, which is due to go live in June 2019.

11(b) TANGIBLE FIXED ASSETS: HOUSING PROPERTY

	Housing for Let	Under Construction Components	Under Construction Housing Properties	Total
Cost	£	£	£	£
At 1 April 2018	91,428,655	885,855	386,049	92,700,559
Additions	95,000	-	1,694,094	1,789,094
Works to Existing Properties	6,528,970	140,867	-	6,669,837
Transfer to Housing For Let	2,811,707	(945,318)	(1,866,389)	-
Disposals	(2,706,726)	-	-	(2,706,726)
Transfer to Current Assets (Note 13)	(56,935)	-	-	(56,935)
At 31 March 2019	98,100,671	81,404	213,754	98,395,829
Depreciation and Impairment				
At 1 April 2018	(24,825,032)	(31,265)	-	(24,856,297)
Charge for Year	(3,917,235)	31,265	-	(3,885,970)
Impairment	(169,973)	-	-	(169,973)
Disposals	1,117,581	-	-	1,117,581
Transfer to Current Assets (Note 13)	18,434	-	-	18,434
At 31 March 2019	(27,776,225)	-	-	(27,776,225)
Net Book Value				
At 31 March 2018	66,603,623	854,590	386,049	67,844,262
At 31 March 2019	70,324,446	81,404	213,754	70,619,604

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

EXPENDITURE ON WORKS TO EXISTING PROPERTIES

	2019	2018
	£	£
Replacement component spend capitalised	6,806,590	6,436,967
Amounts charged to income and expenditure	<u>1,957,138</u>	<u>1,421,599</u>
Total Major Repairs Spend	<u><u>8,763,728</u></u>	<u><u>7,858,566</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 £2,763,751 (2018: £2,815,562) in respect of land which is not depreciated. In the year, 3 properties were transferred to current assets due them being held for sale. On review of SBHA's unlettable empty homes during the year, a further 16 properties at a charge of £114,973 were impaired as they are likely to be demolished or require substantial costs to bring to a lettable standard. One property purchased as part of a demolition area for regeneration was also fully impaired for £55,000.

11(c) TANGIBLE FIXED ASSETS: OTHER

	Office Premises £	Furniture & Fittings £	Office Equip & Information Systems £	Plant £	Motor Vehicles £	Total £
Cost						
At 1 April 2018	2,828,245	147,129	1,447,006	119,059	1,537	4,542,976
Additions	-	-	35,755	-	-	35,755
Disposals	(28,325)	(87,166)	(714,866)	(17,048)	(1,537)	(848,942)
At 31 March 2019	2,799,920	59,963	767,895	102,011	-	3,729,789
Depreciation and Impairment						
At 1 April 2018	(926,853)	(147,129)	(1,375,796)	(117,912)	(1,537)	(2,569,227)
Charge for the year	(51,986)	-	(35,289)	(573)	-	(87,848)
On disposals	29,046	87,166	714,346	17,048	1,537	849,143
At 31 March 2019	(949,793)	(59,963)	(696,739)	(101,437)	-	(1,807,932)
Net Book Value						
At 31 March 2018	1,901,392	-	71,210	1,147	-	1,973,749
At 31 March 2019	1,850,127	-	71,156	574	-	1,921,857

Office premises include 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% (2018: 100%)	General commercial company with an emphasis on housing related activities
Scottish Borders Building Services Ltd	Ordinary	100% (2018: 100%)	Dormant

The income of SBHA Plus in 2019 was £23,105 (2018: £74,651) with costs of £22,895 (2018: £69,922), interest receivable of £76 (2018: £27) resulting in a surplus for the year before tax of £286 (2018: £4,756). The net assets of the company as at 31 March 2019 were £22,569 (2018: £22,337).

13. PROPERTIES HELD FOR SALE

	Note	2019 £	2018 £
As at 1 April 2018		15,974	12,278
Additions during the year	11b	38,501	3,696
Disposals during the year	9/11b	(12,278)	-
As at 31 March 2019		<u>42,197</u>	<u>15,974</u>

14. STOCK

A stock of materials in relation to responsive repairs is held to the value as at March 2019 of £115,452 (2018: £114,623).

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £	2018 £
Gross Arrears of Rent and Service Charges	1,285,114	1,215,077
Less: Provision for Bad & Doubtful Debts	<u>(466,805)</u>	<u>(511,466)</u>
	818,309	703,611
Other Debtors	44,659	53,459
Prepayments and Accrued Income	621,117	704,974
SHG Receivable	13,692	263,197
Deferred Finance Cost	<u>15,067</u>	<u>20,090</u>
	<u>1,512,844</u>	<u>1,745,331</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2019 £	2018 £
Accruals and Deferred Income		3,231,675	2,513,658
Rent and Service Charges in Advance		981,961	873,397
Deferred Capital Grants	18	183,485	145,906
Trade Creditors		1,292,217	1,553,437
Other Creditors		307,959	381,395
Amount due to Subsidiary Company		1,335	7,995
Other Taxes and Social Security		14,032	16,573
Debt	19	<u>600,000</u>	<u>600,000</u>
		<u>6,612,664</u>	<u>6,092,361</u>

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

	Note	2019 £	2018 £
Deferred Capital Grant	18	5,721,843	5,019,342
Debt	19	<u>27,000,000</u>	<u>27,000,000</u>
		<u>32,721,843</u>	<u>32,019,342</u>

Included in creditors are:

Amounts repayable other than by instalments	<u>27,000,000</u>	<u>27,000,000</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 2019, £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 2019 was 6.07% (2018: 6.25%).

18. DEFERRED CAPITAL GRANT

	Note	2019 £	2018 £
As at 1 April		5,165,248	4,977,450
Grants Received in the Year		948,583	364,073
Capital Grants Released		<u>(208,503)</u>	<u>(176,275)</u>
As at 31 March		<u>5,905,328</u>	<u>5,165,248</u>
Amounts to be released within one year	16	<u>183,485</u>	<u>145,906</u>
Amounts to be released after more than one year	17	<u>5,721,843</u>	<u>5,019,342</u>

19. DEBT ANALYSIS - BORROWINGS

	Note	2019 £	2018 £
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 (2018: £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	2019 £	2018 £
Due within one year	16	600,000	600,000
Due in one year and more but less than two years	17	-	-
Due between two and five years	17	-	-
Due in more than five years	17	<u>27,000,000</u>	<u>27,000,000</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 31 March 2018 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 (77 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.

	2019	2018
	No.	No.
Shares of £1 issued and fully paid:		
Active Shares at 1 April 2018	191	203
Relinquished during the period	(14)	(19)
Issued during the period	4	7
Active Shares at 31 March 2019	<u>181</u>	<u>191</u>

	2019	2018
	£	£
a) Unrestricted Reserve		
At 1 April 2018	41,994,594	39,617,299
Surplus for the Year	307,709	1,940,295
Transfer to Restricted Reserve (b)	(55,866)	-
Transfer from Pension Reserve (c)	247,000	437,000
At 31 March 2019	<u>42,493,437</u>	<u>41,994,594</u>

The total deficit for the year amounts to £439,643 (2018: surplus £6,337,295) of which £1,138,000 (2018: surplus £4,397,000) relating to a deficit on the pension reserve, is disclosed in Note 21c.

	2019	2018
	£	£
b) Restricted Reserve		
At 1 April 2018	-	-
Transfer from Unrestricted Reserves (a)	55,866	-
At 31 March 2019	<u>55,866</u>	<u>-</u>

The Restricted Reserve transfer in the year relates to the proceeds of housing property sold privately (note 9). An agreement with Scottish Government is in place for SBHA to retain 95% of net Disposal proceeds in lieu of future HAG for the purpose of new Build development.

c) Pension Reserve	Note 25	2019 £	2018 £
At 1 April 2018		(286,000)	(4,246,000)
Transfer (to) Unrestricted Reserves		(247,000)	(437,000)
Actuarial (Loss)/Gain in the Year		<u>(1,138,000)</u>	<u>4,397,000</u>
At 31 March 2019		<u>(1,671,000)</u>	<u>(286,000)</u>

The Pension Reserve represents the Association's share of the deficit that exists within the pension scheme of which it is a member, in accordance with FRS 102 calculations. Assets are now valued on a bid value rather than mid market value basis.

22. CASH FLOW

RECONCILIATION OF SURPLUS TO NET CASH GENERATED FROM OPERATIONS

	2019 £	2018 £
Surplus for the year	307,709	1,940,295
<i>Adjustment for non-cash items:</i>		
Depreciation of Tangible Fixed Assets	4,238,320	3,899,028
Defined Benefit Pension Schemes	1,035,000	773,000
Increase/(Decrease) in Provisions	15,111	(402,336)
Loss on Disposal of Tangible Fixed Assets	1,530,137	803,223
Release of Deferred capital grant	(208,503)	(176,275)
Interest Receivable	(39,019)	(15,955)
Interest Payable	<u>1,690,527</u>	<u>1,844,600</u>
Operating cash flows before movements in working capital	<u>8,569,282</u>	<u>8,665,580</u>
(Increase) in Stock	(829)	(35,254)
Decrease in Debtors	(32,128)	636,855
Increase in Creditors	<u>482,724</u>	<u>773,046</u>
Cash Generated from operations	<u>9,019,049</u>	<u>10,040,227</u>
Cash and cash equivalents represent:		
Cash at bank	<u>7,497,242</u>	<u>8,174,333</u>

23. CAPITAL COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

	Note	2019 £	2018 £
Capital Expenditure contracted for but not provided in the Financial Statements		<u>10,346,689</u>	<u>2,736,629</u>
Expenditure authorised by the board, but not contracted		<u>7,622,180</u>	<u>9,685,144</u>

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

24. OPERATING LEASE COMMITMENTS

At 31 March 2019, the Association had total future minimum lease commitments and had made payments under non cancellable operating leases as set out below:

	2019	2018
	£	£
Plant & Equipment		
Within 1 year	283,722	196,463
Between 1-5 years	844,676	576,789
Over 5 years	50,074	38,705
Total commitment at 31 March	<u>1,178,472</u>	<u>811,957</u>
Payments in current year	<u>248,868</u>	<u>254,090</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 £120,159 (2018: £107,726).

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 £799,422 (2018: £449,504) and included a voluntary payment of £347,000. At 31 March 2019, the Association had no pension contributions outstanding (2018: £nil).

Employees' contributions are fixed by statute for SBHA employees according to the following scale for the year ended 31 March 2019:

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 2019 employer's contributions stood at 20.3% based on the pensionable salary of the previous year; this contribution will remain from 1 April 2019.

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 2019 including an allowance for the McCloud judgement. This calculation was based on rolling forward valuation data as of 31 March 2018 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	2019	2018
RPI increases	3.35%	3.20%
CPI increases	2.35%	2.20%
Salary increases	3.35%	2.20%
Pension increases	2.35%	2.20%
Discount rate	2.60%	2.70%

The expected return on assets is based on the long-term future expected investment for each asset class as at 31 March 2019.

Assumed life expectancies from age 65 are:	2019	2018
	Years	Years
Retiring today:		
Males	21.6	21.6
Females	24.2	24.2
Retiring in 20 years:		
Males	23.3	23.3
Females	26.0	26.0

Assets (Employer) as at 31 March	2019	2018
Equities	48%	58%
Gilts	21%	15%
Property	14%	14%
Alternatives	14%	12%
Infrastructure	3%	1%
Total	100%	100%

Net Pension (Liability)/Asset as at 31 March	2019	2018	2017	2016	2015
	£'000	£'000	£'000	£'000	£'000
Fair value of scheme assets	35,193	32,560	31,163	25,634	25,416
Present value of funded obligation	<u>(36,864)</u>	<u>(32,846)</u>	<u>(35,409)</u>	<u>(27,372)</u>	<u>(27,018)</u>
Net pension (liability)	<u>(1,671)</u>	<u>(286)</u>	<u>(4,246)</u>	<u>(1,738)</u>	<u>(1,602)</u>

25. PENSION COMMITMENT (Cont.)

Amount recognised in Income & Expenditure Account as at 31 March	2019 £'000	2018 £'000
Service cost	1,035	759
Net interest on the defined liability	11	115
Administration expenses	-	14
Total	1,046	888

Reconciliation of opening and closing balances of the present value of the defined benefit obligation as at 31 March	2019 £'000	2018 £'000
Opening defined benefit obligation	32,846	35,409
Service cost	1,035	759
Interest cost	889	999
Change in financial assumptions	2,980	(1,121)
Change in demographic assumptions	-	(1,051)
Experience loss/(gain) on defined benefit obligation	-	(1,436)
Estimated benefits paid (net of transfers in)	(1,025)	(860)
Contributions by scheme participants	139	147
Closing defined benefit obligation	36,864	32,846

Reconciliation of opening and closing balances of the fair value of Scheme assets as at 31 March	2019 £'000	2018 £'000
Opening fair value of scheme assets	32,560	31,163
Interest on assets	878	884
Return on assets less interest	1,842	693
Other actuarial gains/(losses)	-	96
Administration expenses	-	(14)
Contributions by employer (including unfunded)	799	451
Contributions by scheme participants	139	147
Estimated benefits paid (net of transfers in and including unfunded)	(1,025)	(860)
Fair value of scheme assets at end of period	35,193	32,560

Net Actuarial movement in the year	2019 £'000	2018 £'000
Defined Obligation – Change in financial assumptions	(2,980)	1,121
Defined Obligation – Change in Demographic assumptions	-	1,051
Experience gain on DB obligation	-	1,436
Scheme Assets – return on assets less interest	1,842	693
Scheme Assets – other actuarial gains	-	96
Net Actuarial (Loss)/Gain	(1,138)	4,397

Projected pension expense for year to 31 March 2020	2020
	£'000
Service cost	817
Net interest on the defined liability	48
Total	<u>866</u>
Employer contributions	<u>452</u>

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2019.

These projections are based on the assumptions as at 31 March 2019, as described earlier.

26. FINANCIAL INSTRUMENTS

At 31 March, the Association had in place the following financial instruments:

	2019	2018
	£	£
Financial assets measured at amortised cost	<u>1,279,405</u>	<u>1,365,418</u>
Financial liabilities measured at amortised cost	<u>32,417,099</u>	<u>32,038,107</u>

27. RELATED PARTIES

Current Board Member Simon Mountford has been a Councillor during the year. Any transactions with Scottish Borders Council are at arms length, on normal commercial terms and Councillor members cannot use their position to an advantage.

Current Board Members Michael Grieve, Allen Tills and Angela Sulo and former Board Members Marlen Jones and Julie Black are also Tenants of the Association. Current Independent Board Member Ian MacDonald's parents are Tenants of the Association. During the year £20,610 (2018: £23,611) of rent was receivable from these members. At the year end there was £345 (2018: £248) of technical rent arrears and £3 (2018: £509) 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 (2018: £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 three members of the Board of SBHA being Simon Mountford, Ian MacDonald and Allen Tills.

Carly Stewart, the Director of Finance of SBHA and current Secretary of SBHA, 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 2019 SBHA recharged SBHA Plus Ltd the sum of £19,859 (2017-18: £62,925) representing costs incurred in connection with Mid Market rental and Post Office activities (wider role activities ended in 2018). The amount due to SBHA Plus by SBHA at 31 March 2019 was £1,335 (2017-18: due to SBHA Plus from SBHA £7,995)

27. RELATED PARTIES (cont.)

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 2019.

Carly Stewart, the Director of Finance of SBHA and current Secretary 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 2018 or 2019.

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 2018-19 amounted to £84,468 (2018: £83,790), as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2018-19, the Association's total expenditure on Tenant Participation was £82,408 (2018: £67,523).