

ORKNEY HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2018

RSL No	HAL 164
Charity No	SC 031734

ORKNEY HOUSING ASSOCIATION
REPORT AND FINANCIAL STATEMENTS
for the year ended 31 March 2018

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ORKNEY HOUSING ASSOCIATION

MEMBERS, EXECUTIVE AND ADVISORS

Management Committee

Wendy Baikie
Philip Cook
David Dawson (Vice Chair to 20.09.17)
Linda Forbes
Elaine Grieve
Stacy Johnston
Fiona Lettice (Vice Chair from 01.11.17)
Stuart Roy McIvor (resigned 26.02.18)
John Rodwell (Chair)
John Stockan
William Wallace

Registered Office

39a Victoria Street,
Kirkwall,
Orkney.
KW15 1DN

Registered Auditors

Wylie & Bisset LLP
168 Bath Street,
Glasgow
G2 4TP

Bankers

Royal Bank of Scotland,
1 Victoria Street,
Kirkwall.
KW15 1DP

Chief Executive

Craig Spence

Company Secretary

Mhairi Hughes

Company Registration

2201RS

Scottish Charity Number

SC031734

Solicitors

J.E.P. Robertson & Son,
26 Victoria Street,
Stromness.
KW16 3AA

TC Young
7 West George Street,
Glasgow
G2 1BA

ORKNEY HOUSING ASSOCIATION

REPORT OF THE MANAGEMENT COMMITTEE

for the year ended 31 March 2018

The Management Committee presents its report and the audited financial statements for the year ended 31 March 2018.

Principal Activity

The principal activity of the Association is the provision of rented and low cost home ownership accommodation.

Review of Business and Future Developments

The Association has the following corporate objectives for 2017/18 and beyond:-

- Great place to work,
- Great customer service, and
- Great contribution to our community and society.

During the year we have continued to build new properties, completing 34 rented and 8 low cost home ownership properties and converting another shared ownership unit to rented accommodation. We have three live development schemes which will provide 28 rented and 4 low cost home ownership properties in 2018 and are currently working up three new schemes. We have continued to partner with other agencies to encourage energy efficiency amongst our residents. In order to develop our business and improve our services we will focus on:-

- Delivering a workplace where people are equipped and motivated to provide great customer service
- Driving the benefits of new procurement methods
- Putting plans in place for how we will achieve EESSH for all properties
- Ensuring that our properties are maintained and improved in the most effective way

Changes in Fixed Assets

Details of fixed assets are set out in Note 10.

Going Concern

After reviewing detailed Income and Expenditure and Business Plan projections, and taking account of available bank facilities as well as making such further enquiries as they consider appropriate, the Management Committee is satisfied that the Association has adequate resources to continue to operate for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

The Management Committee and Chief Executive

The Management Committee and Chief Executive of the Association are listed on page 2.

Each elected member of the Management Committee holds one fully paid share of £1 in the Association. The Chief Executive of the Association holds no interest in the Association's share capital and although not having the legal status of director acts as an executive within the authority delegated by Management Committee.

Related Party Transactions

Any tenant who sits on the Management Committee enters into a tenancy on the Association's normal terms and conditions and cannot use this position to his or her advantage. The same position applies to any sharing owner in respect of their exclusive occupancy agreement.

ORKNEY HOUSING ASSOCIATION

REPORT OF THE MANAGEMENT COMMITTEE (continued)

for the year ended 31 March 2018

Charitable Status

Orkney Housing Association Limited was recognised by the Inland Revenue as a Scottish Charity from 30 May 2001.

Statement of Management Committee's Responsibilities

Housing Association legislation requires the Management Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the income and expenditure of the Association for the year ended on that date. In preparing those financial statements the Management Committee is required to:-

- * Select suitable accounting policies and then apply them consistently;
- * Make judgements and estimates that are reasonable and prudent;
- * State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- * Comply with the disclosures required by the Scottish Housing Regulator's regulatory framework;
- * Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association.

The Management Committee is 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.

Statement on Internal Financial Controls

Management Committee acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments in which the Association operates. These controls are designed to give reasonable assurance with respect to:

- (i) The reliability of financial information used within the Association or for publication,
- (ii) The maintenance of proper accounting records, and
- (iii) The safeguarding of assets against unauthorised use or disposition.

It is the Management Committee's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial mis-statement or loss. Key elements include ensuring that:

for the year ended 31 March 2018

Statement on Internal Financial Controls (continued)

- (i) 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.
- (ii) Experienced and suitably qualified staff take responsibility for important business functions.
- (iii) Forecasts and budgets are prepared which allow Management Committee and Executive Officers 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.
- (iv) All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the Management Committee.
- (v) The Management Committee reviews reports from the Audit and Risk Management Sub-Committee, from internal management and from the external auditors 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.
- (vi) The Audit and Risk Management Sub-Committee reviews internal audit reports based on an internal audit needs assessment and an agreed programme undertaken by an external provider.
- (vii) Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

Management Committee has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2018 and until 25 July 2018. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in the financial statements or in the auditor's report on the financial statements.

In so far as the Committee are aware:

There is no relevant audit information needed by the Association's auditors in connection with preparing their report of which the Association's auditors are unaware.

The Committee have taken all the steps that they ought to have taken to make themselves aware of such information.

Auditors

Wylie and Bisset have expressed their willingness to continue as the auditors of the Association.

By order of Management Committee



John Rodwell
Chairperson

25 July 2018

REPORT OF THE AUDITORS TO ORKNEY HOUSING ASSOCIATION LIMITED

TO THE MEMBERS OF ORKNEY HOUSING ASSOCIATION

Opinion

We have audited the financial statements of Orkney Housing Association (the 'Association') for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Co-operative and Communities Benefit Societies Act 2014, the Housing (Scotland) Act 2010, and the Determination of Accounting Requirements 2014.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The Management Committee are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we

identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Management Committees' Report. We have nothing to report in respect of the following matters where The Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- The information given in the Report of the Management Committee is inconsistent with the Financial Statements;
- Proper books of accounts have not been kept by the Association in accordance with the requirements of the legislation;
- A satisfactory system of control over transactions has not been maintained by the Association in accordance with the requirement of the legislation;
- The financial statements are not in agreement with the books of accounts; or
- We have not received all the information and explanations necessary for the purposes of our audit.

We have nothing to report in respect of these matters.

Responsibilities of The Management Committee

As explained more fully in the Report of the Management Committee set out on pages 3 to 5, the Management Committee are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Management Committee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

REPORT OF THE AUDITORS TO ORKNEY HOUSING ASSOCIATION LIMITED

TO THE MEMBERS OF ORKNEY HOUSING ASSOCIATION (continued)

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

This report is made solely to the Association's members, as a body, in accordance with the Co-operative and Communities Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Wylie & Bisset LLP
Chartered Accountants
Statutory Auditor
Glasgow**

Date: 25 July 2018

REPORT OF THE AUDITORS TO ORKNEY HOUSING ASSOCIATION LIMITED

ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed your statement on pages 4 and 5 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator.

Basis of opinion

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on pages 4 and 5 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through enquiry of certain members of the Board of Management and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Board of Management's Statement on Internal Financial Control appropriately reflects the Association's compliance with the information required by the relevant Regulatory Standards in respect of internal financial controls within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls.



Wylie & Bisset LLP
Chartered Accountants
Statutory Auditors
Glasgow

25 July 2018

ORKNEY HOUSING ASSOCIATION LIMITED**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 March 2018

		2018	2017
	Notes	£	£
Turnover - continuing activities	2	5,087,499	4,424,062
Less: Operating costs	2	(4,176,256)	(3,539,306)
Operating surplus - continuing activities		911,243	884,756
Gain on disposal of fixed assets	25	49,594	60,448
Interest receivable		9,542	23,090
Interest and financing costs	8	(553,799)	(492,901)
Surplus before tax		416,580	475,393
Taxation	9	0	0
Surplus for the year		416,580	475,393
Actuarial gain in respect of pensions schemes		4,000	452,000
Total comprehensive income for the year		420,580	927,393

In each of the years ended 31 March 2017 and 31 March 2018 the only gain or loss recognised by the Association was the surplus or deficit for the year. All of the activities undertaken by the Association were continuing activities, and the reported surplus or deficit was determined under the historical cost convention.

The notes on pages 14 to 28 form part of these financial statements.




ORKNEY HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2018

		2018	2017
	Notes	£	£
Tangible Fixed Assets			
Housing properties	10	86,148,147	82,683,060
Other assets	10	1,457,190	1,387,682
		<u>87,605,337</u>	<u>84,070,742</u>
Fixed Asset Investments			
Investments	11	200,001	200,001
Shared equity costs	11	1,587,607	1,270,745
Shared equity grants	11	(1,587,607)	(1,270,745)
		<u>200,001</u>	<u>200,001</u>
Current Assets			
Investments	12	1,000,000	1,204,060
Work-in-progress	13	625,268	795,682
Trade and other debtors	14	362,115	557,787
Stock		34,446	32,820
Cash at bank and in hand		1,493,910	1,997,949
		<u>3,515,739</u>	<u>4,588,298</u>
Creditors: amounts falling due within one year	16	<u>(2,373,050)</u>	<u>(2,759,343)</u>
Net current assets		<u>1,142,689</u>	<u>1,828,955</u>
Total assets less current liabilities		88,948,027	86,099,698
Creditors: amounts falling due after more than one year			
Long term loans	17	(18,804,903)	(17,840,970)
Deferred income – capital grants	18	(62,290,297)	(60,697,672)
Pension deficit creditor	23	(388,398)	(517,202)
Net assets		<u>7,464,429</u>	<u>7,043,854</u>
Capital and Reserves			
Share capital	19	131	136
Revenue reserve	20	7,464,298	7,043,718
		<u>7,464,429</u>	<u>7,043,854</u>

The financial statements on pages 10 to 28 were approved by the Management Committee on 25 July 2018 and were signed on its behalf by:


 Chairperson

 Committee member

 Secretary

ORKNEY HOUSING ASSOCIATION LIMITED

STATEMENT OF CHANGES IN RESERVES

for the year ended 31 March 2018

	Share Capital	Income & Expenditure Reserve	Revaluation Reserve	Total
	£	£	£	£
At 1 April 2017	136	7,043,718	0	7,043,854
Surplus for the year	0	416,580	0	416,580
Revaluation of tangible fixed assets	0	0	0	0
Re-measurement gain on defined benefit pension plan	0	4,000	0	4,000
Total comprehensive income	136	7,464,298	0	7,464,434
Share capital cancelled	(7)	0	0	(7)
Share capital issued	2	0	0	2
At 31 March 2018	131	7,464,298	0	7,464,429

ORKNEY HOUSING ASSOCIATION LIMITED

STATEMENT OF CASHFLOWS

for the year ended 31 March 2018

	Notes	2018	2017
		£	£
Net cash generated from operating activities (see below)		1,119,542	1,086,817
Cash flow from investing activities			
Purchase of tangible fixed assets		(5,786,893)	(6,320,314)
Proceeds from sale of tangible fixed assets		946,443	365,376
Grants received (net)		2,427,307	2,670,703
Interest received		6,778	24,178
Cash flow from financing activities			
Interest paid		(414,215)	(466,263)
New secured loans		1,500,000	1,600,000
Repayment of borrowings		(509,885)	(517,220)
Net change in cash and cash equivalents		(710,923)	(1,556,723)
Cash and cash equivalents at beginning of year		3,202,009	4,758,732
Cash and cash equivalents at end of year		2,491,086	3,202,009
Cash inflow from operating activities			
Surplus for the year		420,580	927,393
Adjustments for non-cash items:-			
Depreciation/amortisation charges		296,617	251,653
(Increase)/Decrease in stock		(1,626)	465
(Increase)/Decrease in trade debtors		57,063	(117,834)
Increase/(Decrease) in trade and other creditors		(39,593)	156,486
Pension costs less contributions payable		(128,804)	(552,798)
Carrying amount of fixed asset disposals		311,856	214,226
Proceeds from sale of fixed assets		(361,450)	(274,674)
Interest payable		553,799	492,901
Interest receivable		(9,542)	(23,090)
Services equalisation account		10,483	1,601
Charge to service provisions		10,159	10,488
Net cash inflow from operating activities		1,119,542	1,086,817
Analysis of Cash at 31 March		2018	2017
Investments		1,000,000	1,204,060
Cash at bank		1,493,910	1,997,949
Bank overdraft		(2,824)	0
		2,491,086	3,202,009

1. Principal Accounting Policies

The Financial Statements have been prepared in accordance with applicable accounting standards including Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice for social housing providers 2014 (SORP 2014) and the Scottish Housing Regulator's Determination of Accounting Requirements 2014.

Basis of Accounting

Orkney Housing Association Limited meets the definition of a public benefit entity under FRS 102.

A summary of the more important accounting policies, which have been applied consistently is set out below:-

Turnover

Turnover represents rental and service charge income, revenue grants receivable from Scottish Ministers and first tranche sales of low cost home ownership properties.

Mortgages - Housing Properties

Mortgage loans are advanced by private lenders under the terms of mortgages secured over the Association's housing properties. A programme funding agreement will be secured with a lender to provide loan facilities for future developments. Advances will be drawn down on this facility only in respect of those developments which have been given approval for Affordable Housing Supply Programme grant (previously Housing Association Grant (HAG)) or other funding by the Scottish Government.

Housing Association Grant

For schemes developed under Scottish Government approval, AHSP (previously HAG) is paid directly to the Association as required, to meet its liabilities during the development process. AHSP/HAG is repayable under certain circumstances, primarily following the sale of property. Although HAG was abolished from 31.3.11 the Association continued to receive HAG on schemes approved prior to that date.

Grants for capital expenditure are disclosed as deferred income and amortised over the useful lives of the components to which they relate (see below). Grants for revenue expenditure are credited to the Statement of Comprehensive Income as they become receivable.

Grants attributed to individual components are written off to Statement of Comprehensive Income when these components are replaced. Component replacement is not deemed to create a relevant event for repayment or recycling purposes. Upon disposal of the associated property, the Association will be required to repay or recycle the grant, and to reflect this, a contingent liability has been disclosed.

Tangible Fixed Assets - Housing Properties (Note 10)

Housing properties are stated at cost. The development costs of housing properties funded with AHSP, traditional HAG or under earlier funding arrangements include the following:-

- i) Cost of acquiring land and buildings
- ii) Development expenditure
- iii) Interest charged on the development loan funds drawn to finance construction.

Note 1 (continued)

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

Works to Existing Properties

Works to existing properties which replace a component which has been treated separately for depreciation purposes, and those works which result in an increase in net rental income over the lives of the properties (thereby enhancing the economic benefits of the assets), are capitalised as improvements. Works to existing properties which do not result in the enhancement of economic benefits are charged to the Statement of Comprehensive Income.

Work In Progress/Shared Equity Properties

New Supply Shared Equity scheme

Grants are received from Scottish Ministers for the construction of properties under the New Supply Shared Equity scheme. Whilst under construction, the cost is recorded within current assets and corresponding grants shown in current liabilities. Once sales are made, the sales proceeds and related cost will be released to the Statement of Comprehensive Income.

Shared Ownership

Properties constructed for shared ownership are part funded by the Scottish Government. Prior to completion and sale, the estimated cost element relating to the first tranche sales is included in current assets as work-in-progress. When the first tranche is sold this cost element is taken to cost of sales within the Statement of Comprehensive Income, along with any adjustment required relating to the actual percentage sold. Income from first tranche sales is included within turnover.

Depreciation

No depreciation is charged on housing properties held under shared ownership because it is felt that the residual values of the properties are sufficiently high that any depreciation charged would be immaterial.

The major components of rented housing properties are depreciated over their useful lives as follows:-

Kitchens	-	20 years
Windows	-	33 $\frac{1}{3}$ years
Roofs	-	50 years
Structure (new build)	-	100 years
Structure (rehabilitated properties)	-	80 years

Other fixed assets are depreciated as follows:-

Furniture & Equipment	-	25% per annum reducing balance method
Fixtures & Fittings	-	25% per annum reducing balance method
Handyman Van	-	25% per annum reducing balance method
Handyman Tools	-	25% per annum reducing balance method
Computers Hardware	-	25% per annum straight line method
Aareon Software	-	5% per annum straight line method
Other Software	-	25% per annum straight line method
Workshop Improvements	-	21% per annum straight line method
Office Buildings	-	1 $\frac{1}{4}$ % per annum straight line method

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

Note 1 (continued)

A full year's depreciation is charged on these assets in the year of purchase and none in the year of disposal.

Subsidiary

The subsidiary OHAL Enterprises CIC is still a dormant company as at 31 March 2018 and accordingly the Association has not prepared consolidated financial accounts.

2. Particulars of turnover, cost of sales, operating costs and operating surplus or deficit

	Turnover	Cost of sales	Operating costs	2018 Operating surplus/ (deficit)	2017 Operating surplus/ (deficit)
	£	£	£	£	£
Social lettings (note 3)	4,266,502	0	3,366,502	900,000	893,672
Other activities (note 4)	820,997	464,076	345,678	11,243	(8,916)
Total	5,087,499	464,076	3,712,180	911,243	884,756
Total for previous period of account	4,424,062	98,662	3,440,644		884,756

for the year ended 31 March 2018

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

	General Needs	Shared Ownership	Supported Housing	2018 Total	2017 Total
	£	£	£	£	£
Rent receivable net of service charges	2,979,658	353,491	38,219	3,371,368	3,102,964
Service charges	157,371	0	2,603	159,974	140,531
Gross income from rents and service charges	3,137,029	353,491	40,822	3,531,342	3,243,495
Less voids	(9,221)	(154)	(452)	(9,827)	(9,880)
Net income from rents and service charges	3,127,808	353,337	40,370	3,521,515	3,233,615
Grants from Scottish Ministers	11,741	0	8,259	20,000	87,615
Grants released from deferred income	704,382	0	5,697	710,079	642,548
Other grants and miscellaneous income	13,281	1,552	75	14,908	9,126
Total income from social lettings	3,857,212	354,889	54,401	4,266,502	3,972,904

Operating costs on social letting activities

Service costs	158,014	0	1,960	159,974	140,519
Management administration costs	685,724	87,063	3,638	776,425	877,377
Maintenance administration costs	469,722	384	6,611	476,717	461,034
Reactive maintenance costs	456,764	5,027	6,880	468,671	428,673
Planned and cyclical maintenance costs	394,496	24	211	394,731	151,336
Property improvements & adaptations	144,964	0	7,927	152,891	173,395
Bad debts – rents and service charges	7,308	527	26	7,861	7,312
Depreciation of social housing	922,347	0	6,885	929,232	839,586
Total operating costs on social lettings	3,239,339	93,025	34,138	3,366,502	3,079,232

Operating surplus on social lettings	617,873	261,864	20,263	900,000	893,672
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Operating surplus on social lettings for previous period of account	635,038	245,007	13,627		893,672
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4. Particulars of turnover, operating costs and operating deficit from other activities

	Grants from Scottish Ministers	Other Income	Total Turnover	Other operating costs	Operating surplus/ (deficit)	Operating surplus/ (deficit) for previous period of account
	£	£	£	£	£	£
Wider role	0	0	0	2,005	(2,005)	(2,837)
Factoring	0	30,254	30,254	30,713	(459)	(732)
Care and Repair Services	0	283,538	283,538	283,538	0	0
Development and Construction of Property	0	471,730	471,730	464,076	7,654	(4,912)
Development Administration	0	953	953	1,980	(1,027)	(3,918)
Other Agency/ Management services	0	26,009	26,009	26,500	(491)	(4,320)
Other activities	0	8,513	8,513	942	7,571	7,803
Total from other activities	0	820,997	820,997	809,754	11,243	(8,916)
Total from other activities for the previous period of account	28,695	422,463	451,158	460,074	(8,916)	

5. Key Management Personnel Emoluments

As per the Scottish Housing Regulator's Determination of Accounting Requirements 2014, disclosure of key management personnel's emoluments exceeding £60,000 per annum is required.

The key management personnel are defined as (a) the Management Committee, who can only receive expenses and, in certain circumstances, compensation for loss of earnings, and (b) the members of the Association's Leadership Team.

There were no officers with emoluments of £60,000 or more excluding employer's pension contributions during the period of account.

	2018	2017
	£	£
The emoluments of the Chief Executive:		
Excluding pension contributions	33,638	44,748
Employer's Pension contributions	<u>48,613</u>	<u>44,573</u>
Total emoluments payable	<u>82,251</u>	<u>89,321</u>

The Association operates a salary sacrifice scheme available to all members of staff.

The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply.

6. Employee Information

The average monthly number of persons employed during the year was:

	2018	2017
Office Staff	35	36
Cleaners	1	1
	36	37
Full-time equivalent	34	34

	2018	2017
	£	£
Staff costs (including directors' emoluments);		
Wages and salaries	970,209	1,002,073
Social security costs	90,951	97,272
Pension costs (Note 23)	396,363	411,415
Temporary staff	22,312	25,952
	1,479,835	1,536,712

Pension costs in 2017/18 includes £126,798 (2017 - £99,000) lump sum contributions towards past service deficit. £152,244 additional employer pension contributions were incurred in 2016/17 as part of a process to transfer staff from defined benefit to defined contribution pension schemes.

7. Operating Surplus

	2018	2017
	£	£
Operating surplus is stated after charging/(crediting):-		
Depreciation	1,007,444	901,491
Amortisation	(710,079)	(642,548)
Direct repair costs: reactive, planned and cyclical	714,618	423,742
Auditor's remuneration		
- In their capacity as auditors (including expenses)	11,224	11,435
- In their capacity as financial advisers	80	500

8. Interest and financing costs

	2018	2017
	£	£
On loans repayable wholly or partly in more than 5 years	548,001	466,901
Interest expense on pension deficit payments	5,798	26,000
	553,799	492,901

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

9. Taxation

The Association was granted charitable status for taxation purposes with effect from 30 May 2001.

10. Tangible Fixed Assets

Housing Properties

	Completed		Under Construction		
	Rented	SO	Rented	SO	Total
	£	£	£	£	£
Gross Cost					
At 1 April 2017	68,186,039	15,324,834	8,610,960	483,257	92,605,090
Schemes completed	7,415,584	663,797	(7,415,584)	(663,797)	0
Additions	159,520	0	4,719,396	180,540	5,059,456
Disposals	(20,598)	(647,776)	0	0	(668,374)
At 31 March 2018	75,740,545	15,340,855	5,914,772	0	96,996,172
Depreciation					
At 1 April 2017	9,922,030	0	0	0	9,922,030
Charge for year	929,232	0	0	0	929,232
Adjustment re disposals	(3,237)	0	0	0	(3,237)
At 31 March 2018	10,848,025	0	0	0	10,848,025
Net book value at:					
31 March 2018	64,892,520	15,340,855	5,914,772	0	86,148,147
31 March 2017	58,264,009	15,324,834	8,610,960	483,257	82,683,060

10. **Tangible Fixed Assets** (continued)

Development administration costs capitalised amounted to £46,218 (2017 - £55,950). Interest costs capitalised amounted to £8,401 (2017 - £39,279).

Total expenditure on works to existing properties amounted to £910,647 during the year (2017 - £676,640), of which £46,355 was capitalised (2016 - £82,634).

	Office Buildings	Office fixtures, fittings, furniture & equipment	Handymen vans and tools etc	Total
	£	£	£	£
Cost				
At 1 April 2017	1,155,971	422,095	110,439	1,688,505
Additions	52,736	46,128	51,345	150,209
Disposals	0	(5,801)	(10,200)	(16,001)
At 31 March 2018	1,208,707	462,422	151,584	1,822,713
Depreciation				
At 1 April 2017	84,640	143,068	70,755	298,463
Charge for year	13,103	41,662	23,447	78,212
Adjustment re disposals	0	(5,125)	(7,797)	(12,922)
At 31 March 2018	97,743	179,605	86,405	363,753
Grants				
At 1 April 2017	0	285	2,075	2,360
Amortisation	0	(71)	(519)	(590)
At 31 March 2018	0	214	1,556	1,770
Net book value				
At 31 March 2018	1,110,964	282,603	63,623	1,457,190
At 31 March 2017	1,071,331	278,742	37,609	1,387,682

11. Fixed Asset Investments

	Subsidiary	Shared Equity	Investment Property	Total
Cost				
At 1 April 2017	1	1,270,745	200,000	1,470,746
Additions	0	647,693	0	647,693
Disposals	0	(330,831)	0	(330,831)
At 31 March 2018	1	1,587,607	200,000	1,787,608
Grants				
At 1 April 2017	0	1,270,745	0	1,207,745
Additions	0	316,862	0	316,862
At 31 March 2018	0	1,587,607	0	1,587,607
Net book value				
At 31 March 2018	1	0	200,000	200,001
At 31 March 2017	1	0	200,000	200,001

The wholly owned subsidiary OHAL Enterprises CIC was dormant during the year to 31 March 2018.

12. Investments

Investments at 31 March 2018 totalled £1.15m (2017 - £1.20m) comprising two time deposit facilities at a fixed rate and maturity after fixed terms of 2 weeks and 12 months. Investments purchased or rolled over during the year amounted to £1.83m (2017 - £1.51m).

13. Work-in-progress

	Shared Ownership	Shared Equity etc	Total
	£	£	£
Opening WIP	161,086	634,596	795,682
Additions	19,454	638,365	657,819
Disposals	(180,540)	(647,693)	(828,233)
	0	625,268	625,268

14. Debtors

	2018	2017
	£	£
Rent arrears	150,675	107,075
Interest receivable	5,647	2,883
Scottish Government grant receivable	0	127,488
Other grants receivable	87,514	98,159
Other debtors and prepayments	118,279	222,182
	362,115	557,787

Other debtors are stated net of a provision for bad debts of £4,250 (2017 - £4,000).

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

15. Rents

	2018 £	2017 £
Gross arrears	163,675	117,075
Provision for bad debts	(13,000)	(10,000)
Net arrears	150,675	107,075

16. Creditors: amounts falling due within one year

	2018 £	2017 £
Rent in advance	27,088	38,586
HAG repayable	44,948	27,043
Bank overdraft	2,824	0
Loan instalments due and payable - housing	708,866	545,238
Capital expenditure	445,154	967,563
Capital grants received in advance	114,106	114,106
Shared equity grants on work in progress	257,562	271,092
Pension deficit creditor	130,602	126,798
Taxation and social security creditor	32,700	35,662
Care and Repair working capital	79,908	118,121
Shared ownership factoring sinking fund	115,300	105,142
Services equalisation account	21,103	10,620
Other creditors and accruals	392,889	399,372
	2,373,050	2,759,343

17. Creditors: amounts falling due after more than one year

	2018 £	2017 £
Housing loans	18,804,903	17,840,970

Loans are secured by specific charges on the Association's properties and repayable at varying rates of interest in instalments due as follows:-

	2018 £	2017 £
Within one year	708,866	545,238
Between one and two years	594,670	588,067
Between two and five years	2,006,778	1,840,066
In five years or more	16,203,455	15,412,837
	19,513,769	18,386,208

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

18. Deferred Income – Capital Grants

Scottish Government Grants

	Completed		Under Construction		
	Rented	SO	Rented	SO	Total
	£	£	£	£	£
At 1 April 2017	49,184,310	10,982,156	6,482,739	334,577	66,983,782
Schemes completed	3,725,520	334,577	(3,725,520)	(334,577)	0
Additions	784,818	0	1,935,316	0	2,720,134
Disposals	(16,439)	(399,875)	0	0	(416,314)
At 31 March 2018	53,678,209	10,916,858	4,692,535	0	69,287,602

Other Grants

At 1 April 2017	1,661,072	130,891	0	0	1,791,963
Additions	0	0	0	0	0
Written down	(922)	0	0	0	(922)
Disposals	0	(194)	0	0	(194)
At 31 March 2018	1,660,150	130,697	0	0	1,790,847

Amortisation

At 1 April 2017	8,078,073	0	0	0	8,078,073
Charge for year	710,079	0	0	0	710,079
At 31 March 2018	8,788,152	0	0	0	8,788,152

Net book value at:

31 March 2018	46,550,207	11,047,555	4,692,535	0	62,290,297
31 March 2017	42,767,309	11,113,047	6,482,739	334,577	60,697,672

19. Share Capital

	2018	2017
	£	£
At 1 April 2017	136	141
Issued in year	2	1
Cancelled in year	(7)	(6)
At 31 March 2018	131	136

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

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

20. Reconciliation of movement in revenue reserve

	2018	2017
	£	£
Revenue reserve brought forward	7,043,718	6,116,325
Surplus for the year	420,580	927,393
Revenue reserve carried forward	<u>7,464,298</u>	<u>7,043,718</u>

21. Capital commitments

	2018	2017
	£	£
Capital expenditure which has been contracted for but has not been provided for in the financial statements:	959,570	5,125,746
Capital expenditure which has been authorised but not contracted for or provided for in the financial statements:	<u>172,650</u>	<u>43,090</u>

The amount contracted for at 31 March 2018 will be funded from low cost home ownership sales and loans.

22. Contingent Liabilities

Pension Scheme liabilities

The Association has been advised 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 2017. As of this date, the estimated employer debt for Orkney Housing Association was £4,673,498 (2016 - £5,856,894).

The Association has no current plans to withdraw from the SHAPS Pension Scheme. It ceased to offer membership of SHAPS defined benefit schemes from 31 March 2017, thereby limiting any future increase in liability. All staff have access to a SHAPS defined contribution scheme from 1 April 2017.

Grants written off

At 31 March 2018, the Association has disposed of components which had received £314,558 (2017 - £297,197) of grant funding. Although the disposal of these components has not given rise to a relevant event for the purposes of repayment or recycling the grant (as the Association retains the property asset), it does have a potential future obligation to repay or recycle such grant once the property is disposed of.

As the timing of any future disposal is uncertain, in accordance with Financial Reporting Standard 12 – Provisions, Contingent Liabilities and Contingent Assets, no provision has been recognised in these financial statements.

23. Pensions

SHAPS Pension Scheme

Prior to 31 March 2017 the Association participated in the Scottish Housing Associations' Pension Scheme (the "scheme"). The Scheme was a defined benefit scheme in the UK.

It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore, it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing' arrangement. Therefore, the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation of the scheme was carried out at 30 September 2015. This actuarial valuation showed assets of £616 million, liabilities of £814m and a deficit of £198m. To eliminate this funding shortfall the trustees and the participating employers have agreed that additional contributions will be paid to the scheme as follows:

Deficit Contributions (whole scheme)

From 1 April 2017 to 28 February 2022: £25,735,092 per annum (payable monthly and increasing by 3% each on 1st April)

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present Values of Provision

	2018 (£000s)	2017 (£000s)	2016 (£000s)
Present value of provision	519	644	1,169

23. Pensions (continued)

Reconciliation of Opening and Closing Provisions

	2018 (£000s)	2017 (£000s)
Provision at start of period	644	1,169
Unwinding of the discount factor (interest expense)	6	26
Deficit contribution paid	(127)	(99)
Remeasurements - impact of any change in assumptions	(4)	19
Remeasurements - amendments to the contribution schedule	0	(471)
Provision at end of period	519	644

Income and Expenditure Impact

	2018 (£000s)	2017 (£000s)
Interest expense	6	26
Remeasurements – impact of any change in assumptions	(4)	19
Remeasurements – amendments to the contribution schedule	0	(471)

Assumptions

	2018 % per annum	2017 % per annum
Rate of discount	1.51	1.06

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

From 1 April 2017 all staff have access to a SHAPS defined contribution pension scheme. Details of standard employee and employer contributions are as follows:

	Employee	Employer
Contribution rate	5%	10.45%

24. Legislative Provisions

The Association is incorporated under the Industrial and Provident Societies Act 1965, registered with the Scottish Housing Regulator and governed by the Housing (Scotland) Act 2010.

25. Gain on Disposal of Fixed Assets

	Shared Ownership	Land	Other Assets	Total 2018	Total 2017
	£	£	£	£	£
Income	358,750	0	2,700	361,450	274,674
Legal Expenses	(3,926)	0	0	(3,926)	(2,886)
Cost of Sale	(302,365)	0	(3,079)	(305,444)	(208,290)
Other Costs	(2,486)	0	0	(2,486)	(3,050)
Gain/(Loss) on disposal	<u>49,973</u>	<u>0</u>	<u>(379)</u>	<u>49,594</u>	<u>60,448</u>

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

26. Housing Stock

The number of units of housing under development and in management at 31 March was:-

	Units under Development		Units In Management	
	2018	2017	2018	2017
Housing for Rent: General needs housing	28	73	761	726
Supported housing	-	-	8	8
Communal use	-	-	2	2
	28	73	771	736
Shared Ownership accommodation	-	4	161	169
New Supply Shared Equity	4	4	-	-
Total	32	81	932	905

27. Subsidiary Information

Details of the investment in which the Association holds more than 10% of the nominal value of any class of share capital are as follows:-

Name of Company	Country of Registration or incorporation	Date of Incorporation	Proportion of Voting Rights	Nature of Business
OHAL Enterprises C.I.C.	United Kingdom	08/02/2012	Wholly Controlled	Dormant since incorporation

28. Related Parties

Any tenant who sits on the Management Committee enters into a tenancy on the Association's normal terms and conditions and cannot use this position to his or her advantage. The same position applies to any sharing owner in respect of their exclusive occupancy agreement.

