# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

Report of the Board of Management
and Financial Statements
for the year ended
**31 March 2009**

**Registration Particulars:**

| | |
|---|---|
| Scottish Housing Regulator: | Registered Number: 360 |
| Industrial and Provident Societies Act 1965 | Registered Number: 2661R (S) |

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## For the year ended 31 March 2009

**Contents**

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS

## For the year ended 31 March 2009

**The Board of Management**

The Board of Management and the Executive Officers who held office during the year are as follows:

| ***Board of Management Members*** | | **Appointed** | **Resigned** |
|---|---|---|---|
| Norman Beaton | Chair | 27 May 2005 | |
| Gail Dow | Vice Chair | 27 May 2005 | 12 June 2008 |
| Andy Birnie | | 27 May 2005 | |
| Christine Williams | | 27 May 2005 | 14 August 2008 |
| Bill McIntyre | Vice Chair | 27 May 2005 | |
| Margaret MacGregor | | 27 May 2005 | |
| George Farquhar | | 10 April 2008 | |
| Lochiel Cushnie | | 12 June 2008 | 18 March 2009 |
| David Nisbet | | 11 September 2008 | 12 February 2009 |
| Alister MacIntyre | | 13 November 2008 | |
| Marri Malloy | | 25 September 2007 | |
| George Douglas | | 25 September 2007 | |
| Stewart McGregor | | 13 March 2008 | |
| John Morris | | 11 September 2008 | |
| Simon Roberts | | 13 April 2005 | 18 March 2009 |
| | | | |
| Councillors: | | | |
| Roddy McCuish | | 13 June 2007 | |
| John McAlpine | | 13 June 2007 | 14 August 2008 |
| Alister McAlister | | 13 June 2007 | |
| Al Reay | | 13 June 2007 | |
| Rory Colville | | 13 June 2007 | |
| Neil MacKay | | 11 September 2008 | |

***Executive Officers***

| | |
|---|---|
| Alistair MacGregor | Chief Executive |
| Nick Pollard | Director of Finance and IT |
| Christine Johnston | Director of Housing and Neighbourhood Services |
| Linda Haig | Director of Investment and Regeneration |
| Colette Benham | Director of Human Resources and Corporate Services |

## ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS

### For the year ended 31 March 2009

| | |
|---|---|
| **Registered Office:** | **63-65 Chalmers Street**<br>**Ardrishaig**<br>**Argyll**<br>**PA30 8DX** |
| **Auditors:** | **Baker Tilly UK Audit LLP**<br>**Registered Auditors**<br>**Chartered Accountants**<br>**First Floor, Quay 2**<br>**139 Fountainbridge**<br>**Edinburgh**<br>**EH3 9QG** |
| **Bankers:** | **Lloyds TSB Scotland plc**<br>**120 George Street**<br>**Edinburgh**<br>**EH2 4LH** |
| **Solicitors:** | **Brechin Tindal Oatts**<br>**48 St. Vincent Street**<br>**Glasgow**<br>**G2 5HS** |
| **Internal Auditors:** | **Scott Moncrieff**<br>**17 Melville Street**<br>**Edinburgh**<br>**EH3 7PH** |

## ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## REPORT OF THE BOARD OF MANAGEMENT

## For the year ended 31 March 2009

The Board of Management present their report and audited financial statements for the year ended 31 March 2009. The Association was incorporated on 27 May 2005 and it was registered as a Registered Social Landlord on 21 November 2006. These accounts represent the financial period 1st April 2008 to 31st March 2009.

**Principal Activities**

The principal activity of the Association is to provide and manage quality affordable housing accommodation for people in housing need across the Argyll and Bute region. The Association received 5,398 homes from Argyll and Bute Council as a result of the whole stock transfer on 21st November 2006. The Association owns and manages a range of housing for rent in primarily general needs accommodation, some sheltered accommodation and a small number of travelling people sites. It provides accommodation for the homeless through tenancies with Argyll and Bute Council.

**Organisational Structure and How Decisions are Made**

The Association operates under Rules registered under the Industrial and Provident Societies Act 1965 and is a Registered Social Landlord. Its organisational structure consists of a voluntary Board of Management which is supported by a Chief Executive, Management Team and a range of specialist staff. Customer services are provided by four functional departments namely Housing and Neighbourhood Services, Investment and Regeneration Services, Human Resources and Corporate Services, and IT & Finance Services.

All Board members and staff operate within a set of standing orders, policies and financial regulations. Decisions relating to the Association's strategic objectives are taken at monthly Board of Management meetings whilst operational matters are dealt with by the staff management team. The Association also has one standing committee, which is the Finance and Audit Committee which has delegated powers from the Board regarding all finance matters and both internal and external audit matters.

The Association has established during the year four Area Committees who deal with operational matters locally. These Area committees are established along the following geographical areas;

- Oban Lorn and the Isles
- Mid Argyll and Kintyre
- Bute and Cowal
- Helensburgh and Lomond

**Recruitment and Training of Board Members**

Vacancies on the Board of Management are filled from members of the community, in accordance with the rules of the Association, who have a commitment to the furtherance of social housing and the aims and objectives of the Association. Members are drawn from a wide range of backgrounds and experience to maintain the necessary mix of skills required to govern and control a complex organisation. All Board members receive initial induction training and then attend internal and external training events which not only build on existing experience but provide an opportunity to develop new skills.

The Association's Board of Management has five Argyll and Bute Council nominees on its Board. During 2008/09 one nominee resigned and a new Council nominee was appointed, taking the place of the resigned nominee.

**Reserves**

At the year end the Revenue reserves balance had moved to a deficit of £11,530k. The Association is a whole stock transfer organisation it plans to make deficits for the first 11 years of its existence this is not unexpected. In addition there is a pension reserve equal to the deficit noted in liabilities on the pension scheme under the required FRS17 valuation.

No transfers have been made to designated reserves this year. Designated reserves are resources internally generated from operations, which have been set aside to provide for planned cyclical repairs. The Association has no designated reserves owing to the continued losses being generated. The Association's business plan incorporated planned costs for cyclical repairs across the thirty year business plan. The borrowing profile therefore incorporates costs without relying upon a specific designated reserve. The Association has a revolving credit facility of £30 million; a fixed term loan facility of £30 million set aside as committed facilities with Lloyds TSB Scotland plc to fund the thirty year business plan.

The Association's thirty year business plan was submitted, together with its long-term repair programme to the Scottish Housing Regulator to demonstrate projected compliance with the Scottish Housing Quality Standard (SHQS) by 2015. The achievement of this objective is an obligation to tenants and an objective for achievement written in to the transfer agreement that was signed by the Association, Argyll and Bute Council and the Scottish Government on 21st November 2006.

**Rent Policy**

The Association aims to house those in need in affordable rented housing. The objective is to charge affordable rents based on the rents that transferred as at 21st November 2006, with future rent increases guaranteed to tenants under the transfer agreement to be fixed to the Retail Prices Index (RPI) + 1% for a period of five years post transfer. In addition, there is an aim to limit rent increases to RPI + 1% for a further five years after the transfer guarantee has expired. The Association increased rents during the period by 4.9%, being made up of RPI (September 2006 Office of National Statistics) figure of 3.9% plus 1%.

**Risk Management**

The Association has a Risk Management Strategy determined by its Board based on the known risks. The Association has a risk management policy, which remains under review by the senior management team. The internal audit needs assessment completed during the previous year determined the workflow of the Association's external internal auditors. The internal audit service completed review of all planned work during the period amounting to 33 pieces of completed work. The outcomes of internal audit reviews were considered by officers and reported to the Finance and Audit Committee of the Association. During the year reviews of process and procedure were conducted in to rent increases, asset registers, committee information, rent ledger accounting, cost centre management and payroll.

**Treasury Management Policy**

Under its Rules the Association cannot enter into transactions of a speculative nature however it can enter in to interest rate hedging instruments which may be used to protect the Association from interest rate risk. The Association operates an active treasury management policy, which operates in accordance with a treasury strategy approved by the Finance and Audit Committee. The Association during the year considered its Treasury Management strategy in line with the approved policy and undertook three fixed forward borrowing rates with its bank Lloyds TSB Scotland plc. These fixings hedge forward the projected borrowings in a total amount of £17 million and were as follows;

**Fixed Rate Hedging**

| | **Value** (£000's) | **Term** (years) | **Rate** |
|---|---|---|---|
| Tranche 1 commencing 31 March 2008 | 2,000 | 15 | 5.552% |
| Tranche 2 commencing 31 March 2009 | 10,000 | 20 | 5.242% |
| Tranche 3 commencing 31 March 2010 | 5,000 | 10 | 5.520% |
| **Total** | **17,000** | | |

The rates quoted exclude margins which are stepped throughout the period of the borrowings and do not include lenders capitalisation charges.

The Association actively manages its surplus cash to minimise loan borrowings and/or earn interest on short term money market deposit. The Association does not borrow from any other institution than Lloyds TSB Scotland plc.

**Maintenance Policies**

The Association seeks to maintain its properties to the highest standards. To this end programmes of cyclical repairs are carried out in the medium term to deal with the gradual and predictable deterioration of building components. It is expected that the cost of all of these repairs will be charged to the Income and Expenditure Account. In addition, the Association has a long-term programme of major repairs which have become necessary since the original developments were completed, including works required by subsequent legislative changes. This includes replacement or repairs to components of the properties, which have come to the end of their economic lives. The cost of these repairs is to be charged to the Income and Expenditure Account, unless it is agreed they can be capitalised within the terms outlined in the Statement of Recommended Practice (SORP).

**Creditor Payment Policy**

The payment policy, which the Association follows, is to pay all purchases within 28 days, although some payments are settled in 14 days, and/or in accordance with creditor terms of business.

**Auditors**

Baker Tilly UK Audit LLP has indicated its willingness to continue in office. A resolution for the reappointment of Baker Tilly UK Audit LLP will be proposed at the Annual General Meeting.

By order of the Board of Management

Norman Beaton
Chairman

Date 3rd September 2009

# STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

## For the year ended 31 March 2009

Statute requires the Board of Management to prepare financial statements for each financial year which give a true and fair view of the affairs of the Association and of the deficit for that period. In preparing those financial statements, the Board of Management is required to fulfil the following obligations:

- select suitable accounting policies and apply them consistently;

- make reasonable and prudent judgements and estimates;

- 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 group will continue in business.

The Board of Management confirms that the financial statements comply with these requirements.

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 and to enable them to ensure that the financial statements comply with the Industrial and Provident Societies Act 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Management members have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Board members have confirmed that they have taken all the steps that they ought to have taken as Board members in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

By order of the Board of Management

Norman Beaton
Chairman

Date 3rd September 2009

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW STATEMENT

## For the year ended 31 March 2009

**Background**

Argyll Community Housing Association Limited (ACHA) is a not-for-profit organisation. It is constituted as an Industrial and Provident Society incorporated under the Industrial and Provident Societies Act 1965 (Registered Number 2661R(S)) and is registered with the Financial Services Authority (FSA). ACHA is also registered with the Scottish Housing Regulator as a Registered Social Landlord (RSL) No. 360.

The Association took ownership of the 5,398 homes transferred from Argyll and Bute Council on 21st November 2006.

The emphasis of the Associations' activities is the provision of quality housing at affordable rents, with tenants and communities being involved at each stage in this provision: to this end the Board of Management of ACHA comprises tenants, Council representatives and representatives of the wider community.

As well as including tenants in the governance structure, there are detailed mechanisms for consultation and opinion seeking.

In addition to proposals to improve the current housing stock as a result of stock transfer, ACHA is committed to regenerating communities through the development of new housing stock. In terms of services, the Association aims to deliver a high quality, diverse service to all customers. The Association's staff and office structure is organised with this aim in mind and there is a comprehensive staff training and development programme to support this.

While the Association's primary purpose is to improve and maintain the housing stock, the Association's Business Plan is about more than 'bricks and mortar'. It contains proposals to link housing investment and service to wider community needs. It is additionally intended that the economic regeneration of communities will be encouraged and facilitated, with local benefit in terms of employment and career opportunities.

The Business Plan is also about partnership, as the Association cannot work in isolation from the strategic priorities of Argyll and Bute Council and other organisations. To this end, the organisation is committed to working with Argyll and Bute Council, our fellow Housing Associations and statutory and voluntary agencies to contribute to holistic regeneration and team working.

ACHA therefore aims to improve the quality of life of the residents of Argyll and Bute. One of its main purposes is to provide quality houses where people want to live. It intends to achieve this through the delivery of a considerable investment programme, together with the empowerment of staff to deliver excellent services that are tenant-focussed.

**Review of the year's operations**

**Governance**

ACHA has a Board of Management which has places for members as follows;

- Ten Tenants
- Five Council nominees
- Five Independent Members

During the year the Board of Management had 6 new joiners and 6 leavers and although efforts were made to recruit new members the Association had 5 vacancies on the Board of Management at the year end.

The underlying principles of good governance and organisational structures in ACHA are to keep the organisation as manageable and flexible as possible. This allows ACHA to achieve its objectives of tenant-empowerment, devolution of power and decision-making across the communities of Argyll and Bute, thus developing the range of activities that will meet the wider needs of the Argyll and Bute community and provide the highest quality of service to tenants and other customers. ACHA also takes the view that good governance and organisational structures should be organic rather than static. ACHA will therefore regularly review these structures to ensure that they evolve as the Association evolves itself.

The Board of Management undertook a review of operations in February 2008 to evaluate the risk management strategy for the Association for the forthcoming year.

The Board of Management have delegated powers to the Finance and Audit Committee as it's only standing committee to consider financial aspects of the business. The Finance and Audit Committee's remit included all aspects of financial operations, such as cash flow and treasury management practices, all aspects of audit compliance and internal controls assurance, budgetary and management account performance and contract tendering.

Operationally ACHA is divided in to four functional areas;

- Finance and IT
- Housing and Neighbourhood Services
- Human Resources and Corporate Services
- Investment and Regeneration

Housing and Neighbourhood Services is sub divided geographically into the areas of;

- Bute and Cowal
- Helensburgh and Lomond
- Mid Argyll and Kintyre
- Oban Lorn and the Isles

**Housing Stock and Other assets**

At the start of the financial year, 1st April 2008 the Association owned 5,146 homes. As a result of the right to buy the Association sold 56 homes, 3 properties were altered from office to rentable accommodation in September 2008, and at financial year end, 31st March 2009, it owned 5,093 homes. The expected number of house sales under right to buy was less than was originally anticipated in our business plan due to the global economic circumstances prevailing during the period. This resulted in lower than forecast sales receipts as a result of right to buy but higher than expected rental income during the period.

The housing stock at 31st March 2009 by type is broken down as follows;

| **Rentable Stock** | **2009** | **2008** |
|---|---|---|
| General Needs Houses | 4,890 | 4,943 |
| Sheltered Housing | 203 | 203 |
| | 5,093 | 5,146 |

The housing stock at 31st March 2009 is, by geographical area, broken down as follows;

| **Houses** | **2009** | **2008** |
|---|---|---|
| Bute | 513 | 521 |
| Cowal | 909 | 918 |
| Helensburgh and Lomond | 1,015 | 1,022 |
| Islay | 334 | 337 |
| Kintyre | 819 | 831 |
| Lorn and the Isles | 917 | 926 |
| Mid Argyll | 586 | 591 |
| | 5,093 | 5,146 |

**Sheltered housing**

The Association's sheltered housing stock is located in nine complexes across Argyll and Bute.

| **Sheltered Housing stock** | **2009** |
|---|---|
| Bute | 34 |
| Cowal | 42 |
| Helensburgh and Lomond | 0 |
| Islay | 10 |
| Kintyre | 12 |
| Lorn and the Isles | 63 |
| Mid Argyll | 42 |
| | 203 |

The Association has implemented a review of Sheltered Housing during this financial year and services have been structured in such a way that service levels can be maintained to our tenants in an efficient and cost effective way.

**Other assets**

In addition, the Association owns other assets as a result of the stock transfer. These included a number of garages and garage sites which are let primarily to tenants but also owners who have bought under the right to buy. The garages are let at nominal rentals which reflect the condition and repairs carried out to the garages. The implementation of a garage rationalisation strategy in the latter part of the financial year saw a number of void and particularly poor condition garages demolished. The existing cleared sites are retained by the Association and may be used at a future date for development or alternate purposes such as car parking. This strategy is ongoing and includes the objective of letting quality garages and garage sites at viable rentals in future.

| **Rentable Stock** | **2009** | **2008** |
|---|---|---|
| Garages | 410 | 447 |
| Garage sites | 137 | 137 |
| | 547 | 584 |

| Garages & Garage Sites | Garages 2009 | Garage sites 2009 |
|---|---|---|
| Bute | 22 | 0 |
| Cowal | 43 | 13 |
| Helensburgh and Lomond | 248 | 0 |
| Islay | 52 | 0 |
| Kintyre | 0 | 48 |
| Lorn and the Isles | 8 | 51 |
| Mid Argyll | 37 | 25 |
| | 410 | 137 |

The Association also owns and operates lettings at three travelling people sites.

| Travelling People sites | 2009 |
|---|---|
| Dunoon, Torlochan | 10 |
| Lochgilphead, Dunchologan | 14 |
| Oban, Ledaig | 8 |
| | 32 |

The Oban and Lochgilphead sites were improved just prior to transfer and the Association has obtained confirmation just prior to the financial year end that Scottish Government grant funding to improve the Dunoon site during the next financial year has been awarded.

The Association owns or has a direct interest in the following other assets;

| Non-Rentable Stock | |
|---|---|
| Play areas | 33 |
| Private water supplies | 12 |
| Private sewage systems | 36 |
| | 81 |

These elements give rise to maintenance obligations in respect of the Association's properties but do not attract any rental income stream.

The Association owns four small shop units in Helensburgh; however their condition is such that they have never been let.

The Association owns its registered office in Ardrishaig.

The right to buy resulted in 56 homes being sold during the year. The Association received more applications however many did not progress to conclusion. We are of the view that the general economic and borrowing climate was not conducive for tenants to buy their own homes, as mortgage finance became comparably expensive and more difficult to obtain for low income earners. The Association recognises our tenant's right to buy their own home but the loss of affordable housing stock in some of our most remote and small communities can cause major housing issues locally. The Association is therefore seeking, in partnership with the other local registered social landlords and Argyll and Bute Council, to obtain Pressurised Area status for parts of our stock. If granted this will mean that a moratorium of five years will be placed on the right to buy for new tenancies.

The Association increased its rents for all stock by the rent guarantee of RPI +1% at the start of the financial year which equated to an increase of 4.9% (RPI September 2007 3.9% + 1%). The average rent across all stock at the start of the year was £51.11 and therefore in the current year the average rent rose to £53.61.

The Association had 425 lettings during the year of those lettings, 181 or 43% were allocated to the Council's homelessness team under the homelessness agreement.

The Association has a number of properties, 37, which are classed as hard to let and for which there is no demand in its stock in Campbeltown. The Association also has hard to let stock in Dunoon and Helensburgh. The Association is working on a strategy to improve these properties for letting.

The Association at financial year end had 47 properties void. The Association's average days taken to let a property is 31 days.

The Association's rent lost through voids across all lettings amounted during the financial year to £273k. This equates to a rent loss of 1.97% of all gross receivable rents.

The Association's rent lost for general needs housing stock amounted to £230k which is 1.66% of rent charged. The rent lost through voids of sheltered housing stock was very low at 0.73% of rent charged for sheltered housing.

The most significant percentage rent lost was through the garage and garage sites which was 35.09% of garage rents charged. The Association's new garage strategy is designed to arrest the poor performance of garage lettings.

The Association's travelling people sites lost rent through voids of £17k for the financial year which is 31% of all rents charged for travelling people sites. At the end of the financial year the number of pitches not let was 10. This remained relatively consistent throughout the year. The principal cause for this was the condition of the Torlochan site and general tenancy turnover during summer periods when many travellers go travelling

The Association received approximately 51.74% of all of its rental income from housing benefit payments direct from the Local Authority. This figure does not account for those tenants that receive their housing benefit payments and our estimates are that approximately 59.2% of all the Association's tenants are in receipt of full or partial housing benefit payments.

The Association works with stakeholders throughout the Argyll and Bute region. The Association has continued to develop those partnering relationships in particular the relationship with Argyll and Bute Council. This relationship has seen support for new stock development coming forward during the year.

**Housing & Neighbourhood Services**

The Association's current rent arrears performance remains consistent against the prior year and is broken down as follows by area;

| **Current tenant rent arrears** | **£** | **Percentage of rent charged** |
|---|---|---|
| Bute and Cowal | £104,209 | 2.67% |
| Helensburgh and Lomond | £50,121 | 1.83% |
| Mid Argyll and Kintyre | £61,659 | 1.61% |
| Oban Lorn and the Isles | £73,662 | 2.17% |
| **Total current tenant arrears** | **£289,651** | **2.09%** |

This is the position as at 29 March 2009 (end of rent week 52) as per the Academy rent system, and does not take into consideration payments totalling £65,000 made on 30 and 31 March 2009, for which the area breakdown is not available.

The Association is actively working to resolve the outstanding former tenant arrears and recover where possible in accordance with its policies.

The Association issued 802 notices of proceedings to recover houses from tenants for either rent arrears or anti social behaviour during the year. This is 10.3% higher than the previous year.

The Association sought to commence legal action to recover houses from our tenants in 188 cases which was 21% higher than in 2007/08. Of that figure the Association was granted decree to evict 38 tenants from our properties throughout the year which is 15% lower than the previous year.

The Association uses eviction only as a last resort but equally the Association has a zero tolerance approach to any anti social behaviour or drug dealing taking place at its properties.

It is important to note that of those 38 decrees 9 were in respect of antisocial behaviour or tenants who had been convicted of drug dealing from the premises.

The Association received requests to carry out 27,030 responsive repairs during the financial year which is an 8.63% increase on the previous year. Of that number the major elements breakdown was as follows;

| **Repairs** | **2009** | **2008** |
|---|---|---|
| Emergency Repairs | 3,327 | 4,107 |
| Urgent Repairs | 4,838 | 8,525 |
| Routine Repairs | 4,562 | 6,130 |
| Void Repairs | 1,446 | 62 |

The Association operates repairs by appointment in areas in which it has its own in house repairs team and the appointments performance for the year was as follows;

| **Repairs appointments** | **2009** | **2008** |
|---|---|---|
| No appointments made | 8,133 | 5,693 |
| No of appointments kept | 8,107 | 3,354 |
| Percentage | 99.68% | 58.91% |

The Association issued 3,650 repair satisfaction cards to its tenants regarding repairs and received 788 in return amounting to 22%.

In addition the Association contacted more than 1,250 tenants by phone to ascertain the quality of the service provided and of the 655 tenants who answered calls 94.8% of those tenants were satisfied with the service received.

The Association carried out 3,480 pre inspections of repair works to be carried out. The Association also carried out 3,388 post inspections and of that number 1,818 tenant satisfaction returns were received with 1,815 or 99.8% satisfied with the works carried out.

The Association received 548 complaints during the year about anti social behaviour and these resulted in 5 unacceptable behaviour contracts being agreed and decree for 9 evictions.

The Association retained its care commission status during the year at its sheltered complexes.

The Association gained Scotland's first award for tenant participation gaining accreditation to the Tenant Participation and Advisory Service.

**Human Resources and Corporate Services**

Is a central support department responsible for providing all HR services, as well as training and development which is also responsible for administration, committee secretariat, compliance and facilities management.

The underlying principles of good governance and organisational structures in ACHA are to keep the organisation as manageable and flexible as possible. This will allow ACHA to achieve its objectives of tenant-empowerment, devolution of power and decision-making across the communities of Argyll and Bute, thus developing the range of activities that will meet the wider needs of the Argyll and Bute community and provide the highest quality of service to tenants and other customers. The department is also the seat of good governance within the organisation.

The department supported the 183 staff (162 FTE) in terms of all human resources aspects.

The department successfully introduced a new human resources and payroll management software enabling further disengagement to take place from the Argyll and Bute Council service level agreement. As a result all human resources and payroll data is now owned by the Association and processing is entirely carried out in house.

During the year the Association recruited for 26 posts which is 30% lower than the previous year. The department processed 107 applications for those posts providing interviews and selection services to recruiting departments.

During the year the Association carried out a staff satisfaction survey which is used to identify areas of strength and weakness. The Association's staff satisfaction with their employer has significantly improved during the year as follows;

| **Satisfaction with employer** | **2009** | **2008** |
|---|---|---|
| Satisfied | 82% | 62% |
| Neutral | 15% | 29% |
| Dissatisfied | 3% | 9% |

During the year 115 staff completed internal/external training courses, a 26% increase on the previous year.

A Health & Safety Control Manual was implemented to bed in responsibilities/processes. The Association had 24 reported health and safety incidents during the year, 14 were personal injury incidents, 3 were vehicle related incidents and 7 were incidents of verbal or physical abuse against staff members. The Association carried out 41 Health and Safety risk assessments during the year which was in excess of planned numbers.

The Association currently has 210 members and has been actively recruiting via newsletters and other media.

The department supported the monthly Board of Management meetings and the four area committees in their bi-monthly meetings. Reports to the Board / Area Committees and KPIs have been reviewed and updated as agreed. A Board Induction and Governing Body Manual was completed and distributed to all members of the Board and the Area Committees. The department supported the delivery of the AGMs for the main Board and the Area Committees. Governing Body Questionnaire results were completed to identify priority areas of development for Board and Area Committee members

The department gained Performance Development Plans 98% completion/ submission rate across its staff.

The department has managed the internal audit process during the year resulting in a completed internal audit needs plan. No major risk issues were highlighted during the year by the internal audit services. The Association is developing further the next cycle of its internal audit needs plan and has established a plan of work for the following year.

The Association actively engages with its union and non union membership and supports a staff liaison group.

The Association communicates via a regular monthly newsletter with its staff and other less formal mechanisms. The department supports the media engagement strategy of the Association and has significantly increased the number of press releases and good news stories throughout the year whilst responding factually and accurately to criticism.

A reorganisation was achieved within sheltered housing roles which were successfully implemented during the year.

The Annual Performance & Statistical Return and Care Commission returns were collated and submitted.

An Annual staff survey was completed and an Annual staff conference held during the year.

A number of employees were identified for Professional Qualifications and enrolled on programmes.

We also recently published our first Annual Report to all members.

A review of flexible working practices has taken place with feedback sought from tenants and staff.

The Association projects no significant increase in staffing numbers in future years.

We are always looking at ways to continually improve, and are currently carrying out a self assessment exercise to prepare for an Inspection from the Scottish Housing Regulator

**Investment and Regeneration**

The Investment and regeneration department has had a challenging year delivering the main programme of work, the repairs and improvements to the existing homes to bring them up to the Scottish Housing Quality Standard by March 2016 as per the transfer commitments.

The Association has delivered the following elements of work during the period;

| Investment programme | Outturn | Planned | % |
|---|---|---|---|
| No of kitchen/bathrooms completions - Units | 1,584 | 1,912 | 82.85% |
| No of window/door completions - Units | 511 | 656 | 77.90% |
| No of heating/rewire completions - Units | 709 | 1,371 | 51.71% |
| No of roof/roughcast completions - Units | 12 | 136 | 8.82% |

The key issues that have faced the Association related to the delivery of contractors in both kitchen and bathrooms and heating and rewiring systems. The Association determined that it should focus on quality as much as delivery of numbers. There were a number of quality issues experienced with contractors during the year which caused both of these programmes of work to fall behind planned numbers.

The subsequent shortfall in the investment programme which amounts to circa £6.5 million has been pushed forward in to the following year's work programme and steps have been taken to ensure that this year's delivery is on or above target.

The roof and roughcast programme has been the more difficult programme to plan due to the 6,000 private owners or former right to buy purchasers' involvement. The process of carrying out works which involves so many other parties is one of the most difficult with which to achieve success due to the lengthy negotiations with private owners.

The department is responsible for the planned maintenance of private water supplies, sewage systems septic tanks, in sheltered complexes water treatment systems, lifts, community alarm systems and fire alarm systems. In addition the department is responsible for ensuring that gas safety maintenance and certification takes place as required under our statutory obligations and maintenance of solid fuel heating systems.

The planned maintenance programme also includes the maintenance of common closes and stair wells in our stock. The department expended circa 90.1% of its planned budget during this financial year.

The departments' regeneration or new stock development activity has been significant this year as evidenced by the following analysis;

| **Regeneration** | **Outturn** | **Planned** | **%** |
|---|---|---|---|
| No of Demolitions - Units | 0 | 0 | 0.00% |
| Site Acquisitions | 33 | 7 | 471.43% |
| Site Starts | 87 | 61 | 142.62% |
| Completions | 0 | 0 | 0.00% |

The Association received allocations of housing grant for the acquisition of a number of sites during the year which were not planned for at the start of the financial year.

The Association is currently developing sites as follows;

| **Site** | **Units** |
|---|---|
| Parliament Place, Campbeltown | 52 |
| Relief Land, Inveraray | 5 |
| Whistlefield, Garelochhead | 4 |
| Highfield, Bowmore | 3 |
| Croft Avenue, Oban | 8 |
| Whistlefield, Garelochhead Ph 2 | 8 |
| Builders Yard, Ardrishaig | 18 |
| **Total** | **98** |

The Association secured during the year an additional £10 million in private finance to support its development activities.

In addition the department has supported heavily the development of new proposals for a new office building in Oban. The Association has poor security of tenure in its current location and the condition of the building currently occupied led to a search for alternate premises. The Association considered letting without success but has now settled on development of a new office as it is financially more beneficial over 30 years. The office is expected to be completed during the following financial year at a cost of circa £1 million. The Association secured an additional £1 million borrowing facility from its lenders to support this development.

The department has implemented the garage strategy which is expected to result in long term savings in respect of void rentals and maintenance costs.

The department has also implemented the beginning of the play area strategy to support the play areas owned by the Association.

The department has supported the Association's planned delivery of disposal of small uneconomic pieces of land in and around our estate in accordance with the established policy resulting in small capital receipts and reduced future maintenance costs.

The department has also been key to the development of the Association's planned future regeneration programme and significant work has been undertaken in evaluating and feasibility assessing sites for development.

**Finance and IT**

The department provides a range of financial and accounting services to the Association as well as ensuring a high level of IT support.

The department ensured that business plan support grant for the year of £2 million was drawn down during the year in accordance with the grant offer from Scottish Ministers.

The Association actively monitors its cash flow position across all its bank accounts on a weekly basis to ensure that it always has sufficient funds to meet its short term obligations. Surplus funds are invested in money market deposits with our bankers, Lloyds TSB Scotland's Treasury department in accordance with our established treasury management policy and strategy.

The department implemented a new Brixx business planning model this year thereby disengaging from the stock transfer business plan model which did not include the capacity to build in regeneration activities. This model was approved by our lender together with the next year's business plan.

The Association did not breach any financial or non financial covenants with its lender during the year. The Association did however renegotiate its borrowing facility during the last quarter of the year. The renegotiation of the facility ensures that the Association continues to have borrowing capacity to support the 30 year business plan whilst at the same time taking the opportunity to scale back committed facilities in the short term until 2012. This enabled the Association to generate non utilisation fee savings but to retain the necessary flexibility and adaptability to meet business needs.

The department also at this time negotiated new private finance, over and above the transfer business plan of £7.3 million for regeneration activities and £1 million for new office development activity. In these unprecedented times the terms associated with the new facilities are significantly different to that obtained pre stock transfer; nevertheless the all-in costs continue to be at or below current business plan borrowing cost assumptions.

Although the Association had entered in to forward fixes post transfer the reduction in base rate to 0.5% in the last quarter of the year and the active treasury management policy together with lower than forecast expenditure meant that interest costs for the year are much lower than originally forecast.

The Association had a void loss figure of 1.96% of all rental income, including garages, for the year. The void rent loss for houses alone was equivalent to 2.05% of rent.

The Association had approximately 51.7% of its tenants' rent paid to it direct by housing benefit at the end of the financial year. This year is the first year in which we received benefit payments on a four weekly cycle matching with the Association's rent profile and reducing technical arrears entirely from our figures.

At the financial year end the Association's current tenant rent arrears were 1.67% with former tenant arrears at 1.53% of rent for the year.

The Association continues to actively pursue non-payment of rent from current and former tenants to maintain these levels. The legal recovery of these debts is an additional cost but the Association pursues all debts due to it

The department manages the Right to Buy sales for the Association. These were substantially less than projected at transfer with only 53 properties being sold against projections. This has little impact in terms of operating finances due to the nature of the right to buy agreement entered into at transfer.

The reduced numbers of right to buy sales are likely to assist the Association in future years as they will improve asset cover ratios for future planned borrowings. The department received a desk top security valuation for the housing stock which identifies there is sufficient security at Market value to support projected future borrowing. The Association has identified that it does have a EUV-SH security shortfall when it reaches peak debt at year 15 post transfer or 2021 which persists currently for a period of 7 years. The development of new stock with housing grant is of significant support to that position and our lender is aware of this position.

The IT section of the department has ensured that the Association migrated to Microsoft Office 2007 and that systems are able to cope with future developments in operating software. Significant new systems implemented during this year were the Cascade Human Resources and Payroll system, the implementation Academy Service charge module for factoring, FIDO/Collect debtor management software.

**Financial Review**

**Income & Expenditure**

Income

The Association's rental income at £13.9 million for the year was 1% higher than forecast due to the impact of lower than expected right to buy sales. The Association's garage rents and other income was as forecast for the year. The Association did not receive the Supporting people income for 2008/09 to pay for sheltered housing warden services although this had been forecast at the beginning of the year.

Bad debts at the year-end in comparison with prior years were consistent, however they were again significantly higher than forecast. This is because provision was made to write off former tenant rent arrears in full and current arrears and sundry debtors in accordance with established accounting policies. Bad debt assumptions for future years have now been revised to be in line with experience.

Rent lost from voids was 16% less than planned for the year and in comparison to the prior year.

Overall rental income at £13.9 million was 1.5% more than planned in the budget as a result of Right to Buys being lower than originally forecast.

Grant income of £2 million was received during the year relating to business support grant, this was 100% of the committed monies. In addition the Association received £3.86 million in Housing Association Grant for new stock development relating to its development sites which was £1.4 million more than planned at the start of the financial year. This year saw the Scottish Government issue accelerated funding for new stock development as a response to the wider economic condition and the Association took advantage of that additional funding. The Association's expected outturn on related asset improvement was less than originally planned which resulted in the Early Action Fund Related Assets grant monies draw down being £2.1 million less than originally forecast.

The Association has pushed back the related assets works and thereby also the grant claim relating to it in to future years.

The Association's other income generated was significantly improved on the recovery of costs such as for insurance claims, fire raising, vandalism and malicious damage. In addition the Association began to recharge owners where appropriate for common repairs as a precursor to factoring being introduced. The income associated with management fees and recoveries on these elements was unplanned during 2008/09.

The Association planned to undertake improvement works which would involve owners, such as roofing and roughcasting. The Association expected that circa £600k of contributions from owners would be forthcoming to meet that works cost. That did not transpire as the works were substantially delayed during the year. The works associated with the owners contributions were equally not instructed and therefore again this aspect of our work will be rolled forward in to future years repairs programmes.

Overall income was 6% less than forecast at the start of the year. This was almost entirely due to two factors, the lower related assets grant claim and the lower owner's contributions.

Expenditure

Management costs were 4% lower than forecast overall however within that cost category the Association experienced a cost over run on staffing of 6% across all elements of staffing cost. In addition it is notable that the Association incurred significantly more cost than planned in terms of its legal fees for recovery of debts and as a result of the repairs arbitration dispute which it had to defend. These over spends however were offset by lower than forecast spend in many operating overheads such as mobile phone, printing and training costs. In addition the planned wider action expenditure of £200k could not be delivered this year due to a lack of support from Scottish Government matched funding. Management costs have reduced by 2.3% against the prior year with the management cost per unit for 2008/09 at £856 against the prior year figure of £867 per unit.

The Association's performance in terms of its sheltered housing stock cost management was not as forecast. The Association had forecast that it would make significant in-roads to addressing the loss of Supporting People funding. Due to the sensitivity of this area of business the Association did not complete its re-engineering of this key piece of work until later in the financial year. The Association has removed more than £207k of recurring operating cost arising from the revised provision of warden services. In order to achieve that however the Association incurred contractual compensation payments to those staff for loss of hours and voluntary severance payments which added back one off costs of £76k. Additional planned savings did not accrue as the Association did not resolve its position on service charges until after the financial year end.

In terms of responsive and void repairs the Association reduced significantly its reactive maintenance cost from £5.58 million last year to £4.1 million in 2008/09. The responsive repairs budget was over-run by 10% or £200k and the average repair cost per unit was £435 per unit this year against the previous year which was £592 per unit. The Association however took steps to address the cost overrun early in the year by not expending discretionary budgets on Estate Management Action Plans and the area office led investment works. The Association, similar to last year, also experienced very poor quality of housing returns such that the void repair management costs were over spent by £240k which was necessary to re-let the properties during the year. This overspend was highlighted early in the year but the impact had already been incurred. The Association revised its void repair policy to counteract this situation and future years will see much reduced void repair costs incurred to the Association. The outturn this year on void repair costs was £602k against the previous year which was £1,101k. The salary costs of the in house repair team were £115k lower than forecast for the year and materials in stock for the in house repair teams use was £143k less than planned. The net result was that our responsive repairs outturn cost was overall 7.8% lower than originally forecast for the year.

The Association's cyclical and planned maintenance spend for the year was lower than forecast by 20%. This was almost entirely due to the lower than planned expenditure on gas and solid fuel system maintenance. Whilst the Association met its statutory testing responsibilities in respect of safety, the number of gas and solid fuel heating systems has reduced following their replacement by other methods of heating which results in reduced maintenance costs.

The Association's major works or investment programme was significantly less than forecast. This was due to several key factors. The major effect on this area of the Association's work was the inability of contractors to deliver the works at the required level of quality for tenant satisfaction. The Association did not deliver the level of spend it expected on the related assets elements of the investment programme due to a lack of grant approvals together with contracting delays. The Association also suffered as a result of the inability of roofing and roughcast programme of works to move forward as planned due to issues in gaining agreement from owners. This resulted overall in a 42% reduction in spend against planned objectives. The spend relating to these areas together with the respective grant elements will be rolled forward in to future years.

The Association's regeneration activities experienced an over spend in the latter part of the year of 18%. This was due to the Association gaining access to additional development opportunities through the Scottish Government's accelerated funding stream.

Total expenditure for the year was therefore 28% lower than planned for the year.

The operating deficit was lower than had been forecast by 56% but was still a substantial operating deficit at £8.4 million.

The Association made some modest gains on sale from right to buy sales at £126k. These were 69% lower than had been expected as a result of the much lower than planned right to buy sales occurring in the latter part of the year as a direct result of the wider macro and micro economic position. The Association has no shared equity or stock being developed for sale.

Bank interest earned at £91k was 17% lower than forecast as interest rates dropped from 5.75% to 0.5% during the year. Conversely because of the much lower spend levels against the major works programme and the effect of lower LIBOR rates during the year the Association's interest costs at £240k were 42% lower than forecast.

The Association had fixed debt of £2 million at the start of the year, during the year all additional debt was variable until the last day of the financial year when it became fixed rate debt. As a result the Association's borrowing of £12 million at year end was 100% fixed.

The deficit for the year was £9.0 million against a planned deficit of £16.96 million.

**Balance Sheet**

The Association is starting to increase its tangible fixed assets as a result of the regeneration works being undertaken to develop new stock. The Association continues to operate on the basis that its transferred stock is valued at nil cost in its balance sheet.

The Association considered in some detail whether impairment had occurred during the year and was of the view that a review was not required primarily on the basis of the valuation of its stock for security purposes based on existing use valuation for social housing.

In terms of current assets the Association has seen a significant increase in debtors year on year from £2.25 million at 31$^{st}$ March 2008 to £3.33 million at 31$^{st}$ March 2009. This is almost entirely due to Housing Association Grant receivable of £2.019 million compared to £0.54 million at 31$^{st}$ March 2008

Current liabilities are slightly more than at the same time last year. The Association however has experienced a growth in trade creditors of £1.5 million and a reduction in accruals and deferred income of £1.2 million. Our net current liabilities have reduced substantially year on year and our total assets exceed current liabilities by £0.46 million in comparison with the deficit of £0.99 million in the prior year.

Long term borrowing has increased from £2 million to £12 million during the year. There is an adjustment as a result of reflecting the FRS17 Pensions deficit which was not unexpected.

The Association's business plan is dependent on private finance and therefore long term debt is now projected to peak at £56.8 million in year 21 post transfer with full repayment by year 29 post transfer.

The Association is required to consider in some detail the going concern statement and has assessed that with a committed funding facility supporting its 30 year business plan it is a going concern.

Accumulated deficits are now £12 million including the pension reserve and it should be noted that the previous pension fund surplus has now been reversed as a result of this years' outturn.

**The Future**

Looking forward, although the Association is experiencing deficits, this is going to be the case until year 21 post stock transfer as a direct result of the delivery of the Scottish Housing Quality Standard and improvement commitments given to tenants. The Association's business plan is regularly reviewed and updated according to changes in assumptions and these are tested to ensure they meet viability and repayment objectives with annual approval by our lenders.

The Association has implemented the 2009/10 rent increase at a level which is lower than committed to in the transfer agreement at RPI for one year only, (5%) with the possibility of recouping that loss in income in future years beyond the guarantee period if required.

The Association continues to develop its policies and procedures for operational management based on best practice guidance in the social housing sector and the wider corporate sector where appropriate.

The Association is seeking new ways of working with all of its partners, particularly Argyll and Bute Council and our HomeArgyll partner RSLs to our mutual advantage.

The Association is involved in determining the future way forward in respect of meeting the growing housing waiting list in Argyll and Bute through new stock development. During the following year as a result of more regular financial markets the Association plans to secure new committed borrowing facilities to plan over a three to five year time horizon so it can adequately project forward new stock development plans.

The Association's development of a factoring service for owners has been launched and is being consolidated. The Association is developing its approach to service charge implementation for new housing stock and cost recovery of housing management services provided is ongoing.

The Association continues to develop its own in house human resources and payroll systems during the next year and aims to provide wider employee benefits as a result of total reward implementations in future years.

The Association aims to manage the key risk of pension contributions across the Association during the following year with a review being undertaken of its obligations and desires to ensure employees are provided with suitable provision.

The Association aims to deliver the major new Oban office in the next financial year gaining security of tenure in a key location and the practical completion of the first of its new developments coming on stream.

The Association is reviewing its IT operating systems infrastructure to determine its future options during the coming financial year.

The Association is committed to reviewing its In House Repair Team during the year with a view to ensuring its future viability.

The Association aims to make significant inroads in to the major repairs investment programme during 2009/10 through the framework agreements entered in to with key contractors and suppliers and additional commitments to ensure full budgetary expenditure is realised. This will be achieved through additional commitments during the year.

There are challenges ahead for the Association over the next financial year in many areas; the greatest challenge presently is the implementation of service charges for sheltered housing warden services. The Association has evaluated the impact of this and has developed a strategy for its resolution. The Board is currently seeking the views of tenants, staff and other stakeholders on this before implementation.

The wider economic downturn represents a key issue presently and during the next year. The Association has recognised this in its budgetary forecast for the year making assumptions which account for its potential impact in current and former tenant arrears management and bad debts.

The economic downturn and its impact on private finance availability and cost together with the effect on the availability of grant funding to support new stock development is also an area which is a challenge for the Association. The Association is looking to utilise its existing land resources and to work with its partners across Argyll and Bute with the objective of securing future new development opportunities.

The Association considers that although it has achieved many things in its short life so far, there are many more things which it aspires to develop and improve upon. The Association will need to rely upon the commitment of its staff and Board, their capability, motivation and drive to deliver a more efficient and effective service but above all first class service for our tenants and the communities in which they live and of which we are a part.

This Operating and Financial Review statement has been prepared in accordance with the Accounting Standards Board's 2006 reporting statement requirements.

## ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT'S STATEMENT ON INTERNAL FINANCIAL CONTROLS

### For the year ended 31 March 2009

The Board of Management acknowledge their ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments 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. The Board of Management can only provide reasonable assurance and not absolute assurance against material financial mis-statement or loss. Key elements of controls include ensuring that:

- formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Association's assets. Core policies have been established and others are being further developed as the Association becomes more established;
- experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared regularly which allow the Board of Management and staff to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term; regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, and significant variances from budgets are investigated as appropriate;
- the Association's performance against the stock transfer business plan is reviewed regularly.
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Board of Management members and Co-optees;
- the Board of Management reviews reports from their Senior Management Team, staff and from the external auditors, and from specialised consultants to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Association;
- formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.
- an Internal Audit Needs Assessment has been developed by the Association in accordance with established audit practice and internal audit has been in operation this year

The Board of Management has reviewed the system of internal financial control in the Association for the year ended 31 March 2009 and until the below date. To the best of its knowledge no weaknesses were found in internal financial controls which could result in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditors' report on the financial statements.

By order of the Board of Management

Norman Beaton
Chairman

Date 3rd September 2009

## Independent Auditor's Report to the Members of

## Argyll Community Housing Association Limited

**Corporate Governance**

In addition to the audit of the financial statements, we have reviewed the Board of Management's statement on page 22 on the Association's compliance with the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing". The objective of our review is to draw attention to non-compliance with those paragraphs of the publication not otherwise disclosed.

**Basis of Opinion**

We carried out our review having regard to the Bulletin 1999/5 issued by the Auditing Practices Board. 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 reasons given for non-compliance.

**Opinion**

In our opinion the statement on internal financial control on page 22 has provided the disclosures required by the section on Internal Financial Controls within SFHA's document "Raising Standards in Housing" and is consistent with the information which came to our attention as a result of our audit work on the financial statements.

Baker Tilly UK Audit LLP
Registered Auditors
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date

## Independent Auditor's Report to the Members of

## Argyll Community Housing Association Limited

We have audited the financial statements on pages 25 to 49, which have been prepared under the accounting policies set out on pages 28 to 30.

This report is made solely to the Association's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report and for the opinion we have formed.

**Respective responsibilities of Board of Management and Auditors**

The Board of Management's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Board of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007. We also report to you if, in our opinion, the Board of Management's Report is not consistent with the financial statements, if the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Board of Management's Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or error or other irregularity. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Association's affairs as at 31 March 2009 and of its deficit for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007.

Baker Tilly UK Audit LLP
Registered Auditors
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## INCOME AND EXPENDITURE ACCOUNT

### For the year ended 31 March 2009

| | *Note* | **2009 £000** | **2008 £000** |
|---|---|---|---|
| **Turnover** | *2* | 16,937 | 16,369 |
| Operating costs | *2* | (25,361) | (19,999) |
| **Operating Deficit** | *8* | **(8,424)** | **(3,630)** |
| Surplus on disposal of housing fixed assets | *12* | 126 | 177 |
| Interest receivable | *9* | 156 | 254 |
| Interest payable | *10* | (240) | (28) |
| **Deficit on ordinary activities before Taxation** | | **(8,382)** | **(3,227)** |
| Taxation on ordinary activities | *11* | 14 | 3 |
| **Deficit on ordinary activities** | | **(8,368)** | **(3,224)** |

All figures relate to continuing operations.

**STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS**

| | **Note** | **2009 £000** | **2008 £000** |
|---|---|---|---|
| Deficit for the year | | (8,368) | (3,224) |
| Actuarial (loss) / gain on pension scheme | *29* | (646) | 575 |
| **Total recognised deficit for the year** | | (9,014) | (2,649) |

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BALANCE SHEET

## For the year ended 31 March 2009

| | *Note* | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Tangible fixed assets** | | | |
| Housing properties – gross cost less depreciation | *12* | 5,743 | 1,142 |
| Less Housing Association Grant | *12* | (4,929) | (1,065) |
| Other | *13* | 92 | 79 |
| | | 906 | 156 |
| **Current assets** | | | |
| Stock and work in Progress | *14* | 31 | 31 |
| Debtors | *15* | 3,344 | 2,257 |
| Cash at bank and in hand | *16* | 2,729 | 2,803 |
| | | 6,104 | 5,091 |
| **Creditors:** amounts falling due within one year | *17* | 6,540 | 6,243 |
| **Net current liabilities** | | (436) | (1,152) |
| **Total assets less current liabilities** | | 470 | (996) |
| Creditors amounts falling due after one year | *17* | 12,000 | 2,000 |
| **Provisions for liabilities and charges:** Deferred tax | *11* | - | - |
| **Net liabilities before pension deficit** | | (11,530) | (2,996) |
| **Pension deficit** | *29* | (480) | - |
| **Net deficiency after pension deficit** | | **(12,010)** | **(2,996)** |
| **Capital and reserves** | | | |
| Share capital | *18* | - | - |
| Revenue reserves | *19* | (11,530) | (2,996) |
| Pension reserve | *21* | (480) | - |
| **Deficiency in shareholders' funds** | *19* | **(12,010)** | **(2,996)** |

These financial statements were approved by the Board of Management on 3rd September 2009 and authorised for issue and signed on their behalf by:

Chairman of the Board of Management ……………………………………………

Board member ……………………………………………

Secretary ……………………………………………

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## CASH FLOW STATEMENT

## For the year ended 31 March 2009

| | *Notes* | **2009** | | **2008** | |
|---|---|---|---|---|---|
| | | **£000** | **£000** | **£000** | **£000** |
| **Cash (outflow) from operating activities** | *23* | | **(9,198)** | | **(250)** |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | *9* | 91 | | 158 | |
| Interest paid | *10* | (240) | | (28) | |
| **Net cash (outflow) / inflow from returns on investments and servicing of finance** | | | (149) | | 130 |
| **Corporation tax repayment /(paid)** | | | 14 | | (3) |
| **Capital expenditure and financial investment** | | | | | |
| Acquisition and construction of properties | | (4,618) | | (1,145) | |
| Purchase of other fixed assets | | (114) | | (47) | |
| Capital grants received | | 3,865 | | 1,065 | |
| Sales of housing properties | | 126 | | 177 | |
| **Net cash (outflow) / inflow from capital expenditure and investing activities** | | | (741) | | 50 |
| **Net cash (outflow) before use of liquid resources and financing** | | | **(10,074)** | | **(73)** |
| **Financing** | | | | | |
| Loan advances received | | 10,000 | | 2,000 | |
| Loans repaid | | - | | (750) | |
| **Net cash inflow from financing** | *24* | | **10,000** | | **1,250** |
| **(Decrease) / increase in cash in the year** | *24* | | **(74)** | | **1,177** |

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered by the Financial Services Authority.

**1 Accounting policies**

***Going Concern***
During the year the company made a deficit of £8.4 million prior to the adjustment of the pension reserve giving a net deficit of £9.0 million. At the balance sheet date the Association had deficiency of assets of £12 million. The going concern basis of accounting is considered appropriate because the Association has an agreed banking facility of £60 million under the business plan to meet future requirements with projected peak debt occurring at year 20 and repaying by year 29 amounting to approximately £56.8 million at this time. The Association's loan asset security ratio requirement is 105%, the most recent security valuation values the Associations housing assets at £186.87 million currently and £54.74 million by year 30, the Association therefore has more than sufficient assets to support the current borrowing and for its future needs at this time.

***Basis of preparation***
The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. They comply with the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007 and with the Statement of Recommended Practice (SORP), Accounting by Registered Social Landlords 2008.

***Turnover***
Turnover represents rental and service charge income receivable from tenants and owner occupiers, fees and revenue based grants receivable from local authorities and The Scottish Government's Housing Regeneration Directorate relating to housing and fees from the provision of management services. Tenant service charges are levied on a basis intended to cover appropriate service costs each year.

***Cash Flow Statement***
The cash flow statement represents the cash transactions of the Association for the period from 1st of April 2008 to 31st March 2009.

***Housing properties, housing association grant and depreciation***

(a) Housing properties are stated at cost, all property was acquired at nil value under the stock transfer agreement. The Association's policy is to capitalise the following:

- cost of acquiring land and buildings;
- development expenditure; and
- interest charged on the development loans raised to finance the scheme.

Expenditure on schemes which are subsequently aborted will be written off in the year in which it is recognised that the schemes will not be developed to completion.

(b) Improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancement can occur if the improvements result in:-

- an increase in net rental income; or
- a reduction in future maintenance costs; or
- a significant extension of the life of the property.

Works to existing properties, which fail to meet the above criteria are currently charged to the Income and Expenditure account.

(c) Land is not depreciated. Depreciation will be charged so as to write down the value of housing properties on a straight line basis over their remaining estimated useful economic lives. In determining the remaining useful lives for the housing stock, the Association has taken account of views provided by both internal and external professional sources. It is the Association's view (based on knowledge of the stock, its condition, and the future programme of component renewal) that the stock has a very long remaining life. This life for use in the accounts will be 50 years from the date of practical completion.

Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of property sold are removed from the financial statements at the date of sale. Any grants received that cannot be repaid from the proceeds of sale are abated and the grant removed from the financial statements.

***Other fixed assets***
Other fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of other fixed assets on a straight line basis over their expected useful lives as follows:

| | |
|---|---|
| Computer hardware | 3 years |
| Computer software | 3 years |

***Pensions***
The Association participates in two pension schemes as follows;

1. Strathclyde Pension Fund (SPF) which is a defined benefit scheme as defined by the Local Government Pension Scheme (Scotland) regulations 1998. Contributions are charged to the Income and expenditure account so as to spread the cost of pensions over the employees' working lives within the Association.

   The SPF made an actuarial loss for the year ended 31st March 2009 of £1,313k. The Association has taken account of this loss in the Pension Reserve Account. The Association has therefore adjusted the Pension Reserve by transferring an amount of £1,313k from the Income and Expenditure account to this reserve. This has been offset by the release of a prior year provision against a pension asset of £667k.

2. Scottish Federation of Housing Associations pension scheme which is a multi employer defined benefit scheme managed by the Pension Trust. It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole. The expected cost to the Association of pensions is charged to the Income and Expenditure Account so as to spread the cost of pensions over the service lives of the employees in the scheme taken as a whole.

***Taxation***
The charge or credit for taxation is based on the surplus or deficit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

***VAT***
The Association is not VAT registered as income is either from exempt rentals or transfer support cost grant received from the Scottish Government's Housing Regeneration Directorate. Expenditure as a result is shown inclusive of VAT.

***Loans and grants***

Loans are advanced by private or public lenders under the terms of individual mortgage deeds in respect of each development or under a global facility secured on existing developments. Grants from the Scottish Government's Housing Regeneration Directorate or local authorities are payable to subsidise the capital cost of housing developments. Grants from Scottish Government's Housing Regeneration Directorate take the form of Housing Association Grant (HAG) funding. Advances are generally available only in respect of those developments which have been given approval by the Scottish Government's Housing Regeneration Directorate.

Grants in respect of revenue expenditure are credited to the Income and Expenditure account in the same period as the expenditure to which they relate.

***Operating leases***

Operating lease rentals are charged to the Income and Expenditure account on a straight line basis over the period of the lease.

***Stock***

Stock and work in progress is stated at the lower of cost and net realisable value.

**2. Particulars of turnover, operating costs and operating deficit**

| | Turnover | Operating Costs | Operating Deficit to 31 March 2009 | Operating Deficit to 31 March 2008 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Social Lettings | 15,617 | 23,314 | (7,697) | (3,258) |
| Other Activities | 1,320 | 2,047 | (727) | (372) |
| | 16,937 | 25,361 | (8,424) | (3,630) |
| Total for year to 31 March 2008 | 16,369 | 19,999 | (3,630) | |

**3. Particulars of turnover, operating costs and operating surplus or deficit from social letting activities**

| | **General Needs Housing £000** | **Supported Housing £000** | **Total £000** | **Total For Previous Period of Account £000** |
|---|---|---|---|---|
| Rents receivable net of service charges | 13,205 | 502 | 13,707 | 13,349 |
| Rent from garages | 75 | - | 75 | 74 |
| Rent from travelling people sites | 55 | - | 55 | 53 |
| Service charges | 0 | 22 | 22 | 22 |
| **Gross income from rents and service charges** | **13,335** | **524** | **13,859** | **13,498** |
| Less voids | (269) | (4) | (273) | (323) |
| **Net income from rents and service charges** | **13,066** | **520** | **13,586** | **13,175** |
| Grants from the Scottish Ministers | 2,000 | - | 2,000 | 2,365 |
| Other revenue grants | 31 | - | 31 | 42 |
| **Total turnover from social letting activities** | **15, 097** | **520** | **15,617** | **15,582** |
| Management and maintenance administration costs | 4,244 | 114 | 4,358 | 4,463 |
| Planned and cyclical maintenance including major repairs costs | 14,746 | - | 14,746 | 8,665 |
| Reactive maintenance costs | 4,071 | - | 4,071 | 5,587 |
| Bad debts – rents and service charges | 117 | 5 | 122 | 122 |
| Depreciation of social housing | 17 | - | 17 | 3 |
| Impairment of social housing | - | - | - | - |
| **Operating costs for social letting activities** | **23,195** | **119** | **23,314** | **18,840** |
| **Operating deficit for social lettings** | **(8,098)** | **401** | **(7,697)** | **(3,258)** |
| **Operating deficit for social lettings for year to 31 March 2008** | **(3,258)** | **-** | **(3,258)** | |

Average weekly rents at the end of the period were £53.61 (2008 £51.11)

£737k of major repairs have been capitalised during the year. All other major repairs amounting to £12.775 million have been expensed to the income and expenditure account.

### 4. Particulars of turnover, operating costs and operating surplus/(deficit) from other activities

| | Grants from Scottish Ministers | Other Revenue Grants | Supporting People Income | Other Income | Total Turnover | Operating Costs Bad Debts | Other Operating Costs | Operating Surplus / (Deficit) | Operating Surplus / (Deficit) for previous period of account |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Wider role activities undertaken to support the community, other than the provision, construction, improvement and management of housing | 31 | - | - | - | **31** | - | (35) | (4) | - |
| Related Assets | 483 | - | - | - | **483** | - | (483) | - | - |
| Aids and Adaptations | 293 | - | - | - | **293** | - | (301) | (8) | (6) |
| Tenant and Owner Recharges | - | - | - | 264 | **264** | (200) | (237) | (173) | - |
| Support activities | - | - | - | - | **-** | - | (568) | (568) | (340) |
| Contents Insurance | - | - | - | 86 | **86** | - | (67) | 19 | |
| Agency/management services for registered social landlords | - | - | - | - | **-** | - | - | - | - |
| Other agency/management services | - | - | - | - | **-** | - | - | - | - |
| Developments for sale to registered social landlords | - | - | - | - | **-** | - | - | - | - |
| Developments and improvements for sale to non-registered social landlords | - | - | - | - | **-** | - | - | - | - |
| Other activities (Insurance claim monies received and other miscellaneous income) | - | - | - | 163 | **163** | - | (156) | 7 | (26) |
| **Total from other activities** | **807** | **-** | **-** | **513** | **1,320** | **(200)** | **(1,847)** | **(727)** | **(372)** |
| **Total from other activities for previous period of account** | **-** | **237** | **283** | **267** | **787** | **-** | **(1,159)** | **(372)** | |

## 5. Housing stock

| | Units under development | | Units under management | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Housing accommodation for letting: | | | | |
| New build and mixed funded | 61 | - | 4,890 | 4,943 |
| Sheltered housing | - | - | 203 | 203 |
| | 61 | - | 5,093 | 5,146 |

## 6. Remuneration of members of Board of Management and directors

No members of the Board of Management received any remuneration from the Association.

Directors are defined to include the Chief Executive and any other person reporting directly to the Chief Executive or the Board whose total annual emoluments including pension contributions exceed £60,000 per year.

| | **2009 £000** | **2008 £000** |
|---|---|---|
| Total emoluments payable to directors and benefits in kind | **299** | **74** |
| Pension contributions | **48** | **10** |
| | **347** | **84** |
| Emoluments payable to the highest paid director (including pension contributions) | **92** | **84** |

The Chief Executive is a member of the Scottish Federation of Housing Associations defined contribution pension scheme as disclosed in note 29. No enhanced or special terms apply to memberships. The Association's contributions to the Chief Executive's pension in the year amounted to £12,747 (2008: £10,337).

The emoluments payable to the Chief Executive of the Association during the period were £79,148 excluding employer's pension contributions

The Association's directors' emoluments (excluding pension contributions) fell within the following band distributions:

| | **2009** | **2008** |
|---|---|---|
| More than £50,000 but not more than £60,000 | 4 | 4 |
| More than £60,000 but not more than £70,000 | - | - |
| More than £70,000 but not more than £80,000 | 1 | 1 |

**7. Staff numbers and costs**

The full time equivalent number of persons employed and seconded to the Association (excluding board members) in the year, analysed by category, was as follows:

| | Number of employees 2009 | 2008 |
|---|---|---|
| Housing & Neighbourhood Services | 121 | 123 |
| Finance & IT | 14 | 15 |
| Human Resources & Corporate Services | 11 | 11 |
| Investment & Regeneration | 16 | 12 |
| | **162** | **161** |

The aggregate payroll costs of these persons were as follows:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Wages and salaries | 4,198 | 3,897 |
| Social security costs | 317 | 309 |
| Other pension costs | 548 | 515 |
| | **5,063** | **4,721** |

**8. Operating deficit on ordinary activities**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| *Operating deficit on ordinary activities before taxation is stated after charging:* | | |
| Auditors' remuneration: | | |
| Audit (including expenses and excluding VAT for the year) | 14 | 22 |
| Other services | 7 | 8 |
| Operating lease rentals: | | |
| Buildings | 344 | 332 |
| Other | 64 | 66 |
| Depreciation | 117 | 67 |

**9. Interest receivable**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Bank interest receivable | 91 | 158 |
| Interest on pension fund | 65 | 96 |
| | **156** | **254** |

**10. Interest payable**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| On bank loans | 240 | 28 |
| | **240** | **28** |

## 11. Taxation

| Analysis of charge in year | 2009 £000 | 2008 £000 |
|---|---|---|
| *UK corporation tax* | | |
| Current tax on surplus for the year | (1) | - |
| Adjustment in respect of previous years | (13) | - |
| Total current tax | (14) | - |
| (Decrease)/Increase in deferred tax liability | - | - |
| Tax (credit)/charge on deficit/surplus on ordinary activities | (14) | - |

*Factors affecting the tax charge for the current year*

The current tax charge for the year is higher than the standard rate of corporation tax in the UK *(21% 2008: 21%)*. The differences are explained below:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| *Current tax reconciliation* | | |
| (Deficit)/Surplus on ordinary activities before tax | (8,382) | (3,227) |
| Current tax at *21% (2008: 21%)* | (1,760) | (679) |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | 7 | 32 |
| Income not taxable | (62) | (57) |
| Depreciation for year in excess of capital allowances | 4 | 16 |
| Capitalised interest | | - |
| Chargeable gains | 26 | 37 |
| Marginal relief | | - |
| Losses | 1,784 | 652 |
| Rate charges - ACAs | | (1) |
| Adjustment in respect of prior period | (13) | - |
| Total current tax charge (see above) | (14) | - |

*Deferred taxation*

The movement in the deferred taxation account during the year was:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Balance brought forward | - | - |
| Income & expenditure account movement arising during the year | - | - |
| Balance carried forward | - | - |

The balance of the deferred taxation account consist of the tax effect of timing differences in respect of:

| | 2009 Potential £000 | 2009 Provided £000 | 2008 Potential £000 | 2008 Provided £000 |
|---|---|---|---|---|
| (Deficiency)/Excess of taxation allowances over depreciation of fixed assets | (17) | - | (12) | - |
| Losses | (1,784) | - | (652) | - |
| Deferred Tax Asset/(Liability) | (1,801) | - | (664) | - |

## 12. Tangible fixed assets - housing properties

| | Housing properties held for letting £000 | Housing properties in course of construction £000 | Total 2009 £000 | Total 2008 £000 |
|---|---|---|---|---|
| ***Cost*** | | | | |
| At start of year | 118 | 1,027 | **1,145** | - |
| Additions during year | 737 | 3,881 | **4,618** | 1,145 |
| Disposals during year | - | - | **-** | - |
| At end of year | 855 | 4,908 | **5,763** | 1,145 |
| ***Depreciation*** | | | | |
| At start of year | (3) | - | **(3)** | - |
| Charge during year | (17) | - | **(17)** | (3) |
| Disposals during year | - | - | **-** | - |
| At end of year | (20) | - | **(20)** | (3) |
| ***Housing association grant*** | | | | |
| At start of year | - | (1,065) | **(1,065)** | - |
| Additions during year | - | (3,864) | **(3,864)** | (1,065) |
| At end of year | - | (4,929) | **(4,929)** | (1,065) |
| **Net book value** | | | | |
| At end of year | 835 | (21) | **814** | 77 |
| At end of year 2008 | 115 | (38) | **77** | - |

All properties were transferred to the Association at nil value as part of the Large Scale Voluntary Stock Transfer on 21st November 2006.

During the year 56 properties have been sold under Right to Buy resulting in a gain on sale of £126k. The disposals in the year are nil as the stock was transferred at nil value. Three existing units not already in management came in to use during the period.

Security has been granted to lenders in respect of housing properties. No interest was capitalised on housing properties at 31 March 2009 (2008 £Nil)

## 13. Tangible fixed assets - other

| | Computer hardware & software £000 | Total non housing £000 |
|---|---|---|
| ***Cost*** | | |
| At start of year | 188 | 188 |
| Additions during year | 114 | 114 |
| Disposals during year | (1) | (1) |
| At end of year | 301 | 301 |
| ***Depreciation*** | | |
| At start of year | (109) | (109) |
| Provided during year | (100) | (100) |
| Depreciation on disposals during year | - | - |
| At end of year | (209) | (209) |
| ***Net book value*** | | |
| ***At 31 March 2009*** | 92 | 92 |
| ***At 31 March 2008*** | 79 | 79 |

## 14. Stocks and work in progress

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Maintenance Stock | 31 | 31 |

## 15. Debtors

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Rental debtors | 995 | 853 |
| Less bad debt provision | (267) | (166) |
| | 728 | 687 |
| Prepayments and accrued income | 546 | 964 |
| Housing association grants receivable | 2,019 | 542 |
| Other debtors | 278 | 91 |
| Less bad debt provision | (227) | (27) |
| | 3,344 | 2,257 |

The above figure for rental debtors is made up as follows:

| | Debtor £000 | Provided £000 | 2009 Net debtor £000 |
|---|---|---|---|
| Due from current tenants | 225 | (69) | 156 |
| Due from former tenants | 213 | (198) | 15 |
| Due from housing benefit | 557 | - | 557 |
| | 995 | (267) | 728 |

The amount due from Housing Benefit was received by the Association on 1st April 2009.

Bad debts of £20,896 were written off during the period (2008: £15,819).

**16. Cash at bank and in hand**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Bank | 2,728 | 2,802 |
| Cash | 1 | 1 |
| | 2,729 | 2,803 |

**17. Creditors: amounts falling due within one year**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Loans (secured) | - | - |
| Trade creditors | 5,228 | 3,733 |
| Housing association grant in advance | 49 | 36 |
| Other creditors including taxation and social security | 176 | 182 |
| Accruals and deferred income | 1,087 | 2,292 |
| | 6,540 | 6,243 |

**Creditors: amounts falling due after one year**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Loan (secured) | 12,000 | 2,000 |

The loans are repayable by 2036. Loans are secured by a specific charge against the Association's properties.

**Fixed Rate Hedging**

| | Value (£000's) | Term (years) | Rate |
|---|---|---|---|
| Tranche 1 commencing 31 March 2008 | 2,000 | 15 | 5.55% |
| Tranche 2 commencing 31 March 2009 | 10,000 | 20 | 5.24% |
| **Total** | 12,000 | | |

## 18. Share capital

| **Shares of £1 each fully paid** | **2009 £** | **2008 £** |
|---|---|---|
| At 1 April 2008 | 203 | 130 |
| Issued in year | 20 | 81 |
| Paid in year | - | 3 |
| Cancelled in year | (10) | (11) |
| At 31 March 2009 | 213 | 203 |
| **Shares of £1 due but unpaid** | | |
| At 1 April 2008 | - | 3 |
| Paid in year | - | (3) |
| At 31 March 2009 | - | - |
| Total | 213 | 203 |

Shares issued were in respect of new members of the Association.

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions on winding up. When a shareholder ceases to be a member the person's share is cancelled and the amount thereon becomes the property of the Association. Each member has a right to vote in accordance with the Association's rules at Members meetings.

## 19. Reconciliation of movements in shareholders' funds

| | **Revenue Reserve £000** | **Pension reserve £000** | **Share Capital £000** | **Total shareholders funds £000** |
|---|---|---|---|---|
| Balance at 1 April 2008 | (2,996) | - | - | (2,996) |
| Accumulated deficit for year | (9,014) | - | - | (9,014) |
| Transfer to pension reserve | 480 | (480) | - | - |
| **Balance at 31 March 2009** | **(11,530)** | **(480)** | **-** | (12,010) |

## 20. Designated reserves

No transfer to designated reserves was made in the year.

## 21. Pension reserve

| | **2009 £000** | **2008 £000** |
|---|---|---|
| At 1 April 2008 | - | (551) |
| Transfer from revenue reserves | (480) | 551 |
| Reserve at 31 March 2009 | (480) | - |

## 22. Commitments

(a) Capital commitments authorised and contracted for at 31 March 2009 amounted to;

**Within one year**
Investment Programme £1.8m
Regeneration £5.8m
Related Assets £0.2m
Oban Office £0.5m

**Within two to five years**
Investment Programme £Nil
Regeneration £1.6m
Related Assets £Nil
Oban Office £0.01m

(b) Annual commitments under non-cancellable operating leases are as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Land and Buildings £000** | **Other £000** | **Land and Buildings £000** | **Other £000** |
| **Operating leases which expire:** | | | | |
| Within one year | 282 | 43 | 236 | 36 |
| Within two to five years inclusive | - | - | 275 | - |
| Over five years | - | - | - | - |

## 23. Reconciliation of operating deficit to net cash inflow from operating activities

| | 2009 £000 | 2008 £000 |
|---|---|---|
| **Operating deficit** | **(8,424)** | **(3,630)** |
| **Adjustments**: | | |
| Depreciation on non-housing fixed assets | 100 | 64 |
| Depreciation on housing fixed assets | 17 | 3 |
| **Movement in working capital:** | | |
| Non cash movement in pension fund | (101) | 120 |
| Decrease in stock | - | 10 |
| (Increase) / decrease in debtors | (1,087) | 230 |
| Increase in creditors | 297 | 2,953 |
| **Cash outflow from operating activities** | (9,198) | (250) |

**24. Analysis of changes in net debt**

| | At 31 March 2008 £000 | Cash flows £000 | At 31 March 2009 £000 |
|---|---|---|---|
| Cash in hand, at bank | 2,803 | (74) | 2,729 |
| Debt due within one year | - | - | - |
| Debt due in more than one year | (2,000) | (10,000) | (12,000) |
| **Total** | 803 | (10,074) | (9,271) |

**25. Reconciliation of net cash flow to movement in net debt**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| (Decrease) / increase in cash in the period | (74) | 1,177 |
| Cash (inflow) from debt financing | (10,000) | (2,000) |
| Cash outflow from debt financing | - | 750 |
| Change in debt resulting from cash flows | (10,074) | (73) |
| Net debt at beginning of period | 803 | 876 |
| **Net debt at end of period** | (9,271) | 803 |

**26. Group structure**

The Association is a registered social landlord, incorporated in Scotland and has no subsidiaries.

**27. Contingent liabilities**

ACHA has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the SFHA pension scheme based on the financial position of the scheme as at 30 September 2006. As at this date the estimated employer debt for ACHA was approximately £493k.

The Association is in the process of finalising the repairs arbitration dispute with the Council. The Association has recognised the principal amount of the repairs covered by the arbitration in the accounts. The Association has not recognised the possible award of expenses in the accounts due to its uncertainty. The Association may seek to claim any loss from the transfer indemnities afforded for this purpose.

**28. SFHA Pension Scheme**

ACHA participates in the SFHA Pension Scheme.

The SFHA Pension Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

The Scheme offers three benefit structures to employers, namely:

Final salary with a 1/60th accrual rate.
Career average revalued earnings with a 1/60th accrual rate.
Career average revalued earnings with a 1/70th accrual rate.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

ACHA has elected to operate the final salary with a 1/60th accrual rate, career average revalued earnings with a 1/60th accrual rate benefit structure for active members as at 31 March 2009 and the final salary with a 1/60th accrual rate, career average revalued earnings with a 1/60th accrual rate benefit structure for new entrants from 01 April 2009.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period ACHA paid contributions at the rate of 16.1% of pensionable salaries. Member contributions were 7%.

As at the balance sheet date there were 10 active members of the Scheme employed by ACHA. ACHA continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. SFHA is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, benefits are paid from the total scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2006 by a professionally qualified actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £268 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £54 million (equivalent to a past service funding level of 83.4%).

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2008. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed a decrease in the assets of the Scheme to £265 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £149 million, equivalent to a past service funding level of 63.9% (The figures quoted assume that the funding update will be finalised using the long cohort 1% underpin mortality assumption). Annual funding updates of the SFHA Pension Scheme are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the scheme since the last full valuation.

Since the contribution rates payable to the Scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2006.

The financial assumptions underlying the valuation as at 30 September 2006 were as follows:

| | | **% pa** |
|---|---|---|
| - | Investment return pre retirement | 7.2 |
| - | Investment return post retirement | 4.9 |
| - | Rate of salary increases | 4.6 |
| - | Rate of pension increases | |
| | pension accrued pre 6 April 2005 | 2.6 |
| | pension accrued from 6 April 2005 | 2.25 |

(for leavers before 1 October 1993 pension increases are 5.0%)

| | | |
|---|---|---|
| - | Rate of price inflation | 2.6 |

The valuation was carried out using the PA92C2025 short cohort mortality table for non-pensioners and PA92C2013 short cohort mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

| | Males | Females |
|---|---|---|
| | Assumed life expectancy in years at age 65 | Assumed life expectancy in years at age 65 |
| Non- pensioners | 21.6 | 24.4 |
| Pensioners | 20.7 | 23.6 |

The long-term joint contribution rates required from employers and members to meet the cost of *future* benefit accrual were assessed as:

| Benefit structure | Long-term joint contribution rate (% of pensionable salaries per annum) |
|---|---|
| Final salary 60ths | 17.8 |
| Career average 60ths | 14.6 |
| Career average 70ths | 12.6 |

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the valuation it was agreed that the shortfall of £54 million would be dealt with by the payment of additional contributions of 5.3% of pensionable salaries per annum with effect from 1 April 2008. It is the Scheme policy that the joint contribution rate payable is split between employers and members in the ratio 2:1.

Accordingly the joint contribution rates from 1 April 2008 for each of the benefit structures will be:

| Benefit structure | Joint contribution rate (% of pensionable salaries per annum) |
|---|---|
| Final salary 60ths | 23.1 comprising employer contributions of 15.4% and member contributions 7.7% |
| Career average 60ths | 19.9 comprising employer contributions of 13.3% and member contributions 6.6% |
| Career average 70ths | 17.9 comprising employer contributions of 11.9% and member contributions 6.0% |

A small number of employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.5% to reflect the higher costs of a closed arrangement.

It the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit, on an on-going funding basis, by 31 March 2020.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SFHA Pension Scheme and confirmed that, in respect of the September 2006 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2009.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

## 29. Strathclyde Pension Scheme

The majority of the Association's employees belong to the Strathclyde Pension Fund which is part of the Local Government Pension Scheme (LGPS). As at the balance sheet date the number of active members was 122, with 11 deferred pensioners and 4 pensioners. The total pensionable payroll as at the balance sheet date was £3,024,000. This is a defined benefit scheme which provides benefits based on the final pensionable salary, the assets of which are held in a separate trustee administered fund.

As noted in note 1 Argyll and Bute Council have guaranteed to accept liability for any unfunded costs which may arise with regard to Argyll Community Housing Association Limited relating to its membership of the Local Government Pension Scheme (LGPS) administered by Glasgow City Council should it cease to exist, withdraw from the LGPS or otherwise become unable to continue covering any unfunded liabilities with regard to the Local Government Pension Scheme (Scotland) Regulations 1998, as amended, or the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, if applicable.

The assumptions and other data that have the most significant effect on the determination of the contribution levels of the scheme are as follows:

| Assumptions as at | **31 March 2009** % p.a. | **31 March 2008** % p.a. | 31 March 2007 % p.a. |
|---|---|---|---|
| Price increases | 3.1% | 3.6% | 3.2% |
| Salary scale increases per annum | 4.6% | 5.1% | 4.7% |
| Expected Return on Assets | 6.5% | 7.1% | 7.1% |
| Discount rate | 6.9% | 6.9% | 5.4% |

Under the transitional requirements of FRS 17 Retirement Benefits, the Association is required to disclose further information on its share of assets and liabilities of the LGPS on an FRS 17 market value basis at the end of the financial year.

The Association's share of assets in the scheme and expected rate of return were:

| | **Long Term return at 31 March 2009** | **Assets at 31 March 2009 £000** | **Long Term return at 31 March 2008** | **Assets at 31 March 2008 £000** | **Long Term return at 31 March 2007** | **Assets at 31 March 2007 £000** |
|---|---|---|---|---|---|---|
| Equities | 7.0% | 4,894 | 7.7% | 5,713 | 7.8% | 5,508 |
| Bonds | 5.4% | 1,073 | 5.7% | 1,133 | 4.9% | 920 |
| Property | 4.9% | 536 | 5.7% | 774 | 5.8% | 748 |
| Cash | 4.0% | 201 | 4.8% | 249 | 4.9% | 329 |
| **Total** | 6.5% | 6,704 | 7.1% | 7,869 | 7.1% | 7,505 |

| Net Pension assets as at | **31 March 2009 £000** | **31 March 2008 £000** | **22 November 2007 £000** |
|---|---|---|---|
| Estimated employer assets | 6,704 | 7,869 | 7,505 |
| Present value of scheme liabilities | 7,184 | 7,202 | 8,056 |
| Present value of unfunded liabilities | - | - | - |
| Total value of liabilities | 7,184 | 7,202 | 8,056 |
| **Pension (deficit) / surplus** | (480) | 667 | (551) |
| Less provision against pension asset not realisable | - | (667) | - |
| Net pension (liability) / surplus | (480) | - | (551) |

**Analysis of the amount charged to operating profit**

| | Period to 31 March 2009 £000 | Period to 31 March 2009 % of Payroll | Period to 31 March 2008 £000 | Period to 31 March 2008 % of Payroll |
|---|---|---|---|---|
| Service cost | 401 | 13.3% | 559 | 20.6% |
| Past service costs | - | - | - | - |
| Curtailment and settlements | - | - | - | - |
| Decrease in irrecoverable surplus | - | - | - | - |
| **Total operating charge** | 401 | 13.3% | 559 | 20.6% |

**Analysis of the amount credited to other finance income**

| | Period to 31 March 2009 £000 | Period to 31 March 2009 % of Payroll | Period to 31 March 2008 £000 | Period to 31 March 2008 % of Payroll |
|---|---|---|---|---|
| Expected return on employer assets | 579 | 19.1% | 550 | 20.3% |
| Interest on pension scheme liabilities | (514) | (17.0%) | (454) | (16.7%) |
| **Net Return** | 65 | 2.1% | 96 | 3.6% |
| **Net revenue account cost** | 336 | 11.2% | 463 | 17.0% |

**Analysis of the amount recognised in Statement of Total Recognised Gains and Losses (STRGL)**

| | Period to 31 March 2009 £000 | Period to 31 March 2008 £000 |
|---|---|---|
| Actual return less expected return on pension scheme assets | (2,349) | (786) |
| Experience gains and losses arising on the scheme liabilities | 273 | 1 |
| Changes in financial assumptions underlying the present value of the scheme liabilities | 763 | 2,027 |
| **Actuarial (loss) / gain in pension plan** | (1,313) | 1,242 |
| Increase in irrecoverable surplus from membership fall and other factors | - | - |
| **Actuarial (loss) / gain** | (1,313) | 1,242 |
| Release / (provision) for pension asset not realisable | 667 | (667) |
| | (646) | 575 |

**Movement in (deficit) / surplus during the period**

| | Period to 31 March 2009 £000 | Period to 31 March 2008 £000 |
|---|---|---|
| Surplus / (Deficit) at beginning of year | - | (551) |
| Current service cost | (401) | (559) |
| Employer contributions | 502 | 439 |
| Past service costs | - | - |
| Net return on assets | 65 | 96 |
| Actuarial (loss) / gain | (1,313) | 1,242 |
| Provision against surplus not considered realisable | 667 | (667) |
| **(Deficit) / surplus at end of the year** | (480) | - |

**History of experience - gains and losses**

| | Period to 31 March 2009 £000 | Period to 31 March 2008 £000 |
|---|---|---|
| Difference between the expected and actual return on assets | (2,349) | (786) |
| Value of assets | 6,704 | 7,869 |
| **Percentage of assets** | **35.0%** | **10.0%** |
| Experience losses on liabilities | 273 | 1 |
| Present value of liabilities | 7,174 | 7,202 |
| **Percentage of the present value of liabilities** | **3.8%** | **0.0%** |
| Actuarial gains recognised in STRGL | (1,313) | 1,242 |
| Present value of liabilities | 7,202 | 7,202 |
| **Percentage of the present value of liabilities** | **18.2%** | **17.2%** |

## 30. Related party disclosures

Ten members of the Board of Management were also tenants during the year.

Five members of the Board of Management were Argyll and Bute Council Councillors during the year.

The tenancy agreements and rents charged for those members of the Board of Management were on standard terms applicable to any other tenant of the Association.

Members rent arrears were treated in a similar manner to that of other tenants in arrears with the Association.

The Association has entered premise leases with Argyll and Bute Council and has contractual arrangements for the provision of information technology support services, environmental services provision.

The Association also has arrangements for the provision of the property management module of Academy Housing integrated management system to Argyll and Bute Council. The Association also lets to Argyll and Bute Council houses under a special letting agreement relating to homelessness.

The Association paid £955k to the Council for services relating to service level agreements, premises leases and IT service charges received during the period, The Association also paid to the Council £3.44 million in respect of salaries paid to staff under the salary service level agreement.

The Association paid to the Council £2.44 million during the period in respect of Right to Buy sales fro the financial period 2007/08

During the period the Association received from the Council £201k in rents collected by it under the cash collection service level agreement; £74k in respect of rental payments for properties under the homeless agreement and other special lets; £8k for the provision of service under the Academy Property management module; and £7.14 million in housing benefit payments.

At the year end there was a creditor of £1.62 million outstanding in respect of Right to Buy receipts for the financial period 2008/09 and a creditor of £6k outstanding to the Council

A debtor of £557k was outstanding at the year end in respect of Housing Benefit not received but falling due in the period