

**ARGYLL COMMUNITY HOUSING  
ASSOCIATION LIMITED**

**Report of the Board of Management  
and Financial Statements  
for the year ended  
31 March 2007**

**Registration Particulars:**

Communities Scotland:

Registered Number: 360

Industrial and Provident Societies Act 1965

Registered Number: 2661R (S)

# **ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**For the year ended 31 March 2007**

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# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS

For the year ended 31 March 2007

### The Board of Management

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

<i>Board of Management members</i>		<b>Appointed</b>	<b>Resigned</b>
Andy Birnie		27 May 2005	
Norman Beaton	Chair	27 May 2005	
Gail Dow		27 May 2005	
Christine Williams		27 May 2005	
Alex Smith – Co-opted		27 May 2005	
Bill McIntyre		27 May 2005	
Duncan McCallum – Co-opted	Vice Chair	27 May 2005	29 January 2007 (Deceased)
Prof. Colin Davidson	Secretary	27 May 2005	
Simon Roberts		27 May 2005	
Bill Pirnie		27 May 2005	
Margaret MacGregor		27 May 2005	
Linda Brown		27 May 2005	
Moyra Stewart		27 May 2005	
Bruce Robertson		27 May 2005	
Gordon McKinven – Co-opted		27 May 2005	
Sidney McDougall		27 May 2005	
Isobel Strong		27 May 2005	

### *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
Collette 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 2007**

**Registered Office:**                   **63-65 Chalmers Street  
Ardrishaig  
Argyll  
PA30 8DX**

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

**Bankers:**                           **Lloyds TSB Scotland plc  
120 George Street  
Edinburgh  
EH2 4LH**

**Solicitors:**                       **Brechin Tindal Oatts  
48 St. Vincent Street  
Glasgow  
G2 5HS**

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## REPORT OF THE BOARD OF MANAGEMENT

### For the year ended 31 March 2007

The Board of Management present their report and audited financial statements for the year ended 31 March 2007. The Association was incorporated on 27 May 2005 it was registered as a Registered Social Landlord on 21 November 2006. The Association did not commence trading until 21<sup>st</sup> November 2006. As a result accounts were prepared for the financial period from the date of incorporation to 31<sup>st</sup> March 2006 which included pre transfer support costs and related grants. These accounts represent the financial period 1<sup>st</sup> April 2006 to 31<sup>st</sup> March 2007.

#### **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 21<sup>st</sup> 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 its lead 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, it is a Registered Social Landlord. Its organisational structure consists of a voluntary Board of Management who are 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.

#### **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.

#### **Housing and other rented stock**

During the year the Association took ownership of 5,398 homes from the stock transfer. Of those 5,398, around 200 homes are allocated to the provision of sheltered housing in separate complexes across the Argyll and Bute region. In addition 143 properties were passed from the Council to the Association, which could not be let because of the transfer commitments which were given to demolish them. The Association also took ownership of three travelling people sites from the Council as part of the housing stock transfer which includes a number of "pitches" for travellers caravans. During the year 29 homes passed from the Association's ownership as tenants exercised their Right to Buy.

At the year-end the Association had 5,369 rental properties, and three travelling people sites with pitches for rent.

The Association owns no shared ownership properties. The Association has no commercial lettings. The Association however lets a number of garages and garage sites primarily to its tenants and to a small number of private owners.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## REPORT OF THE BOARD OF MANAGEMENT

**For the year ended 31 March 2007**

### **Development**

The Association has had no development growth since the point of transfer and no capital investment in housing properties for the year ended 31 March 2007. There have been no capital commitments authorised or contracted for in the immediate future.

### **Income and Expenditure**

The Association had a turnover of £5.4m. In addition within operating income is £454k of pre transfer support grant income from Communities Scotland against which £756k of transfer support costs is included within operating costs. The Association showed a surplus before tax of £474k. Within the reported surplus figure it should be further noted that the Association had a surplus on disposal of housing assets of £61k as a result of Right to Buy sales.

The Association's planned maintenance and responsive repair costs were £1,525k, which represented 28% of the total operating costs. Major repairs expenditure was £1,074k for the period however this was significantly lower than planned due to a delayed start on site with several of the key investment framework contracts for major repairs. The majority of the works carried out related to contracts which were transferred across from the Council to the Association at transfer

The Association plans to continue with its existing standard of maintenance and has rolled forward the expenditure which was not met this year in to next year's major repairs programme and delivering on its commitments to meet the Scottish Housing Quality Standard by 2015.

Net interest charges were £10k and interest earned was £37k. The Association drew down a small 3 month LIBOR linked loan of £750k at transfer to ensure sufficient working resources were available to meet future needs. That loan was not fully utilised due to the expenditure not being as forecast and as a result the surplus funds earned interest in the Association bank accounts. The Association has since developed a Treasury Management strategy and policy covering cash flow management of not only the borrowings but equally any surplus funds such that the Association maximises interest earned and minimises interest paid.

It should be noted that the Association operates within a stable finance environment with low borrowings and no fixed interest rates at this time.

### **Balance Sheet**

At the year end the housing properties had a net book value of nil as the properties were transferred to the Association by the former landlord Argyll and Bute Council under a whole stock transfer for nil consideration.

Total debtors were £2,484k principally which included prepayments and accrued income. The Association purchased current rent arrears at a discount from the former landlord, Argyll and Bute Council under an agreed formula. The Association therefore provided for the discounted element thereby recognising its likelihood of future recovery. The Association purchased no former tenant arrears at transfer and at the year end there was £28k in former tenant arrears., which were fully provided for as a matter of prudence.

The cash at bank and in hand was £1,626k at the year end.

Short-term Creditors were £4,040k, which was made up of trade creditors, corporation tax, accruals and deferred income and the short term bank loan. The Association had no long term loans at the end of this financial period. The Association's business plan did not forecast the £155k corporation tax liability as it was anticipated that repairs costs would be much higher resulting in a deficit. The delay in major repairs has resulted in this unbudgeted liability.

### **Reserves**

At the year end the Revenue reserves balance was £204k. As the Association is a whole stock transfer organisation it plans to make deficits in the first 11 years of its existence and therefore it is planned that there will only be an accumulated deficit revenue reserve over that period.

# **ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

## **REPORT OF THE BOARD OF MANAGEMENT**

### **For the year ended 31 March 2007**

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'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 £25 million, a Fixed term loan facility of £30 million 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 Communities Scotland 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 Executive on 21<sup>st</sup> November 2006.

#### **Staffing**

Staff numbers increased in line with the staff transferring from the Council and in meeting the projected operational staffing numbers required to deliver the services under the transfer business plan.

#### **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 21<sup>st</sup> 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.

#### **Risk Management**

The Association has a Risk Management Strategy determined by its Board during the pre-transfer period based on the known risks. The Association has a draft risk management policy, which is currently under review by the senior management team. The internal audit needs assessment is scheduled to be completed during the following year following the appointment of external internal auditors and their completion of an Audit Needs Assessment. Once these policies have been finalised they will be subject to further review and approval by the Finance and Audit Committee of the Association.

#### **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. At the year-end however the Association had no such arrangements in place. The Association operates an active treasury management policy, which operates in accordance with a treasury strategy approved by the Finance and Audit Committee.

#### **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).

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**REPORT OF THE BOARD OF MANAGEMENT**

**For the year ended 31 March 2007**

**Credit 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**

On the 6<sup>th</sup> November 2006 the Association appointed Baker Tilly as auditors. The members, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007. 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

**Norman Beaton**  
**Chairman**

Date 19 September 2007



# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

**For the year ended 31 March 2007**

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 surplus or 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 1999. 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 19 September 2007

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW

**For the year ended 31 March 2007**

### **Background**

The Association took ownership of the 5,398 homes transferred from Argyll and Bute Council on 21<sup>st</sup> 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 Argyll Community Housing Association Limited ("A.C.H.A") 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 and build again, Argyll Community Housing Association Limited is committed to delivering 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. 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.

### **Structure and Governance**

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 Communities Scotland as a Registered Social Landlord (RSL) No. 360.

ACHA has Board of Management consisting of:

- Ten Tenants
- Five Council nominees
- Five Independent Members

The Board of Management has undergone a comprehensive training programme to enable it to carry out its duties and assume its responsibilities.

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 establishes itself.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW

**For the year ended 31 March 2007**

Operationally ACHA is divided in to four functional areas;

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

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

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

### **Housing & Neighbourhood Services**

A primary objective of ACHA is to provide its existing tenants with high quality housing services. As well as the planned programme of investment, the management of houses and the estate is given the highest priority.

For both existing and potential tenants, housing applicants, people who are homeless and the public in general, ACHA will develop a network of housing information and advice points through its local office structure. These will provide a comprehensive service which will be developed to meet the national (HomePoint) standards for housing information and advice.

The Association provides grass cutting and maintenance of gardens of tenants who are unable because of age and/or disability to do so themselves. The Association aims to provide high standards of common area maintenance.

ACHA is committed to the principle of a Common Housing Register (Home Argyll) in Argyll and Bute and will continue to work with partners to develop this service and has established Scotland's first register which uses a common allocations policy and common operating system.

Taking as its model the national vehicle breakdown services, ACHA will, within two years of the transfer, establish a network of fully equipped vehicles driven by multi-skilled trades people. These will provide a quick response service (aiming at same-day) to deal with most routine and emergency repairs. In the event that a repair requires more specialist work, the mobile repairs team will make safe any item and arrange for a specialist contractor to attend. The Mobile Repairs Unit's team will also be trained to act as a contact point through which tenants can communicate any problem or issue to ACHA. The Association has delivered new vehicles which are fully equipped to provide the service. The Association has also put in place a repairs by appointment system.

Tenants will be asked to sign a card following a repair indicating their satisfaction with the work undertaken. In the event that the tenant declines to sign the card, a Property Services Officer of ACHA will investigate and arbitrate in the first instance on the quality of work undertaken. ACHA is committed to the principle that contractors will not receive payment for work carried out until either the tenant is satisfied or the process of arbitration is completed.

Tenants receiving a service from either ACHA's in-house team or private contractors will be telephoned within two weeks of the completion of the repairs to get their opinions on the quality of the service provided. ACHA will take action to resolve issues arising out of those responses.

ACHA is committed to developing a 'wider community regeneration' role. It will do this in a co-ordinated way with other housing associations, the Council, other public service agencies and communities across Argyll and Bute. It has however already identified a number of areas where it can make a significant contribution to regeneration in Argyll and Bute.

The Association maintains Key Performance Indicators (KPIs) which are determined by the Association's Internal Management Plan, Business plan and regulatory statistics, these were under on-going development to ensure accurate data capture during this period.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW

### For the year ended 31 March 2007

During the first few months following transfer priority has been given to ensure the smooth transition of services for customers and staff. ACHA has ambitious plans to introduce a variety of new services for our customers and are pleased to confirm the following services have been introduced;

- HomeArgyll, in partnership with Argyll and Bute Council and 3 local RSLs
- Grass cutting scheme for elderly and disabled tenants
- Repairs by appointment system in 3 areas .
- Improved information service at area offices
- Improved void standards
- Additional methods to pay rent – ie chip & pin
- Support and development of local area committees

### 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.

ACHA's Rules are based on the Model Rules for a Federal Structure (October 2001) issued by the Scottish Federation of Housing Associations (SFHA).

ACHA's first Annual General Meetings for Area Committees and Board are scheduled and take place in August/September 2007

The organisation is developing the depth and detail of data required in terms of management information to assist at all levels.

ACHA have appointed Scott Moncrieff as Internal Auditors who will have completed audit needs assessments and plans in the following year, to allow us to assess areas of core systems process requiring continuous improvement.

ACHA has established a risk management policy and require to carry out a full organisation wide risk register, in conjunction with the internal audit findings and results.

ACHA have set up a Health and Safety Committee to monitor and control with a full round of risk assessments planned for completion completed by the end of 2007.

ACHA, with the support of the Council, obtained admitted body status to the Strathclyde Pension Fund Superannuation scheme and transferring staff that were currently in this scheme were able to continue in membership. ACHA is also a member of the SFHA pension scheme which is an alternative final salary scheme that is open for all staff.

ACHA entered into Service Level Agreements, initially for one year with the Council for the provision of payroll services.

ACHA have entered into lease arrangements with the Council for office accommodation in various locations and will be determining changes required where accommodation does not meet our long term needs.

ACHA is committed to a high standard of training and development for both Board and Area Committee members and for staff of the Association.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW

### For the year ended 31 March 2007

ACHA's Human Resources and Corporate Services Director is responsible for reviewing ACHA's training strategy annually and for reporting recommendations on changes and further developments to the Management Board. This has been recently updated in 2007.

The department has a Training and Development post, responsible for co-ordinating training and development programmes for staff and Board Members. This also involves co-ordinating a regular training needs assessment and an annual training and development plan.

ACHA is committed to being an equal opportunities employer and welcomes recruitment applications from all sectors of the community. Our policies have been developed in line with good practice and current legislation.

ACHA have a number of communication channels to inform and consult with our employees, which include regular fortnightly email updates, quarterly staff liaison group representatives meetings, quarterly Chief Executive "Roadshows" and an annual full staff conference.

#### **Investment and Regeneration**

The Board approved an Investment and Regeneration Plan in December 2006 which allowed the development of a range of new tenders to deliver building works.

Over 800 house surveys were completed to help to inform the investment programme. ACHA tendered twelve works packages for the supply and installation of kitchens and bathrooms, windows and doors and heating and rewiring in our four main areas of operation. The tenders were evaluated and prepared for approval in 2008/09. The groundwork for the major repair expenditure of over £12m (net of prelims and VAT) in 2007/08 was completed in the first four months of operation.

Tenders were evaluated for Gas Servicing, Grounds Maintenance, Void Painting and Term Maintenance.

ACHA took over 28 major repair works contracts from Argyll and Bute Council and completed 48 installations of windows and doors, 65 heating and re-wires and 16 Roof/Roughcast properties and expended approximately £1,074k on these works.

ACHA started to develop its approach to involving communities in the development of new housing by establishing a short term steering group to guide the first major new build development. The group dedicated their time to the interview and selection of an appropriate design team. To facilitate the development, the demolition contract for 139 houses at Parliament Place, Park Square and Broad Street in Campbeltown was tendered.

Initial assessment work began to review the investment requirements of a range of related assets, including play parks, water supplies, garages and unadopted roads.

#### **Finance & IT**

Finance and IT provide a whole range of financial and accounting services to ACHA as well as ensuring a high level of IT support.

The Finance and IT department delivered a new financial accounting system for the Association within an eight week time frame with business critical systems all being in place for the date of transfer. Similarly, the department procured and installed a cash receipting system in all of the offices in which it operates.

The Association appointed insurers for its general insurance services after completing a European procurement process resulting in insignificant insurance added value which the department led on. The Association began the process of developing an approach to driving up standards of tenant home contents insurance cover embarking on a procurement process.

The Association's arrears performance is skewed because at transfer the Association purchased current tenant arrears on the basis of an agreed formula taking account of the age of the debts. The Association continues to actively be involved in pursuing non-payment of rent.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## BOARD OF MANAGEMENT'S OPERATING AND FINANCIAL REVIEW

### For the year ended 31 March 2007

The Association's performance against business plan projections for void management were marginally higher than projected with assumptions of rent lost through voids of £212k against actual of £218k.

An analysis of management costs per unit against transfer business plan assumptions suggests that they came in under assumptions at £435 per unit against the planned £739 per unit. In major part this was due to the nature of the need for a full recruitment exercise taking place post transfer to bring staff up to the full complement and that being completed at the latter end of the period.

Routine and cyclical maintenance costs assumptions plus catch up repairs were broadly as anticipated with the business plan having forecast £1.84 million and the outturn being £1.5 million.

The Association drew down on a 3 month LIBOR linked loan of £750,000 immediately on transfer so that it had sufficient working capital to meet its obligations. The Association maintained that initial borrowing throughout the period as a means of ensuring sufficient resources were available to meet planned expenditure.

The Association had planned in its business plan to expend more than £4.36 million in this financial period on major repairs investment. As a result of the tender process the Association spent £1,074k during the period. The under spend has been carried forward to 2007/08.

The impact of the repairs spend profile meant that initial cash flow forecasts varied however the nature of the 3 month fixed borrowing left the Association with significant surplus balances on its accounts. In addition the expected grant claim was reduced from £2 million to £882k. The reduced claim for grant was rolled forward to 2007/08.

Right to Buy sales were substantially less than projected at transfer with only 29 properties being sold against pre-transfer projections of 92. This has little impact in terms of operating finances due to the nature of the right to buy agreement entered in to at transfer although it does help in maintaining the management cost per unit levels.

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 Association complied with lending covenants during the financial period.

#### **The Future**

The Association continues to drive forward its objective outlined in the business plan.

The Association has implemented the 2007/08 rent increase in line with the transfer agreement commitments at RPI + 1%, (4.6%).

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 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

The Association aims to make significant in roads in to the major repairs investment programme during 2007/08 through framework agreements entered in to with key contractors and suppliers.

The Association is driving forward the completion of the transfer business plan commitments in respect of service reviews scheduled for completion in the first full year of operations.

There are challenges ahead for the Association over the next financial year in many areas however the foundations during this short first financial period have been laid for the Association to develop a strong future based on a combination of capability, motivation, drive and commitment to deliver an efficient and effective but above all first class service for our tenants and the communities in which they live and we are a part.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

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

**For the year ended 31 March 2007**

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. Up until the 21<sup>st</sup> November 2006 all costs and income were subject to the control of Argyll and Bute Councils financial systems with overview monitoring by the Association's Board of Management. From the 21<sup>st</sup> November 2006 the Association established their own systems and rules which can only provide reasonable and not absolute assurance against material financial mis-statement or loss. Key elements 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 is in the process of development by the Association, following the recent appointment of Internal Auditors.

The Board of Management has reviewed the system of internal financial control in the Association for the year ended 31 March 2007 and until the below date. 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 19 September 2007

# **ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

## **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 13 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 13 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**

Date: 20<sup>th</sup> September 2007

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



# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## Independent Auditor's report to the members of

### Argyll Community Housing Association Limited

We have audited the financial statements on pages 16 to 35, which have been prepared under the accounting policies set out on pages 19 to 20.

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 1999. 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 2007 and of its surplus 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 1999.

#### **Baker Tilly UK Audit LLP**

Date: 20<sup>th</sup> September 2007

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

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**INCOME AND EXPENDITURE ACCOUNT**

**For the year ended 31 March 2007**

	<i>Note</i>	<b>2007 £000</b>	<b>Period to 2006 £000</b>
<b>Turnover</b>	2	5,400	-
Operating costs	2	(5,468)	(1,092)
Other operating income	2	<u>454</u>	<u>1,086</u>
<b>Operating surplus/(Deficit)</b>	7	<b>386</b>	<b>(6)</b>
Surplus on disposal of housing fixed assets	11	61	-
Interest receivable	8	37	-
Interest payable	9	<u>(10)</u>	<u>-</u>
<b>Surplus/(Deficit) on ordinary activities before Taxation</b>		<b>474</b>	<b>(6)</b>
Taxation on surplus on ordinary activities	10	<u>(158)</u>	<u>-</u>
<b>Surplus/(Deficit) on ordinary activities before actuarial gain on pension</b>		<b>316</b>	<b>(6)</b>
Actuarial gain on pension scheme	27	826	-
Surplus for the year/period after actuarial gain on pension scheme	18	<u><b>1,142</b></u>	<u><b>(6)</b></u>

All figures relate to continuing operations. The comparatives in 2006 relate to transfer support costs and related grant income

**STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS**

	<b>Note</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
Surplus/(Deficit) for the year		316	(6)
Pension deficit at date of transfer		<u>(1,483)</u>	<u>-</u>
<b>Total recognised deficit for the year</b>		<u><b>(1,167)</b></u>	<u><b>(6)</b></u>
<b>Total deficit recognised since last annual report</b>		<u><b>(1,167)</b></u>	<u><b>(6)</b></u>

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**BALANCE SHEET**

**For the year ended 31 March 2007**

	<i>Note</i>	<b>2007 £000</b>	<b>2006 £000</b>
<b>Tangible fixed assets</b>			
Housing properties – gross cost less depreciation	11	-	-
Other	12	96	-
		<u>96</u>	<u>-</u>
<b>Current assets</b>			
Stock and Work in Progress	13	41	-
Debtors	14	2,484	525
Cash at bank and in hand	15	1,626	-
		4,151	525
<b>Creditors: amounts falling due</b>			
Within one year	16	4,040	531
<b>Net current assets/ (liabilities)</b>		<u>111</u>	<u>(6)</u>
<b>Total assets less current liabilities</b>		207	(6)
<b>Provisions for liabilities and charges: Deferred tax</b>		<u>(3)</u>	<u>-</u>
<b>Net assets/(liabilities) before pension deficit</b>		204	(6)
<b>Pension deficit</b>	27	(551)	-
<b>Net deficiency after pension deficit</b>		<u><u>(347)</u></u>	<u><u>(6)</u></u>
<b>Capital and reserves</b>			
Share capital	17	-	-
Revenue reserves	18	204	(6)
Pension reserve	20	(551)	-
<b>Deficiency Shareholders' funds</b>	18	<u><u>(347)</u></u>	<u><u>(6)</u></u>

These financial statements were approved by the Board of Management on 13<sup>th</sup> September 2007 and authorised for issue and signed on their behalf by:

Chairman of the Board of Management	<b>Norman Beaton</b>	<b>19<sup>th</sup> September 2007</b>
Board Member	<b>Rory Colville</b>	<b>19<sup>th</sup> September 2007</b>
Secretary	<b>Professor Colin Davidson</b>	<b>19<sup>th</sup> September 2007</b>

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**CASH FLOW STATEMENT**

**For the year ended 31 March 2007**

	<i>Notes</i>	<b>2007</b>		<b>2006</b>	
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cash flow from operating activities</b>	22		<b>929</b>		-
<b>Returns on investments and servicing of finance</b>					
Interest received	8	37		-	-
Interest paid	9	<u>(10)</u>		-	<u>-</u>
<b>Net cash inflow from returns on investments and servicing of finance</b>			<b>27</b>		<u>-</u>
<b>Capital expenditure and financial investment</b>					
Purchase of other fixed assets		(141)		-	
Sales of housing properties		<u>61</u>		<u>-</u>	
<b>Net cash outflow from capital expenditure and investing activities</b>			<b><u>(80)</u></b>		<u>-</u>
<b>Net cash inflow before use of liquid Resources and financing</b>			<b>876</b>		-
<b>Financing</b>					
Loan advances received		<u>750</u>		<u>-</u>	
<b>Net cash inflow from financing</b>	23		<b>750</b>		-
<b>Increase in cash in the year</b>	23		<b><u>1,626</u></b>		<u>-</u>

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

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 surplus of £1,142k. At the balance sheet date the Association had deficiency of assets of £347k. £551k of this deficiency of assets relates to the Strathclyde Pension Fund deficit. The going concern basis of accounting is considered appropriate because the Council has guaranteed any shortfall on the pension scheme should the Association be unable to meet this liability or if it withdraws from the scheme. In addition to this the Association has an agreed banking facility of £60m under the business plan to meet future working capital requirements.

#### *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 1999 and with the Statement of Recommended Practice (SORP), Accounting by Registered Social Landlords 2005.

#### *Turnover*

Turnover represents rental and service charge income receivable from tenants and owner occupiers, fees and revenue based grants receivable from local authorities and Communities Scotland relating to housing and fees from the provision of management services.

#### *Other operating income*

Represents grants for transfer support costs received from Communities Scotland

#### *Cash Flow Statement*

From the period from 1<sup>st</sup> of April 2006 to 21<sup>st</sup> November 2006 there were no cash transactions therefore the cash flow statement represents the cash transactions between the 21<sup>st</sup> of November 2006 and 31 March 2007.

#### *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.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

### 1 Accounting policies (Continued)

#### *Housing properties, housing association grant and depreciation (continued)*

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 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.
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.

#### *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 Communities Scotland or local authorities are payable to subsidise the capital cost of housing developments. Grants from Communities Scotland 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 Communities Scotland.

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.

#### *VAT*

The Association is not VAT registered as all income is either from exempt rentals or transfer support cost grant received from Communities Scotland. Expenditure as a result is shown inclusive of VAT.

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**2. Particulars of turnover, operating costs, cost of sales and operating surplus by class of business**

	<i>Note</i>	<b>Turnover</b>	<b>Operating Income</b>	<b>Operating costs</b>	<b>Depreciation</b>	<b>Operating surplus/ (deficit)</b>	<b>Gain on sale of fixed assets</b>	<b>Interest receivable</b>	<b>Interest payable</b>	<b>2007 Surplus/ (Deficit)</b>	<b>2006 (Deficit)</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Income and expenditure from Lettings</b>											
General needs housing accommodation	3	5,227	-	4,543	45	639	61	37	10	727	-
Other		173	-	124	-	49	-	-	-	49	(6)
		<u>5,400</u>	<u>-</u>	<u>4,667</u>	<u>45</u>	<u>651</u>	<u>61</u>	<u>37</u>	<u>10</u>	<u>739</u>	<u>(6)</u>
Transfer support costs/Grants		-	454	756	-	(302)	-	-	-	(302)	-
		<u>5,400</u>	<u>454</u>	<u>5,423</u>	<u>45</u>	<u>386</u>	<u>61</u>	<u>37</u>	<u>10</u>	<u>474</u>	<u>(6)</u>
<b>Surplus before taxation</b>		<b>5,400</b>	<b>454</b>	<b>5,423</b>	<b>45</b>	<b>386</b>	<b>61</b>	<b>37</b>	<b>10</b>	<b>474</b>	<b>(6)</b>
2006		-	1,086	1,092	-	(6)	-	-	-	(6)	

Other operating income comprises grants payable to Argyll & Bute Council by Communities Scotland on behalf of the Association to fund transfer support costs incurred by them on behalf of the Association.

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**3. Income and expenditure from lettings**

	<b>General Needs £000</b>	<b>Total 2007 £000</b>	<b>Total 2006 £000</b>
Rents receivable net of identifiable service charges	4,504	4,504	-
Service charges receivable eligible for housing benefit	7	7	-
Other income	934	934	-
	<hr/>	<hr/>	
Gross Rent Receivable	<b>5,445</b>	<b>5,445</b>	-
Less rent losses from voids	(218)	(218)	-
	<hr/>	<hr/>	
<b>Net rents receivable from lettings</b>	<b>5,227</b>	<b>5,227</b>	-
<b>Expenditure on lettings</b>			
Services	-	-	-
Management	1,989	1,989	-
Major repairs	1,074	1,074	-
Routine and cyclical maintenance	1,525	1,525	-
	<hr/>	<hr/>	
<b>Total expenditure on lettings</b>	<b>4,588</b>	<b>4,588</b>	-
<b>Operating surplus on lettings</b>	<hr/> <b>639</b>	<hr/> <b>639</b>	<hr/> -

Average weekly rent levels for assured rents on at transfer of the housing stock was £49.00.

No major repairs have been capitalised during the year. All repairs have been expensed to the income and expenditure account.



**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**4. Housing stock**

	<b>Units under development</b>		<b>Units under management</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Housing accommodation for letting:				
New build and mixed funded	<u>-</u>	<u>-</u>	<u>5,369</u>	<u>-</u>

**5. 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 £40,000 per year.

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Total emoluments payable to directors (including pension contributions) and benefits in kind	<u>328</u>	<u>57</u>
Emoluments payable to the highest paid director (including pension contributions)	<u>77</u>	<u>44</u>

The Chief Executive is a member of the Association's Scottish Federation of Housing Associations defined contributions pension scheme as disclosed in note 26. No enhanced or special terms apply to memberships. The Association's contributions to the Chief Executive in the year amounted to £10,084 (2006: £Nil)

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

	<b>2007</b>	<b>2006</b>
More than £50,000 but not more than £55,000	4	3
More than £55,000 but not more than £60,000	-	-
More than £60,000 but not more than £65,000	-	-
More than £65,000 but not more than £70,000	-	-
More than £70,000 but not more than £75,000	-	1
More than £75,000 but not more than £80,000	1	-

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**6. 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:

	<b>Number of employees</b>	
	<b>2007</b>	<b>2006</b>
Housing & Neighbourhood Services	120.74	1
Finance & IT	11.36	-
Human Resources & Corporate Services	11.26	2
Investment & Regeneration	12	1
Administration (seconded staff)	7	7
	<u>161.36</u>	<u>11</u>

The aggregate payroll costs of these persons were as follows:

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	1,304	341
Social security costs	106	27
Other pension costs	170	47
	<u>1,580</u>	<u>415</u>

**7. Operating Surplus/(Deficit) on ordinary activities**

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
<i>Operating Surplus/(Deficit) on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit (including expenses and excluding VAT for the year)	26	4
Other services	15	2
Operating lease rentals:		
Buildings	128	-
Other	23	-
	<u>232</u>	<u>6</u>

**8. Interest receivable**

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Bank interest receivable	13	-
Interest on pension fund	24	-
	<u>37</u>	<u>-</u>

**9. Interest payable**

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
On bank loans	10	-
	<u>10</u>	<u>-</u>

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**10. Taxation**

Analysis of charge in year

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
<i>UK corporation tax</i>		
Current tax on surplus for the year	155	-
Adjustment in respect of previous years	<u>-</u>	<u>-</u>
Total current tax	155	-
Increase in deferred tax asset	<u>3</u>	<u>-</u>
Tax on surplus on ordinary activities	<u><u>158</u></u>	<u><u>-</u></u>

*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 (30%, 2006: 30%). The differences are explained below:

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
<i>Current tax reconciliation</i>		
Surplus on ordinary activities before tax	<u>474</u>	<u>(6)</u>
Current tax at 30% (2006: 30%)	142	(2)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	24	-
Depreciation for year in excess of capital allowances	(5)	-
Utilisation of tax losses	-	-
Capitalised interest	-	2
Chargeable gains	18	-
Marginal relief	<u>(25)</u>	<u>-</u>
Total current tax charge (see above)	<u><u>154</u></u>	<u><u>-</u></u>

*Deferred taxation*

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

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Balance brought forward	-	-
Income & Expenditure account movement arising during the year	3	-
Balance carried forward	<u><u>3</u></u>	<u><u>-</u></u>

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

Excess of taxation allowances over depreciation of fixed assets	3	-
Other timing difference	-	-
	<u><u>3</u></u>	<u><u>-</u></u>

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**11. Tangible fixed assets - housing properties**

All properties were transferred to the Association at nil value as part of the Large Scale Voluntary Stock Transfer.

During the year 29 properties have been sold under Right to Buy resulting in a gain on sale of £61k.

Security has been granted to lenders in respect of housing properties. Net cumulated interest capitalised on housing properties at 31 March 2007 amounted to £Nil. The amount capitalised in the year was nil.

**12. Tangible fixed assets - other**

	<b>Computer Hardware &amp; software £000</b>	<b>Total Non housing £000</b>
<i>Cost</i>		
At start of year	-	-
Additions during year	141	141
At end of year	<u>141</u>	<u>141</u>
<i>Depreciation</i>		
At start of year	-	-
Provided during year	45	45
At end of year	<u>45</u>	<u>45</u>
<i>Net book value</i>		
<i>At 31 March 2007</i>	<u>96</u>	<u>96</u>

**13. Stocks and work in progress**

	<b>2007 £000</b>	<b>2006 £000</b>
Maintenance Stock	<u>41</u>	<u>-</u>

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**14. Debtors**

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Rental debtors	272	-
Less bad debt provision	<u>(59)</u>	<u>-</u>
	213	-
Prepayments and accrued income	1,388	525
Other debtors	<u>883</u>	<u>-</u>
	<u><u>2,484</u></u>	<u><u>525</u></u>

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

	<b>Debtor</b>	<b>Provided</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>	<b>Net</b>
			<b>debtor</b>
			<b>£000</b>
Due from current tenants	244	(31)	213
Due from former tenants	28	(28)	-
	<u>272</u>	<u>(59)</u>	<u>213</u>
Due from housing benefit	<u>519</u>	-	<u>519</u>

The amount due from Housing Benefit was received by the Association on 2nd April 2007.

No bad debts were written off during the period (2006: £Nil).

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

The Association did not operate a bank account during the financial period 1<sup>st</sup> April 2006 to 21<sup>st</sup> November 2006.

The Association however did have bank accounts from the transfer date of 21<sup>st</sup> November 2006 to 31<sup>st</sup> March 2007 and held cash at bank and in hand totalling £1.626 million.

From the period from 1<sup>st</sup> of April 2006 to 21<sup>st</sup> November 2006 there were no cash transactions therefore the cash flow statement represents the cash transactions between the 21<sup>st</sup> of November 2006 and 31 March 2007.

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

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Loans (secured)	750	-
Trade creditors	1,797	-
Other creditors including taxation and social security	138	-
Corporation Tax	155	
Accruals and deferred income	<u>1,200</u>	<u>531</u>
	<u><u>4,040</u></u>	<u><u>531</u></u>

Loans are secured by a specific charge against the Association's properties. Loans are on a three month LIBOR basis and therefore repayable in full within one year at a rate of interest of 5.65%.

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**17. Share capital**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
<b>Shares of £1 each fully paid</b>		
At 1 April 2006	-	-
Issued in year	109	-
Paid in year	16	-
At 31 March 2007	<u>125</u>	-
<b>Shares of £1 due but unpaid</b>		
At 1 April 2006	17	-
Paid in year	(16)	23
Cancelled in year	(1)	(6)
At 31 March 2007	<u>-</u>	<u>17</u>
<b>Total</b>	<u>125</u>	<u>17</u>

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.

**18. Reconciliation of movements in shareholders' funds**

	<b>Revenue Reserve</b>	<b>Pension reserve</b>	<b>Share Capital</b>	<b>Total shareholders funds</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April 2006	(6)	-	-	(6)
Liability transferred at 22 November 2006	-	(1,483)	-	(1,483)
Accumulated surplus for year	1,142	-	-	1,142
Transfer to pension reserve	(932)	932	-	-
<b>Balance at 31 March 2007</b>	<u>204</u>	<u>(551)</u>	-	<u>(347)</u>

**19. Designated reserves**

No transfer to designated reserves was made in the year, a policy is in the process of development.

**20 Pension Reserve**

	<b>2006</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April 2006	-	-
Transfer of liability on 22 November 2006	(1,483)	-
Transfer from revenue reserves	<u>932</u>	-
Reserve at 31 March 2007	<u>(551)</u>	-

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**21. Commitments**

- (a) Capital commitments authorised and contracted for at 31 March 2007 amounted to £nil -  
 (b) Annual commitments under non-cancellable operating leases are as follows:

	<b>2007</b>		<b>2006</b>	
	<b>Land and Buildings £000</b>	<b>Other £000</b>	<b>Land and buildings £000</b>	<b>Other £000</b>
<b>Operating leases which expire:</b>				
In second to fifth years inclusive	271	66	-	-
Over five years	-	-	-	-

**22. Reconciliation of operating surplus to net cash inflow from operating activities**

	<b>2007 £000</b>	<b>2006 £000</b>
<b>Operating surplus</b>	<b>386</b>	-
<b>Adjustments:</b>		
Depreciation on non-housing fixed assets	45	-
<b>Movement in working capital:</b>		
Non cash movement in pension fund	(106)	
Increase in stock	(41)	-
Increase in debtors	(1,959)	-
Increase in creditors	2,604	-
	<u>929</u>	<u>-</u>

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

	<b>At 31 March 2006 £000</b>	<b>At 31 March 2006 £000</b>	<b>Cashflows £000</b>	<b>At 31 March 2007 £000</b>
Cash in hand, at bank	-	-	1,626	1,626
Debt due within one year	-	-	(750)	(750)
<b>Total</b>	<u>-</u>	<u>-</u>	<u>876</u>	<u>876</u>

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

	<b>2007 £000</b>	<b>2006 £000</b>
Increase in cash in the period	1,626	-
Cash inflow from debt financing	(750)	-
Change in debt resulting from cash flows	876	-
Movement in net debt in period	876	
Net debt at beginning of period	-	-
<b>Net debt at end of period</b>	<u>876</u>	<u>-</u>

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

### 25. Group structure

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

### 26. Contingent Liability

The Association has received a claim from Argyll & Bute Council to meet a liability of approximately £161k in respect of repair costs carried out or contracted for pre-transfer. The Board do not believe they have a liability for such costs which were not approved by them and for which invoice back up is not available. The Board are confident that when this goes to arbitration there will be no material liability. Due to uncertainty no liability can be quantified, if the association were unsuccessful they would also be liable for legal costs.

Argyll Community Housing Association Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the SFHA scheme based on the financial position of the Scheme as at 30 September 2006. As at this date the estimated employer debt for Argyll Community Housing Association Limited was £493,437.

### 27. Pension schemes

Argyll Community Housing Association Limited participates in both the SFHA Pension Scheme and the Strathclyde 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 currently operates with a single benefit structure, final salary with a 1/60<sup>th</sup> accrual rate. From April 2008 there will be three benefit structures available, namely:

Final salary with a 1/60<sup>th</sup> accrual rate.

Career average revalued earnings with a 1/60<sup>th</sup> accrual rate.

Career average revalued earnings with a 1/70<sup>th</sup> 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. Employers must decide which benefit structure(s) to operate by the end of December 2007.

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 Argyll Community Housing Association Limited paid contributions at the rate of 14.0%. Member contributions were 7.0%

As at the balance sheet date there were 5 active members of the Scheme employed by Argyll Community Housing Association Limited. Argyll Community Housing Association Limited continues to offer membership of the Scheme to its employees.



# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2007**

### 27. Pension schemes (Continued)

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. 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%)

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 increase	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. 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 benefits accrual were assessed as:

Benefit Structure	Long – term joint contribution rate (% of pensionable salaries)
Final Salary 60ths	17.8 Comprising employer contributions of 10.1% and member contributions of 7.7%
Career average 60ths	14.6 Comprising of employer contributions of 8.0% and member contributions of 6.6%
Career average 70ths	12.6 Comprising employer contributions of 6.6% and member contributions of 6.0%

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.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

### 27. Pension schemes (Continued)

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 employer contributions of 5.3% of pensionable salaries with effect from 1 April 2008. With effect from 1 April 2008, the joint contribution rates for each of the benefit structures will be as follows:

Benefit Structure	Joint contribution rate (% of pension able salaries)
Final salary 60ths	23.1 Comprising employer contributions of 15.4% and member contributions of 7.7%
Carer average 60ths	19.9 Comprising employer contributions of 13.3% and member contributions of 6.6%
Career average 70ths	17.9 Comprising employer contributions of 11.9% and member contributions of 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.

If 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 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.)

The next full actuarial valuation will be carried out as at 30 September 2009. Actuarial Reports will be prepared as at 30 September 2007 and as at 30 September 2008 in line with statutory regulations.

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 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 currently participating 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.

Argyll Community Housing Association Limited understands that the Scheme Actuary will calculate potential employer debt figures, as at 30 September 2009, for each employer participating in the SFHA Pension Scheme as part of the next actuarial valuation process.

Argyll Community Housing Association Limited has no plans to close the scheme to new entrants or to leave the scheme in the future and therefore no provision for any debt on withdrawal is necessary at this time.

# ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2007**

### 27. Pension schemes (Continued)

#### 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). 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	<b>31 March 2007</b>	<b>22 November 2006</b>
	% p.a	% p.a
Price increases	3.2%	3.1%
Salary scale increases per annum	4.7%	4.6%
Pension increases per annum	3.2%	3.1%
Discount rate	5.4%	4.9%

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:

	<b>Long term return at 31 March 2007</b>	<b>Assets at 31 March 2007 £000</b>	<b>Long term return at 22 Nov 2006</b>	<b>Assets at 22 Nov 2006 £000</b>
Equities	7.8%	5,508	7.6%	5,170
Bonds	4.9%	920	4.5%	931
Property	5.8%	748	5.6%	693
Cash	4.9%	329	4.7%	328
<b>Total</b>	<b>7.1%</b>	<b>7,505</b>	<b>6.9%</b>	<b>7,122</b>
Net Pension Assets as at			<b>31 March 2007</b>	<b>22 Nov 2006</b>
			<b>£'000</b>	<b>£'000</b>
Estimated employer assets			7,505	7,122
Present value of scheme liabilities			8,056	8,605
Present value of unfunded liabilities			-	-
Total value of liabilities			8,056	8,605
Net Pension Liability			(551)	(1,483)

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**27. Pension schemes (Continued)**

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

	<b>Period to 31 March 2007 £'000</b>	<b>Period to 31 March 2007 % of payroll</b>
Service cost	159	23.0%
Past service costs	(134)	(19.4%)
Curtailement and settlements	-	-
Decrease in irrecoverable surplus	-	-
	-	-
<b>Total operating charge</b>	<b>25</b>	<b>3.6%</b>

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

	<b>Period to 31 March 2007 £'000</b>	<b>Period to 31 March 2007 % of payroll</b>
Expected return on employer assets	171	24.7%
Interest on pension scheme liabilities	(147)	(21.3%)
	24	3.4%
<b>Net Return</b>	<b>24</b>	<b>3.4%</b>
<b>Net revenue account cost</b>	<b>1</b>	<b>0.2%</b>

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

	<b>Period to 31 March 2007 £'000</b>
Actual return less expected return on pension scheme assets	65
Experience gains and losses arising on the scheme liabilities	(2)
Changes in financial assumptions underlying the present value of the scheme liabilities	763
	826
<b>Actuarial gain in pension plan</b>	<b>826</b>
Increase in irrecoverable surplus from membership fall and other factors	-
<b>Actuarial gain recognised in STRGL</b>	<b>826</b>

**ARGYLL COMMUNITY HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2007**

**27. Pension schemes (Continued)**

**Movement in surplus during the period**

	<b>Period to 31 March 2007 £'000</b>
(Deficit) at beginning of year	(1,483)
Current service cost	(159)
Employer contributions	107
Past service costs	134
Net return on assets	24
Actuarial gain	826
	826
<b>(Deficit) at end of the year</b>	<b>(551)</b>

**History of experience - gains and losses**

	<b>Period to 31 March 2007 £'000</b>
Difference between the expected and actual return on assets	65
Value of assets	7,505
<b>Percentage of assets</b>	<b>0.9%</b>
Experience losses on liabilities	(2)
Present value of liabilities	8,056
<b>Percentage of the present value of liabilities</b>	<b>(0.0%)</b>
Actuarial gains recognised in STRGL	826
Present value of liabilities	8,056
<b>Percentage of the present value of liabilities</b>	<b>10.3%</b>

The Association's pension liability at the 31 March 2006 was nil as the employees were not transferred to the Association until the 21<sup>st</sup> November 2006.

**28. Related party disclosures**

Eight members of the Board of Management were also tenants.

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.