



SCOTTISH BORDERS HOUSING ASSOCIATION

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2020

“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 (Resigned 12.09.19)

Vice Chair - Michael Grieve (Re-elected 12.09.19)

Elected Board Members

Michael Grieve (Re-elected 12.09.19) Convenor of Customer Board

Allen Tills

Angela Sulo

David Elder (Elected 12.09.19, resigned 28.02.20)

Non-Tenant Elected Members

Ian MacDonald (Re - elected 12.09.19 fixed period of one year)

David Pye (Resigned 12.09.19)

Robin Hill Convenor of Audit & Compliance Sub-Committee

Philippa Brosnan (Elected 12.09.19 for a fixed term of 3 years)

John Paton Day (Elected 12.09.19 for a fixed term of 3 years)

Appointed Board Members

Simon Mountford

Andrew Limmer

Ian McDonald

Michael Levack (Appointed 30.05.19)

Secretary to the Association

Carly Stewart

Executive Team

Julia Mulloy

Chief Executive

Carly Stewart

Director of Finance

Maria Lyle

Director of Business Support

Henry Coyle

Director of Customer Services

Caroline Purcell

Director of Property Services

Board of Management, Executive Officers and Advisers (continued)

External Auditor

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

Internal Auditor

Scott Moncrieff
25 Bothwell Street
Glasgow
G2 6NL

Solicitors

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

Bankers

Lloyds TSB Bank plc
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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 2020. 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 2020, 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 5,608 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 is emerging as a completely different provider to the one created in 2003 in terms of services, investment, finances and governance and customer service, performance improvement and community engagement remain key priorities for future success. Local delivery of key services through the Community Team model, together with extended opening hours and the introduction of new technology has shifted resources towards the customer and improved outcomes. Core services are delivered by peripatetic teams, supported by a clear service offer and a suite of Customer Service and Neighbourhood Standards. Walkabouts and Roadshows in our 13 Neighbourhood patches provide greater visibility in local communities and a better understanding of what works at a local level. Increased engagement with partners in response to more complex needs helps to identify potential vulnerabilities and allow for more effective early intervention and prevention to protect security of tenure and improve quality of life.

3.0 GOVERNANCE

SBHA is governed through the Board of Management, consisting of 12 members. The governance structure is designed to ensure effective strategic impact and assurance. This is delivered through a quarterly meeting cycle, plus 2 additional meetings for Strategic Planning and Business Plan & Budget Setting. There are two main Sub-Committees: Audit & Compliance Sub Committee who provide detailed assurance on compliance and risk; and the Customer Board, who review customer experience, service development and policy. A Chair's Group is available for urgent decisions and the Remuneration and Nominations Sub Committee meets a minimum of once a year. In 2019, the Board introduced Remuneration for the Chair of the Board and Convenor of the Audit & Compliance Sub-Committee.

Scottish Borders Housing Association is committed to placing our Tenants and customers at the heart of decision making and service delivery. This is delivered in partnership with Scottish Borders Tenants Organisation (SBTO), the "umbrella" Tenants representative group for SBHA's Tenants, based in the Head Office in Selkirk. Funded and supported primarily through SBHA, SBTO's remit is to seek, represent and take forward Tenants' views in relation to SBHA's Policies and procedures and to ensure that Tenants get the best possible service. They work in partnership to deliver the commitments in the Tenant & Community Engagement Strategy 2017 -20 and will be a vital partner in the delivery of commitments in this Strategic Plan. They also support the development of Registered Tenant Organisations (RTOs) and in 2015 introduced an SBTO led Scrutiny model which has helped to drive up performance and satisfaction outcomes.

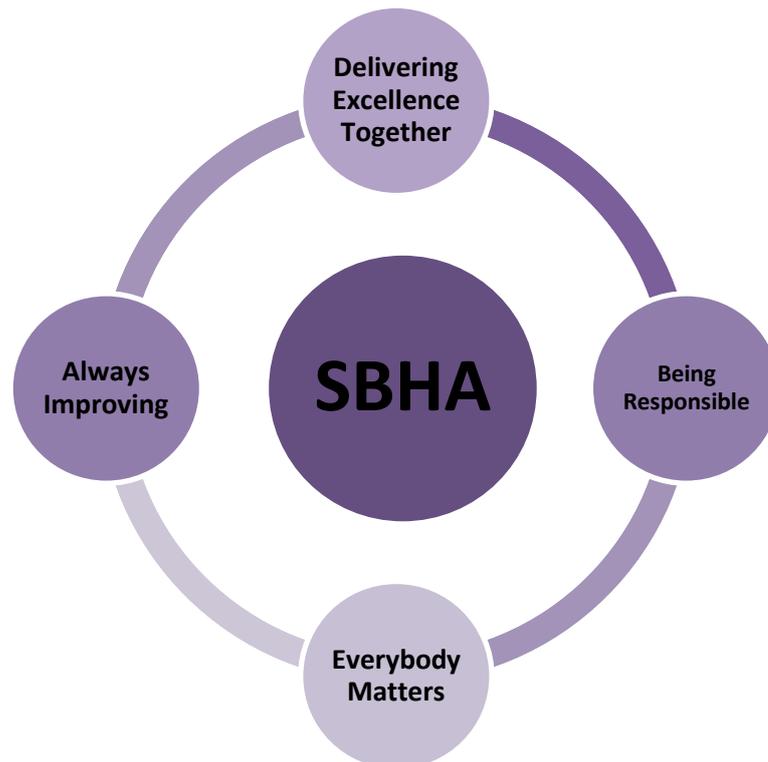
4.0 REVIEW OF SBHA 2020-25 STRATEGIC & BUSINESS PLAN

The 2020-25 SBHA Strategic and Business Plan provides an overview of how SBHA's mission, vision and values will be delivered over the next 5 years. It provides the framework for future decision making and a clear process for achieving commitments made. It has been developed with the full involvement of the Board of Management & governance members, the SBHA Team and SBTO.

The review of the 2020-25 SBHA Strategic and Business Plan began with the customer in mind. In 2018 the Customer Board held its first Awayday with SBHA Board, SBTO and the Leadership Team. Feedback was received on key strategic themes facing the sector and focused on a Safer World, Meeting Changing & Complex Needs, A Home for Everyone and Supporting Tenants through Welfare Reform. From this a series of priorities and themes were identified that informed existing practice and helped provide a basis for strategy going forward. This was further developed by the Board of Management in March 2019 identifying new objectives and mission statement and the key themes around these objectives. Engagement in the 2019 Customer Board focussed on these new objectives with a series of "Innovation Labs" and the content of the plan reflects both this and outcomes from 16 workshops held with the SBHA Team on the themes of Great Customer Experience and Great Places.

This Strategic Plan is the lead document for SBHA's main strategies and provides the framework for future decision making and a clear process for achieving commitments made. In developing the strategic direction account has been taken of the Scottish Government's National Outcomes and the consultation feedback on Homes Fit for 2040. It has also been developed in the broader context of the Scottish Borders Community Planning Partnership. It builds on the vision of the Scottish Borders Community Plan to "working together with our communities and through targeted partnership action, the quality of life will improve for all who live, work or study in the Scottish Borders." It also reflects the commitment in the Scottish Borders Local Housing Strategy that "every person lives in a home that meets their needs". SBHA recognises that as the largest social housing provider in the Scottish Borders it plays a significant role supporting the delivery of these objectives.

VALUES



5.0 SBHA'S OBJECTIVES

SBHA's updated 5 Strategic Objectives which reflect our members' vision for the future are:

- Great Customer Experience
- Great Places
- One Team
- Resilient Business
- Smart Investment Choice

MISSION STATEMENT

"Created by Tenants for Tenants, we enhance lives and communities across the Scottish Borders. We shape our homes and services to meet changing needs and expectations."

OBJECTIVES

GREAT CUSTOMER EXPERIENCE

Great Customer Experience requires the expansion of SBHA's "customer back" model which aims to delight tenants with increased and empowered decision-making by frontline teams that is underpinned by a clear service offer. The customer journey will be enhanced by communicating the SBHA brand and offer, focussing on technology to keep people informed and confirming outcomes to prevent dissatisfaction. This is supported by providing evidence of delivering promises and bringing great information to customers via emerging technology to shift digital access. Implementing the digital channel shift will build on the introduction of the MySBHA App to maximise the number of customers online, whilst ensuring that no one is left behind and helping to engage 'hard-to-reach' groups. Following its launch in late 2019, the MySBHA app had nearly 800 registered users by the end of March 2020.

SBHA will personalise services to reduce inequality and engage closely with partners, in terms of access, signposting and direct services, improving life chances and helping create sustainable communities. We will continue to support SBC's Rapid Rehousing Transition Plan to provide secure, permanent accommodation for homeless households and providing appropriate early intervention and preventative support to vulnerable people. SBHA will also develop an Older People's Housing Strategy to explore ways to support people to remain in their community.

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 one of the lowest average rent in 2019-20 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. The planned rent increase agreed for 2020-21 is at the lowest level for some years with the move from RPI based increases to CPI.

SBHA undertakes quarterly satisfaction surveys, providing more frequent feedback to identify and respond to emerging trends. Survey findings for 2019-20 show that overall satisfaction has remained stable, however there was a notable reduction in satisfaction with keeping tenants informed down 3% to 78%. The remaining indicators showed a sustainable increase in the year and 'tenants satisfied with the standard of their home when moving in' remains high at 97%.

GREAT PLACES

Year 3 of the 6 year Planned Maintenance Plan, connecting significant investment in neighbourhoods with the Community Model, saw investment of £10.2m (2019: £8.8m), with concentration in Peebles and the Langlee area of Galashiels. Success of the impact of this approach is evidenced in the shift in the ratio of repairs, cyclical and planned investment to impact on overall satisfaction. 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 has a plan to address the remaining properties currently failing the Energy Efficiency Standard for Social Housing (EESH) to ensure maximum compliance by the December 2020 target and is developing principles and proposals to meet EESH2 in order to continue warmer homes investment and improve affordable warmth for Tenants. In the year compliance with the EESH standard was raised from 79% to 95.1% exceeding the target of 92% for the year which represents a significant journey from 31.5% in 2015. £761,800 of ECO 3 funding was secured, helping to improve the warmth of 868 homes. SBHA also engaged Changeworks to ensure tenants, especially vulnerable and hard to reach, are supported in the upgrade/change of their heating system, from liaising with energy suppliers to demonstrating how systems could be used effectively. To allow SBHA to mainstream this service, 3 year funding was approved by the Scottish Government Investing in Communities fund to support and train a new coordinator in these services, who will upskill existing teams through SBHA's Warm & Well Project making energy advice business as usual.

Creating safe places is a key priority and assurances around Health and Safety have strengthened, with improved compliance across a number of areas including Gas Servicing, Solid Fuel servicing, Water Management and Electrical Safety certificates. Progress toward the February 2021 target for installation of LD2 systems has progressed well and assurances have been given around delivery of the remainder of the works by the deadline from SBHA's procured contractor. A focus is now on ensuring a move from compliance to best practise to a Compliance Plus approach on assurance on health and safety.

The strategic aim to reduce reactive maintenance by increasing proactive cyclical maintenance programmes continues with a programme of works to improve the environmental impact and we will be assessing logistics, technology, sustainable and maintenance free materials with longer life cycles, to improve homes and the service experience. A devolved Estate Improvement budget to the Neighbourhood teams allows for Communities to influence change in their area and demonstrates our commitment to raise the standard of the environment, which tenants have told us is one of their highest priorities.

SBHA's Asset Management strategy will be updated in the coming year to provide more detail on the commitments in the overall Strategic Plan and provide the road map to ensure SBHA's homes are fit for the future including a shift in the quality and quantity of accessible and adaptable homes.

ONE TEAM

One Team aims to move from leading people through change and business transformation to equipping the team for a more dynamic and externally focused future. This involves building on the existing approaches to skills development, succession planning, people engagement and attraction and retention. This builds on the transformational change undertaken through the Borders Without Barriers programme to transform SBHA's business model. It is underpinned by the core aims of SBHA's five-year People Strategy 2017-2021, which continue to be the following:

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

Significant advancement has been made towards these aims throughout the 2019-20 financial year, with notable progress made towards our goal of being One Team working to achieve the vision of SBHA and its commitment to customers.

The conclusion and implementation of the modernising pay project has harmonised terms and conditions across the organisation. It has been a key achievement and moved SBHA forwards in developing flexible working practices and consistent reward and recognition, appropriately and in line with affordability and best value for the organisation.

Having achieved bronze accreditation from Healthy Working Lives in March 2019, the SBHA Healthy Living Group has maintained momentum and promoted a variety of opportunities for people to improve their physical and mental wellbeing alongside a healthy work-life balance. Towards the end of the year regular communication and signposting to wellbeing information has been a fundamental and consistent part of the organisation's internal support response to the Covid-19 crisis.

The awarding of a new Occupational Health Contract will enable proactive health support, surveillance and promotion to continue to encourage and manage attendance at work.

SBHA's continued desire to nurture and develop the commitment, ability and performance of the Team was delivered through a wide range of learning opportunities and ongoing collaborative working. The SBHA Talent Management Strategy 2019-21 was approved which sets out the approach to attracting, training, developing, engaging and retaining employees through a number of talent management strategies.

Phase Two of The Leadership Development Programme concluded, and the Executive Team have continued to capitalise on their learning as they guide the organisation and the Leadership Teams.

RESILIENT BUSINESS

SBHA continue to support Tenants with its Financial Inclusion Service and the wider Neighbourhood Housing team to manage the change to their benefits under Welfare Reform, minimising the risk to SBHA's financial viability. This has never been so important given these extraordinary times of the Covid-19 pandemic. At 31st March 2020, 1,289 (2019:563) Tenants were in receipt of Universal Credit (UC), with attributing technical arrears of approximately £515,000 (2019: £120,000). In March alone the number of UC applications rose from a typical 213 to 356. Trusted Partnership Status and

local partnership working with the DWP and other agencies supports SBHA's plan to mitigate this financial risk.

Governance ready activities, to sustain effective assurance and controls to maximise effective governance, over the year have included the introduction of self-assessment with compliance of the SHR standards of Governance and Financial Management, which provides the evidence for setting out a positive statement of assurance, a new regulatory requirement for 2019. The previous comprehensive review of SBHA's governance concluded with remuneration for the Chair and Convenor of the Audit and Compliance Sub-Committee being introduced in the year. SBHA have been progressing effective succession planning for the Chair's retirement in 2020 and will also be expanding the use of technology to control risk and compliance and improve efficiency.

Policies and processes were introduced to comply with the Freedom of Information (Scotland) Act 2002, which became applicable to RSLs in November 2019. Digital resilience is a key theme with an action plan being progressed to ensure continuous best practice with cyber security with an objective to achieve Cyber Essential Plus in the future. SBHA will be developing a new IT Strategy introducing new and strengthening existing platforms with strong infrastructure and the journey to the cloud with a new emphasis on digitalisation for customers ranging from skills, access to Wi-Fi and telecare provision.

Value for money will focus on moving procurement from compliance to innovation delivering value for money and maintaining affordable rents. SBHA's procurement strategy has continued to be delivered and an annual report of activities and progress published in the year highlighted £484k net savings. The use of frameworks has been extended and a project is underway to mobilise the use of a locally established framework for reactive repairs sub-contracting, supporting local small contractors and ensuring compliance. The Strategy ends in 2020 and is currently being revised, this will focus on themes around sustainability & social value, value for money, assurance and controls, and courageous collaboration combined with a new Finance system and review systems to support e-procurement and contract management.

Challenges around productivity continue to be addressed along with projects to support continuous improvement and efficiencies in SBHA's in-house property team. This includes the rollout of Service Connect and expanding this tool to provide better job costing, materials management and potentially manage sub-contractor costs through a portal. The re-procurement of a slightly smaller fleet with integrated telematics and dashcams and updated livery provides visibility in our communities and a commitment to safe working practices. To ensure value for money SBHA will explore future delivery models for Asset Maintenance and Development.

SMART INVESTMENT CHOICES

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.

As well as providing solutions to over 300 homes which had lain empty for some years, many of which have been regenerated and brought back into use, SBHA have built 69 new homes since 2013, and have a further 22 homes currently in progress over 3 sites. Continuing to evaluate opportunities for land acquisition and other development partnership opportunities supports SBHA's aspiration to increase SBHA's Development programme. This includes a potential Residential Disability Facility in partnership with Aberlour and SBC.

An additional £323,000 of income for Tenants was generated through the provision of dedicated welfare benefits and financial support services, supporting over 600 SBHA Tenants. SBHA HELP (Help to Lessen the Pinch) Project, funded by the Scottish Government since 2015, has supported a total of 620 Tenants achieving a total of £107,000 in financial savings for these households.

SBHA funded the 16+ Transitions Project at Albert Place, Galashiels and this valued project has funding for a further 2 years, with contributions also being committed by SBC.

6.0 KEY PERFORMANCE INDICATORS 2019-20

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 2019-20	ACTUAL 2018-19	TARGET
Current Arrears (as at rent year end)	£922,512	£851,047	<£850,000
Rent Collection %	98.22%	98.38%	99.00%
Gross Arrears as a % of Rent Due	6.18%	6.2%	<5.6%
Lettable Stock Void Loss %	1.24%	1.49%	1.47%
Average days to let empty homes	40	46	39
Av Time to Complete Emergency Repairs (hrs)	1.74hrs	1.8hrs	2.0hrs
Average days for non- emergencies	6.6	6.7	5.5
PERFORMANCE	ACTUAL 2019-20	ACTUAL 2018-19	TARGET
Right First Time (Repairs)	93.20%	89.00%	93.00%
ESSH Compliance	95.13%	79.00%	92.00%
Staff Attendance	94.73%	95.91%	>96.00%

Rent Collection:

Rent collection performance at year end is relatively comparable to last year despite an increase in the number of Tenants receiving Universal Credit in the year. The level of gross arrears remains stable with less debt being written off however, this is higher than the Scottish average and did not achieve target in the year. Enforcement action has increased in the year, however resultant evictions have reduced and the level of abandonments has significantly increased. Continued improvements in rent collection will remain a key focus during the forthcoming year.

Empty Homes Management:

Performance in the management of empty homes has continued to improve throughout the year, however, the annual outturn has been impacted by events in the last quarter, relating to the early impact of the Covid-19 pandemic. As a result, the number of lettable empty homes at the end of the year increased from 66 to 100, however, the number of non-lettable empty homes reduced in the year from 68 to 39, bringing the total number of empty homes to 139 at year end (up 5 from last year). Rent loss in the year has reduced and the average number of days taken to let has improved by 5 days. The proportion of lets made to homeless households has significantly increased from 29% to 40% (higher than the Scottish average), reflecting SBHA's continued commitment to support the local authority in the delivery of the regional Rapid Rehousing Transition Plan.

Repairs & Maintenance:

The number of reactive repairs completed in the year has reduced from 15,862 to 14,711 reflecting the shift in ratios between responsive, cyclical and planned works. The average time taken to complete overall repairs has improved with time taken to complete emergency repairs remaining above the sector average, however, despite the slight reduction in the time taken to complete non-emergency repairs, this remains below the sector average.

The number of repairs completed right first time has also increased this year and while it is expected that there will be a positive shift overall in the sector on this indicator due to a change in methodology there is almost a 2% real performance improvement in the year. The repairs service is the main driver for overall tenant satisfaction and in particular there is a direct correlation between right first time performance and satisfaction.

Continued investment and the progression of SBHA's plan for all homes to achieve the EESSH by December 2020 continued in the year, with a further 16.2% of homes being brought up to meet the standard in the year. A total of 95.13% of homes are now compliant with the standard and it is anticipated that the national target for all homes will be met, with 22 current exemptions. Work towards achieving EESSH 2 will be a focus in the coming year with the progression of plans for increasing the energy performance rating of homes in order to improve affordable warmth.

Employee Attendance: has decreased in the year after continuous improvements over the previous 5 years. Short term absences have increased with longer term cases reducing, efforts to reduce absence will continue in the forthcoming year.

Bank Covenants: The reported Net Debt per Unit and Interest Cover as at 31 March 2020 were comfortably within levels agreed with SBHA's funder. Both indicators remain below the covenant due to expenditure requirements to draw down further debt being delayed into 2020. 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') with £10.7m drawn in the year, bringing the total drawn to £38.3m.

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 2020, SBHA complied fully with all its Loan Covenants.

2.0 STATEMENT OF COMPREHENSIVE INCOME (SOI) 2019-20

Annual Turnover increased 4.3% to £23.86m during the year. The principal source of turnover for the Association is rental income and related service charges. Weekly rents including service charges were increased by an average of 3.0% from previous year levels. A 0.20% reduction of lettable voids as a percentage of gross income is offset by a reduction of 9 properties through private sale and the demolition of 33 units as part of the unlettable action plan plus the purchase of one property. An increase in revenue grants, mainly for adaptations, is offset by a decrease in the release of deferred capital grant.

Operating Costs of £19.42m were slightly higher (0.2%) than the previous year. Management and maintenance administration costs have decreased during the year by £326k, this is mainly due to a one off cost to refurbish SBHA's Head Office in the prior year of £294k and a voluntary payment to the LGPS pension scheme being £176k lower than the prior year, offset by increased general costs of £144k. The voluntary payment to the LGPS pension scheme is part of SBHA's funding strategy to reduce the projected deficit and is from savings ring fenced due to turnover in posts.

Planned and Cyclical maintenance costs reduced by £58k but in cash terms when adding back those components capitalised increased by £1.53m (capitalised costs increased from £6.8m to £8.4m) 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.

Reactive Maintenance costs marginally increased by £109k (4.0%) being slightly higher than inflation and efforts to ensure this service is delivered with increased levels of productivity and value for money continue.

Bad Debt expense has risen in the year by £27k (6.93%) (2019: 6.37%) with rental arrears (net of technical arrears) in total being slightly higher than last year, this indicates that performance has marginally declined.

Depreciation and Impairment costs in the year have increased by £272k (6.76%) and reflect the year on year additional investment on existing properties with its subsequent write off.

This year a loss on disposal of fixed assets was £767k less than the previous year, mainly due to the loss on components being replaced reducing from £1.59m to £721k. The majority of 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 gain on disposal of unlettable properties sold at market value was £13k with 95% pf proceeds after selling costs being retained in lieu of future grant for new build. 95% of net disposals in the prior year of £56k were adjusted in the current year, with this now being accounted for in additions to deferred grant income.

3.0 STATEMENT OF FINANCIAL POSITION (SOFP) AS AT 31 MARCH 2020

At 31 March 2020, 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 28, 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 2020 where those assets are generally able to be realised within one year, exceeded liabilities generally payable in the same period. The liquidity ratio for 2020 was 2.67 (2019: 1.39) and increased mainly due to high cash balances as a result of drawing the available loan facility of £10.7m in March 2020.

At 31 March 2020, the Association owned 5,608 properties against 5,649 at 31 March 2019, 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 reduced from £1,671,000 to a liability of £506,000 in the year. The report is based on a triennial valuation at 31 March 2017 rolled forward, the main impact on the reducing deficit was the assumptions for longer term rates of inflation and salary increases giving rise to an actuarial gain of £1.39m.

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 £15.4 million (2019: £7.5 million) and is at levels greater than anticipated, due to the delayed expenditure in the planned maintenance programme and a small new build programme. £10.7m of loans were drawn before the availability of SBHA's main tranches of loan facility ended on 31st March 2020. Cash in bank is expected to reduce significantly over the next 2 years as committed project spends are progressed.

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.

5.0 PENSIONS

The Association participates as a closed member in the Scottish Borders Council Pension Fund (SBCPF), a statutory multi-employer defined benefit scheme. It is administered by the Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended. This scheme moved to a Career Average Revalued Earnings (CARE) calculation method in 2015, which replaced the Final salary valuation method.

The actuarial method used to value the Pension Fund is known as the Projected Unit Method. The last valuation (triennial) was as at 31 March 2017 and, following this valuation, SBHA's employer's contributions have been set at 20.3% of pensionable pay with effect from 1 April 2017. The Association recognises a Net Pension liability of £506,000 (2018: £1,671,000) at 31 March 2020.

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.

6.0 GOING CONCERN

The Board of Management has reviewed SBHA's 30 year Business Plan, including annual and 5 year budgets, and have stress tested these in light of the Covid-19 pandemic. The Board approved a revised plan based on these forecasts taking into account potential risks to rental income, voids and the impact of reduced repairs and maintenance to the housing stock. This also focused on the impact on cash flow, ensuring sufficient cash is available to fund a potential significant increase in working capital requirements. The revised plan provides the basis for which covenants are re-set with SBHA's lender. This has provided assurance that potential financial risks can be managed. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 misstatement 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 2020-25 was reviewed and approved in February 2020 along with the financial aspects of the Business Plan;
- 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 9.

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 2020. 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 re-assess two standards per annum on a rolling basis from 2020.

2.0 RISK MANAGEMENT

A review of SBHA's risk management was undertaken in the 2018 with the framework of policy and procedures being updated. There are currently 8 Strategic risks, with 30 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 CONTROLS
<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 Covid and Welfare Reform. • Failure to monitor & control financial commitments results in breach of covenants • Costs increase above inflation • 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"> • Bad Debt budget and working capital increases; Engage with DWP; Empty homes action plan • Governance of management accounts, monthly/quarterly; Realistic Business Plan assumptions/stress testing • Treasury advisor; Financing review • Internal controls; IT controls audit training/awareness of fraud risks
<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 manage a major disaster (i.e. Covid pandemic) • Fail to effectively communicate and engage with Tenants and take effective action • Failure to manage health & safety effectively (impact of Covid on working practices) • Failure to have robust IT security Controls resulting in cyber attack 	<ul style="list-style-type: none"> • Business Continuity Plan • Communications Strategy • H&S framework; Action plan; Key roles; Competent person/advisor • Suite of Policies-conduct/values/ fraud & theft • Customer back • Tenant engagement strategy • IT controls audit/penetration testing
<p>GROWTH</p> <p><i>Inability to anticipate and/or maximise opportunities to Develop and Grow</i></p>	<ul style="list-style-type: none"> • Failure to engage appropriate support & advice to develop new homes • Failure to create effective partnerships & community support • Ineffective asset management • Lack of resources/financial • Inadequate decision-making tools, e.g. business case process, benchmarking and project management 	<ul style="list-style-type: none"> • Use of external consultant to increase expertise/seek opportunities • 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

3.0 EXTERNAL AUDITORS

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

By Order of the Board of Management



Simon Mountford
SBHA Chair

Date: 28 September 2020

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 2020 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 2020 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 14, 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: 30/9/20.

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 15 and 16 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 15 and 16 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: 30/9/20.

Statement of Comprehensive Income

	Note	2020 £	2019 £
Turnover	2	23,864,119	22,869,326
Operating Expenditure	2	(19,424,681)	(19,379,972)
(Loss) on disposal of property, plant and equipment	9	<u>(763,461)</u>	<u>(1,530,137)</u>
Operating Surplus	2, 8	3,675,977	1,959,217
Interest receivable	6	38,400	36,019
Interest payable and financing costs	7	<u>(1,673,913)</u>	<u>(1,690,527)</u>
Surplus for the Year	21	2,040,464	307,709
Actuarial gain/(loss) in respect of Pension Scheme	25	<u>1,393,000</u>	<u>(1,138,000)</u>
Total Comprehensive Income/(Expenditure) for the Year		<u>3,433,464</u>	<u>(830,291)</u>

The results relate wholly to continuing activities.

The accompanying notes on pages 25 to 49 form part of these financial statements.

Statement of Financial Position

	Note	2020 £	2019 £
Fixed Assets			
Intangible Assets	11a	106,778	174,794
Housing Properties – Depreciated Cost	11b	74,438,222	70,619,604
Other Fixed Assets	11c	1,904,109	1,921,857
Investment in Subsidiary Company	12	1	1
		<u>76,449,110</u>	<u>72,716,256</u>
Current Assets			
Properties Held for Sale	13	27,725	42,197
Stock	14	218,081	115,452
Trade and Other Debtors	15	2,308,897	1,512,844
Cash and Cash Equivalents		<u>15,436,726</u>	<u>7,497,242</u>
		<u>17,991,429</u>	<u>9,167,735</u>
Current Liabilities			
Creditors: Amounts falling due within one year	16	<u>(6,782,907)</u>	<u>(6,612,664)</u>
Net Current Assets		<u>11,208,522</u>	<u>2,555,071</u>
Total Assets less Current Liabilities		<u>87,657,632</u>	<u>75,271,327</u>
Creditors: Amounts falling due after more than one year	17	(42,839,693)	(32,721,843)
Pension Liabilities:			
Defined Benefit Pension Liability	25	<u>(506,000)</u>	<u>(1,671,000)</u>
		<u>(43,345,693)</u>	<u>(34,392,843)</u>
Total Net Assets		<u>44,311,939</u>	<u>40,878,484</u>
Reserves			
Unrestricted Reserve	21a	44,817,767	42,493,437
Restricted Reserve	21b	-	55,866
Pension Reserve	21c	(506,000)	(1,671,000)
Share Capital	21	172	181
Total Reserves		<u>44,311,939</u>	<u>40,878,484</u>

The Board of Management approved the Financial Statements on pages 21 to 49 and authorised them for issue on 28th September 2020 and they were signed on their behalf by:

Simon Mountford

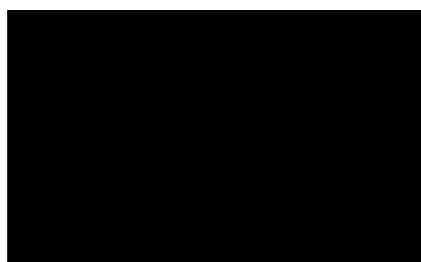
Chair

Robin Hill

Board Member

Carly Stewart

Secretary



Statement of Changes in Reserves

	Note	Unrestricted Reserve £	Restricted Reserve £	Pension Reserve £	Total £
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
Surplus for the Year	21	2,040,464	-	-	2,040,464
Transfer from Unrestricted to Restricted Reserve		55,866	(55,866)	-	-
Transfer to Unrestricted from Pension Reserve		228,000		(228,000)	-
Pension Actuarial (Loss)	25	-	-	1,393,000	1,393,000
Balance at 31 March 2020		44,817,767	-	(506,000)	44,311,767

Statement of Cashflows

	Note	2020 £	2019 £
Net Cash generated from Operating Activities	22	<u>7,984,856</u>	<u>9,019,049</u>
Cashflow from Investing Activities			
Purchase of Tangible Fixed Assets		(8,967,715)	(8,494,686)
Purchase of Intangible Fixed Assets		(6,444)	(31,108)
Proceeds from Sale of Tangible Fixed Assets		281,262	71,085
Grants Received		147,046	1,198,087
Interest Received		<u>38,400</u>	<u>39,019</u>
Net Cash (Used in) Investing Activities		<u><u>(8,507,451)</u></u>	<u><u>(7,217,603)</u></u>
Cashflow from Financing Activities			
Interest Paid		(1,628,913)	(1,679,527)
Contributions to Defined Benefit Liability		(609,000)	(799,000)
New Borrowings		10,700,000	-
Shares Issued		1	4
Shares (Cancelled)		<u>(10)</u>	<u>(14)</u>
Net Cash (Used In) Financing Activities		<u><u>8,462,078</u></u>	<u><u>(2,478,537)</u></u>
Net (decrease)/Increase in Cash and Cash Equivalents		<u>7,939,484</u>	<u>(677,091)</u>
Cash and Cash Equivalents at Beginning of Year		<u>7,497,242</u>	<u>8,174,333</u>
Cash and Cash Equivalents at End of Year		<u><u>15,436,726</u></u>	<u><u>7,497,242</u></u>

Notes to the Financial Statements

1. STATEMENT OF ACCOUNTING POLICIES

a) Legal Status

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered by The Financial Conduct Authority, 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 2018 “Statement of Recommended Practice for Registered Housing Providers” and they comply with the Determination of Accounting Requirements 2019, 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 liability – 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.
- Cash balance at the year end was £15.4m and post year end is sufficient and within the parameters of the revised 30 year Business Plan based on sensitivities due to Covid.

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
Smoke Detector System	10

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 £	Loss on Disposal £	Operating Surplus £	2019 £
Affordable Lettings Activities	3	23,483,811	(19,201,258)	-	4,282,553	3,379,519
Other Activities	4	380,308	(223,423)	-	156,885	109,835
Loss on disposal of fixed assets	9	-	-	(763,461)	(763,461)	(1,530,137)
Total for 2020		<u>23,864,119</u>	<u>(19,424,681)</u>	<u>(763,461)</u>	3,675,977	1,959,217
Total for 2019		<u>22,869,326</u>	<u>(19,379,972)</u>	<u>(1,530,137)</u>	1,959,217	

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

	Note	2020 £	2019 £
Rent receivable net of service charges		23,284,707	22,374,212
Service charges		<u>219,295</u>	<u>212,932</u>
Gross income from rents and service charges		23,504,002	22,587,144
Less voids		<u>(401,205)</u>	<u>(432,490)</u>
Net Income from rents and service charges		23,102,797	22,154,854
Grants Released from Deferred Income	18	180,103	208,503
Grants from Scottish Ministers		<u>200,911</u>	<u>167,106</u>
Total turnover from social letting activities		<u>23,483,811</u>	<u>22,530,263</u>
Management and maintenance administration costs		5,911,608	6,237,226
Service costs		222,437	220,637
Planned and cyclical maintenance including major repairs cost		5,158,385	5,215,991
Reactive Maintenance costs		2,827,743	2,717,901
Grounds Maintenance		364,466	341,819
Bad debts rents and service charges		427,997	400,260
Depreciation of Affordable Let Properties		4,262,869	3,846,937
Impairment of Affordable Let Properties		<u>25,753</u>	<u>169,973</u>
Operating Costs for Affordable Letting Activities		<u>19,201,258</u>	<u>19,150,744</u>
Operating surplus for Affordable Letting Activities		<u>4,282,553</u>	<u>3,379,519</u>

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

	2020 £	2019 £
The average weekly rent (48 week basis) per property available to let at the period end was:	86.09	83.57

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

	Total Turnover £	Other Operating Costs £	Operating (Deficit)/ Surplus £	Operating (Deficit)/ Surplus 2019 £
Other Agency / Management Services	30,385	(39,834)	(9,449)	(21,636)
Factoring	13,552	(9,004)	4,548	5,436
Other Activities	336,371	(174,585)	161,786	126,035
Total from other activities 2020	380,308	(223,423)	156,885	109,835
Total from other activities 2019	339,063	(229,228)	109,835	

Other Activities include commercial lets of £254,830 (2019: £250,876) less related costs of £131,840 (2019: £143,370).

In line with paragraph 12.2 of the Determination of Accounting Requirements – February 2019, there was no income falling under Grants from Scottish Ministers and Other Revenue Grants in relation to Other Activities for 2019-20 which require disclosure, with nil in the previous accounting period of 2018-19.

5. ACCOMMODATION IN MANAGEMENT

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

	2020 No.	2019 No.
General Needs Housing	5,554	5,593
Homeless Lets	51	53
Mid Market Lets – leased to SBHA Plus	3	3
Factored Properties	145	145
	5,753	5,794

Stock movements during the year: Disposals: 9 properties sold at market value and 33 properties demolished; Additions for the year include 1 buy-back.

6. INTEREST RECEIVABLE

	2020 £	2019 £
Interest Receivable	38,400	39,019
	38,400	39,019

7. INTEREST PAYABLE AND FINANCE COSTS

	2020 £	2019 £
Loan Interest	1,562,736	1,570,411
Pension scheme net interest cost	45,000	11,000
Non-utilisation Fees	61,155	104,094
Arrangement Fees	5,022	5,022
	<u>1,673,913</u>	<u>1,690,527</u>

8. OPERATING SURPLUS

Operating surplus is stated after charging:

	Note	2020 £	2019 £
Amortisation of Intangible Assets	11a	74,460	94,529
Depreciation of Housing Properties	11b	4,304,358	3,885,970
Impairment of Housing Properties	11b	25,753	169,973
Depreciation of Other Tangible Assets	11c	115,801	87,848
Operating Lease Rental	24	314,950	248,868
Cost of Stock recognised as expense		2,016,280	2,097,744

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	29,469	27,406
Non Audit Services for entities related to Auditor	210	-
	<u>29,679</u>	<u>27,406</u>
Internal Auditors Remuneration	<u>15,259</u>	<u>27,627</u>

9. DEFICIT ON SALE/DISPOSAL OF FIXED ASSETS

	2020 £	2019 £
Disposal Proceeds	13,339	71,085
Carrying Value of Fixed Assets	(720,934)	(1,601,222)
Net loss	(707,595)	(1,530,137)
Other adjustments	(55,866)	-
(Loss) on Sale	<u>(763,461)</u>	<u>(1,530,137)</u>

Disposal proceeds are those retained by SBHA of proceeds from the private sale of 9 properties (2019: 2 properties) at the current market value. 5% of proceeds net of costs are retained by SBHA and the balance used in replacement of future Housing Grant (see deferred grant note 18). The adjustment of £55,866 is 95% net disposals in the prior year which are now accounted for in deferred grant additions. Where projects are not identified, the proceeds are held in grant repayable (note 16). The carrying value of the assets includes the loss on disposal of housing property component assets being replaced £720,934 (2019: £1,589,145) and the cost of disposal of properties held for sale is £nil (2019: £12,278).

10. EMPLOYEES

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

	2020	2019
	£	£
Wages and Salaries	5,059,849	5,011,131
Social Security Costs	484,421	476,479
Pension costs	741,499	872,348
Agency/Secondment Costs	587,870	353,384
	<u>6,873,639</u>	<u>6,713,342</u>
Average number employed during the year of full time equivalents (including key personnel) was:	No.	No.
Directorate and Senior Management	12	11
Supervisory and Administrative	86	84
Trades	71	78
	<u>169</u>	<u>173</u>

A voluntary pension payment of £171,000 in 2020 (2019: £347,000) 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.

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:

	2020	2019
	No.	No.
£ 60,000 - £70,000	-	1
£ 70,001 - £80,000	1	2
£ 80,001 - £90,000	3	-
£ 90,001 - £100,000	-	-
£100,001- £110,000	-	1
£110,001 - £120,000	1	-

During the year, 2 Directors (2019:2 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.

Key Board Personnel who received emoluments (excluding employer's pension contributions) during the reporting period fell within the following bands:

	2020	2019
	No.	No.
£ 0 - £5,000	2	-

The Key Board personnel who received emoluments in the year are the Chair of the Board and the Convenor of the Audit and Compliance Sub-Committee.

10. EMPLOYEES CONTD

	2020 £	2019 £
Aggregate emoluments for the above key management personnel (excluding pension contributions)	429,421	324,323
The emoluments of the Chief Executive (excluding pension contributions)	110,894	103,441
Employer Pension Contributions of the Chief Executive	22,354	20,856
Total emoluments of the Chief Executive payable	133,248	124,297
Aggregate Pension Contributions in relation to the above key management personnel	51,355	43,420
Aggregate emoluments for the above key board personnel (excluding pension contributions)	7,713	-

11(a) INTANGIBLE ASSETS

Cost	£
At 1 April 2019	483,641
Additions	6,444
At 31 March 2020	490,085
Amortisation	
At 1 April 2019	(308,847)
Charge for Year	(74,460)
At 31 March 2020	(383,307)
Net Book Value at 31 March 2019	174,794
Net Book Value at 31 March 2020	106,778

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

11(b) TANGIBLE FIXED ASSETS: HOUSING PROPERTY

	Housing for Let	Under Construction Components	Under Construction Housing Properties	Total
Cost	£	£	£	£
At 1 April 2019	98,100,671	81,404	213,754	98,395,829
Additions	50,000	-	426,070	476,070
Works to Existing Properties	8,206,306	187,287	-	8,393,593
Transfer to Housing For Let	78,247	(78,247)	-	-
Disposals	(2,223,897)	-	-	(2,223,897)
At 31 March 2020	104,211,327	190,444	639,824	105,041,595
Depreciation and Impairment				
At 1 April 2019	(27,776,225)	-	-	(27,776,225)
Charge for Year	(4,304,358)	-	-	(4,304,358)
Impairment	(25,753)	-	-	(25,753)
Disposals	1,502,963	-	-	1,502,963
At 31 March 2020	(30,603,373)	-	-	(30,603,373)
Net Book Value				
At 31 March 2019	70,324,446	81,404	213,754	70,619,604
At 31 March 2020	73,607,954	190,444	639,824	74,438,222

EXPENDITURE ON WORKS TO EXISTING PROPERTIES

	2020 £	2019 £
Replacement component spend capitalised	8,393,593	6,806,590
Amounts charged to income and expenditure	1,781,104	1,957,138
Total Major Repairs Spend	10,174,697	8,763,728

The Association's Housing property was independently valued as at August 2020 at £107,460,000 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 280% compared to the 110% required by the lender on EUV-SH basis and 395% compared to 125% on MVT.

Included in the Housing Properties is £2,763,751 (2019: £2,763,751) in respect of land which is not depreciated. On review of SBHA's unlettable empty homes during the year, an impairment charge of £25,753 was recognised for 12 units as they are likely to be demolished or require substantial costs to bring to a lettable standard.

11(c) TANGIBLE FIXED ASSETS: OTHER

	Office Premises	Furniture & Fittings	Office Equipment & Information Systems	Plant	Total
	£	£	£	£	£
Cost					
At 1 April 2019	2,799,920	59,963	767,895	102,011	3,729,789
Additions	527	804	50,035	46,687	98,053
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 March 2020	<u>2,800,447</u>	<u>60,767</u>	<u>817,930</u>	<u>148,698</u>	<u>3,827,842</u>
Depreciation and Impairment					
At 1 April 2019	(949,793)	(59,963)	(696,739)	(101,437)	(1,807,932)
Charge for the year	(52,150)	-	(51,980)	(11,671)	(115,801)
On disposals	-	-	-	-	-
At 31 March 2020	<u>(1,001,943)</u>	<u>(59,963)</u>	<u>(748,719)</u>	<u>(113,108)</u>	<u>(1,923,733)</u>
Net Book Value					
At 31 March 2019	<u>1,850,127</u>	<u>-</u>	<u>71,156</u>	<u>575</u>	<u>1,921,857</u>
At 31 March 2020	<u>1,798,504</u>	<u>804</u>	<u>69,211</u>	<u>35,590</u>	<u>1,904,109</u>

12. SUBSIDIARY UNDERTAKINGS

Name of Undertaking	Class of Shareholding	Proportion of nominal value held directly	Nature of Business
SBHA Plus Limited	Ordinary	100% (2019: 100%)	General commercial company with an emphasis on housing related activities
Scottish Borders Building Services Ltd	Ordinary	100% (2019: 100%)	Dormant

The income of SBHA Plus in 2020 was £21,448 (2019: £23,105) with costs of £19,873 (2019: £22,895), and interest receivable of £128 (2019: £76) resulting in a surplus for the year before tax of £1,703 (2019: £286). The net assets of the company as at 31 March 2020 were £22,450 (2019: £20,747).

13. PROPERTIES HELD FOR SALE

	Note	2020 £	2019 £
As at 1 April 2019		42,197	15,974
Additions during the year		-	38,501
Disposals during the year	9	<u>(14,472)</u>	<u>(12,278)</u>
As at 31 March 2020		<u>27,725</u>	<u>42,197</u>

14. STOCK

A stock of materials in relation to responsive repairs is held to the value as at March 2020 of £218,081 (2019: £115,452).

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £	2019 £
Gross Arrears of Rent and Service Charges	1,698,068	1,285,114
Less: Provision for Bad & Doubtful Debts	<u>(775,467)</u>	<u>(466,805)</u>
	922,601	818,309
Other Debtors	62,051	44,659
Prepayments and Accrued Income	936,864	621,117
SHG Receivable	377,336	13,692
Deferred Finance Cost	<u>10,045</u>	<u>15,067</u>
	<u>2,308,897</u>	<u>1,512,844</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2020 £	2019 £
Accruals and Deferred Income		1,161,455	3,231,675
Rent and Service Charges in Advance		1,374,407	981,961
Deferred Capital Grants	18	161,742	183,485
Trade Creditors		1,842,459	1,292,217
Other Creditors		375,089	307,959
Amount due to Subsidiary Company		953	1,335
Other Taxes and Social Security		23,005	14,032
SHG Repayable		43,797	-
Debt	19	<u>1,800,000</u>	<u>600,000</u>
		<u>6,782,907</u>	<u>6,612,664</u>

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

	Note	2020 £	2019 £
Deferred Capital Grant	18	6,339,693	5,721,843
Debt	19	<u>36,500,000</u>	<u>27,000,000</u>
		<u>42,839,693</u>	<u>32,721,843</u>

Included in creditors are:

Amounts repayable other than by instalments	<u>36,500,000</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 2020, £26,000,000 (68%) of total loans drawn were 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 2020 was 5.88% (2019: 6.07%).

18. DEFERRED CAPITAL GRANT

	Note	2020 £	2019 £
As at 1 April		5,905,328	5,165,248
Grants Received in the Year		776,210	948,583
Capital Grants Released		<u>(180,103)</u>	<u>(208,503)</u>
As at 31 March		<u>6,501,435</u>	<u>5,905,328</u>
Amounts to be released within one year	16	<u>161,742</u>	<u>183,485</u>
Amounts to be released after more than one year	17	<u>6,339,693</u>	<u>5,721,843</u>

18. DEFERRED CAPITAL GRANT - CONT'D

Grant additions include £265,521 from the disposal proceeds of properties sold, in lieu of repaying the proceeds to the Scottish Government. The total disposal proceeds due to be repaid are £309,318, with the above being identified in current projects, the remaining £43,797 is in short term creditors (note 16).

19. DEBT ANALYSIS - BORROWINGS

	Note	2020 £	2019 £
Creditors: Amounts falling due within one year:			
Bank Loans	16	<u>1,800,000</u>	<u>600,000</u>
		<u>1,800,000</u>	<u>600,000</u>
Creditors: Amounts falling due after more than one year:			
Bank Loans	17	<u>36,500,000</u>	<u>27,000,000</u>
		<u>36,500,000</u>	<u>27,000,000</u>
Total		<u><u>38,300,000</u></u>	<u><u>27,600,000</u></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 £38,300,000 (2019: £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	2020 £	2019 £
Due within one year	16	1,800,000	600,000
Due in one year and more but less than two years	17	600,000	-
Due between two and five years	17	2,350,000	-
Due in more than five years	17	<u>33,550,000</u>	<u>27,000,000</u>
		<u><u>38,300,000</u></u>	<u><u>27,600,000</u></u>

20. 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 (76 active members at 31st March 2020) 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.

	2020 No.	2019 No.
Shares of £1 issued and fully paid:		
Active Shares at 1 April 2019	181	191
Relinquished during the period	(10)	(14)
Issued during the period	1	4
Active Shares at 31 March 2020	<u>172</u>	<u>181</u>

	2020 £	2019 £
a) Unrestricted Reserve		
At 1 April 2019	42,493,437	41,994,594
Surplus for the Year	2,040,464	307,709
Transfer from /(to) Restricted Reserve (b)	55,866	(55,866)
Transfer from Pension Reserve (c)	228,000	247,000
At 31 March 2020	<u>44,817,767</u>	<u>42,493,437</u>

The total surplus for the year amounts to £3,433,463 (2019: deficit £830,292) of which £1,393,000 relates to a surplus on the pension reserve (2019: loss £1,138,000) relating to a deficit on the pension reserve, is disclosed in Note 21c.

	2020 £	2019 £
b) Restricted Reserve		
At 1 April 2019	55,866	-
Transfer (to)/from Unrestricted Reserves (a)	(55,866)	55,866
At 31 March 2020	<u>-</u>	<u>55,866</u>

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. The Restricted Reserve transfer in the year relates to the proceeds now being earmarked to a specified project and is included within additions to deferred grant (note 18).

	Note 25	2020 £	2019 £
c) Pension Reserve			
At 1 April 2019		(1,671,000)	(286,000)
Transfer (to) Unrestricted Reserves		(228,000)	(247,000)
Actuarial Gain/(Loss) in the Year		<u>1,393,000</u>	<u>(1,138,000)</u>
At 31 March 2020		<u>(506,000)</u>	<u>(1,671,000)</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

(i) RECONCILIATION OF SURPLUS TO NET CASH GENERATED FROM OPERATIONS

	2020	2019
	£	£
Surplus for the year	2,040,463	307,709
<i>Adjustment for non-cash items:</i>		
Depreciation of Tangible Fixed Assets	4,520,372	4,238,320
Defined Benefit Pension Schemes	792,000	1,035,000
Increase in Provisions	264,012	15,111
Loss on Disposal of Tangible Fixed Assets	763,462	1,530,137
Release of Deferred capital grant	(180,103)	(208,503)
Interest Receivable	(38,400)	(39,019)
Interest Payable	1,673,913	1,690,527
Operating cash flows before movements in working capital	<u>9,835,719</u>	<u>8,569,282</u>
(Increase) in Stock	(102,629)	(829)
(Increase) in Debtors	(696,423)	(32,128)
(Decrease)/Increase in Creditors	<u>(1,051,811)</u>	<u>482,724</u>
Cash Generated from operations	<u><u>7,984,856</u></u>	<u><u>9,019,049</u></u>
Cash and cash equivalents represent:		
Cash at bank	<u><u>15,436,726</u></u>	<u><u>7,497,242</u></u>

(ii) ANALYSIS OF CHANGES IN NET DEBT

	2019	Cash Flows	Other Cash Movement	2020
	£	£	£	£
Cash and Cash Equivalents	7,497,242	7,939,484	-	15,436,726
Debt due within one year	(600,000)	-	(1,200,000)	(1,800,000)
Debt due after one year	(27,000,000)	(10,700,000)	1,200,000	(36,500,000)
Total	<u>(20,102,758)</u>	<u>(2,760,516)</u>	<u>-</u>	<u>(22,863,274)</u>

23. CAPITAL COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

	Note	2020 £	2019 £
Capital Expenditure contracted for but not provided in the Financial Statements		<u>10,051,145</u>	<u>10,346,689</u>
Expenditure authorised by the board, but not contracted		<u>2,556,000</u>	<u>7,622,180</u>

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

24. OPERATING LEASE COMMITMENTS

At 31 March 2020, the Association had total future minimum lease commitments and had made payments under non-cancellable operating leases as set out below:

	2020 £	2019 £
Plant & Equipment		
Within 1 year	279,845	283,722
Between 1-5 years	612,893	844,676
Over 5 years	-	50,074
Total commitment at 31 March	<u>892,738</u>	<u>1,178,472</u>
Payments in current year	<u>314,950</u>	<u>248,868</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 £132,499 (2019: £120,159).

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 £609,000 (2019: £799,422) and included a voluntary payment of £171,000. At 31 March 2020, the Association had no pension contributions outstanding (2019: £nil).

Employees' contributions are fixed by statute for SBHA employees according to the following scale for the year ended 31 March 2020:

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 2020 employer's contributions stood at 20.3% based on the pensionable salary of the previous year; this contribution will remain from 1 April 2020. 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 2020 including an allowance for the McCloud judgement. This calculation was based on rolling forward valuation data as of 31 March 2019 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	2020	2019
RPI increases	2.90%	3.35%
CPI increases	2.00%	2.35%
Salary increases	2.75%	3.35%
Pension increases	2.00%	2.35%
Discount rate	2.35%	2.60%

The expected return on assets is based on the long-term future expected investment for each asset class as at 31 March 2020.

Assumed life expectancies from age 65 are:	2020	2019
	Years	Years
Retiring today:		
Males	22.4	21.6
Females	23.8	24.2
Retiring in 20 years:		
Males	24.0	23.3
Females	25.5	26.0

Assets (Employer) as at 31 March	2020	2019
Equities	50%	57%
Bonds	26%	27%
Property	22%	15%
Cash	2%	2%
Total	100%	100%

Net Pension (Liability)/Asset as at 31 March	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Fair value of scheme assets	34,786	35,193	32,560	31,163	25,634
Present value of funded obligation	<u>(35,292)</u>	<u>(36,864)</u>	<u>(32,846)</u>	<u>(35,409)</u>	<u>(27,372)</u>
Net pension (liability)	<u>(506)</u>	<u>(1,671)</u>	<u>(286)</u>	<u>(4,246)</u>	<u>(1,738)</u>

Amount recognised in Income & Expenditure Account as at 31 March	2020 £'000	2019 £'000
Service cost	792	1,035
Net interest on the defined liability	45	11
Administration expenses	-	-
Total	<u>837</u>	<u>1,046</u>

Reconciliation of opening and closing balances of the present value of the defined benefit obligation as at 31 March	2020 £'000	2019 £'000
Opening defined benefit obligation	36,864	32,846
Service cost	792	1,035
Interest cost	959	889
Change in financial assumptions	(1,139)	2,980
Change in demographic assumptions	(1,336)	-
Experience loss/(gain) on defined benefit obligation	(134)	-
Estimated benefits paid (net of transfers in)	(850)	(1,025)
Contributions by scheme participants	<u>136</u>	<u>139</u>
Closing defined benefit obligation	<u>35,292</u>	<u>36,864</u>

Reconciliation of opening and closing balances of the fair value of Scheme assets as at 31 March	2020 £'000	2019 £'000
Opening fair value of scheme assets	35,193	32,560
Interest on assets	914	878
Return on assets less interest	(1,216)	1,842
Other actuarial gains/(losses)	-	-
Administration expenses	-	-
Contributions by employer (including unfunded)	609	799
Contributions by scheme participants	136	139
Estimated benefits paid (net of transfers in and including unfunded)	<u>(850)</u>	<u>(1,025)</u>
Fair value of scheme assets at end of period	<u>34,786</u>	<u>35,193</u>

Net Actuarial movement in the year	2020 £'000	2019 £'000
Defined Obligation – Change in financial assumptions	1,139	(2,980)
Defined Obligation – Change in Demographic assumptions	1,336	-
Experience gain on DB obligation	134	-
Scheme Assets – return on assets less interest	(1,216)	1842
Scheme Assets – other actuarial gains	-	-
Net Actuarial Gain/(Loss)	<u>1,393</u>	<u>(1,138)</u>

Projected pension expense for year to 31 March 2021	2021 £'000
Service cost	733
Net interest on the defined liability	<u>16</u>
Total	<u>749</u>
Employer contributions	<u>438</u>

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2020.

These projections are based on the assumptions as at 31 March 2020, as described earlier.

26. 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 David Elder, 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 £21,121 (2019: £20,610) of rent was receivable from these members. At the year end there was £nil (2019: £345) of technical rent arrears and £3 (2019: £3) credit due to 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 (2019: £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.

As detailed in note 10, SBHA's Chair and the Convenor of the Audit and Compliance Sub-Committee received emoluments in the year.

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 McDonald and Michael Levack.

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 2020 SBHA recharged SBHA Plus Ltd the sum of £19,576 (2018-19: £19,859) representing costs incurred in connection with Mid Market rental and Post Office activities (wider role activities ended in 2019). The amount due to SBHA Plus by SBHA at 31 March 2020 was £953 (2018-19: due to SBHA Plus from SBHA £1,335).

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 2020.

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 2019 or 2020.

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 2019-20 amounted to £93,639 (2019: £84,468), as well as SBHA's direct employment of a Senior Tenant Participation Officer and a dedicated budget for SBHA-led Tenant Participation projects. In 2019-20, the Association's total expenditure on Tenant Participation was £84,961 (2019: £82,408).