

Hjaltland Housing Association Limited

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

Registered Housing Association No Hal 127
Financial Conduct Authority No 1832R(S)
Scottish Charity No SC031954

Hjaltland Housing Association Limited

Management Committee, Executives and Advisers For the year ended 31 March 2019

Registration Particulars:

Financial Conduct Authority	Co-operative and Community Benefit Societies Act 2014 Registered Number 1832R(S)
Scottish Housing Regulator	Housing (Scotland) Act 2010 Registered Number 127
Charity Number	SC031954

Management Committee

A Tallack	Chairperson
J Goddard	Vice Chairperson
K Eunson	Treasurer
J Anderson	Committee Member
L Anderson	Committee Member
P Coleman	Committee Member
K Eunson	Committee Member
R Hunter	Committee Member
L Irvine	Committee Member
G Mitchell	Committee Member
C Nicholson	Committee Member
T Smith	Committee Member

Executive Officers

B Leask	Chief Executive/Secretary
S Gray	Head of Finance and Corporate Services
P Leask	Head of Investment and Asset Management
P Morrison-Gale (Resigned 28.02.19)	Head of Housing and Customer Services
I Bray (Appointed 13.05.19)	Head of Housing and Customer Services

Registered Office

2 Harbour Street
Lerwick
Shetland
ZE1 0LR

Auditor

RSM UK Audit LLP
St Olaf's Hall
Church Road
Lerwick
Shetland
ZE1 0FD

Hjaltland Housing Association Limited

**Management Committee, Executives and Advisers
For the year ended 31 March 2019**

Bankers

Bank of Scotland
117 Commercial Street
Lerwick
Shetland
ZE1 0DN

Royal Bank of Scotland
81 Commercial Street
Lerwick
Shetland
ZE1 0AD

Solicitors

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

Internal Auditor

Quinn Internal Audit and Business Support Services
55 Lady Place
Livingston
EH54 6TB

Hjaltland Housing Association Limited

Report of the Management Committee For the year ended 31 March 2019

The Management Committee presents their report and the audited financial statements for the year ended 31 March 2019.

Mission, Vision & Values

Our Vision is to:

Provide homes and services that enable our tenants to thrive in communities where people are proud to live and work.

Hjaltland will work with others, including the government, local authority, and communities throughout Shetland to ensure individuals and families succeed and reach their full potential.

Our Mission

To deliver high quality, affordable homes and services to communities throughout Shetland.

Our mission explains in more detail how we are going to try to achieve our vision. It sets out what we are going to do, for whom, and how we'll go about it. We have five key strategic objectives that underpin our mission and articulate exactly how we will achieve it.

1. To provide good quality, affordable homes that offer value for money.
2. To assist people in need through a range of services.
3. To provide opportunities for people to participate and influence decisions.
4. To achieve positive outcomes for our customers.
5. To maintain financial strength and grow the business sustainably.

Our values

Our values are integral to our success. They help us by shaping our behaviour and are integrated into our appraisal and recruitment practices.

- **Teamwork** – Working together as one team to the benefit of our customers. To demonstrate and extend trust in each other.
- **Open, Honest & Inclusive** – We offer a people focused service that is centred in fairness and integrity. We believe in being open, honest and respectful in everything we do.
- **Ownership** – We expect our staff to take responsibility for their actions and give them the freedom to do their job in a positive working environment.
- **Quality** – We value quality in everything we do from the standard of our product to the level of service we provide. We take pride in making a difference in communities and providing continuous improvement.
- **Innovation** – We seek to ensure we have sustainable housing, fit for future generations, maintained and developed to the highest possible standard.

Legal Status

Hjaltland Housing Association Limited (Hjaltland) is registered with the Financial Conduct Authority as a Co-operative and Community Benefit Society, The Office of the Scottish Charities Regulator (OSCR) as a charity and the Scottish Housing Regulator as a Registered Social Landlord.

Hjaltland Housing Association Limited

Report of the Management Committee For the year ended 31 March 2019

Principal Activities

The principal activities of the Association are the provision of rented accommodation at affordable rents and the development of low-cost home ownership schemes.

The table below shows the property we own: -

	2019	2018
Managed Property Numbers		
Tenanted Property	720	704
Managed on behalf of others	2	2
Shared Ownership Properties	46	49
Total	768	755

Financial Review

Hjaltland made a surplus of £922,817 (2018 £715,691) during the year. Planned and cyclical maintenance costs of £363,672 were incurred on harling repairs, carpark resurfacing, cyclical painting, electrical survey checks, boiler & ventilation maintenance, replacing faulty heat pumps etc. This compares with £476,004 for similar expenditure in the previous year. This expenditure is written off in the year it is incurred and not capitalised.

In addition to the expenditure which is charged to the Statement of Comprehensive Income £306,393 of costs spent on existing properties have been capitalised. Of the amount capitalised £274,380 (2018 - £172,421) related to the replacement of components and £32,013 (2018 - £27,680) related to improvements. The depreciation charge for the year is £1,092,839 compared to £1,048,237 for the previous year.

Hjaltland continues to have a substantial major repair investment programme including further replacement kitchens due over the next few years.

In the Statement of Financial Position the former deficit funding provision of £453,742 has been replaced with a provision for the net defined benefit liability representing the Association's share of the SHAPS assets and liabilities. The new liability at 1 April 2018 was £816,000. An increase of actuarial losses in the year to 31 March 2019 increased the liability by a further £128,000. In the Statement of Comprehensive Income the accounting changes require us to recognise the annual defined benefit costs, rather than the employer contributions actually paid by the Association. In the year to 31 March 2019 the employer contributions were £117,000 compared with defined costs of £23,000, reducing the liability by the difference of £94,000. The overall impact is a new liability of £850,000 at 31 March 2019, and a net increase of £490,258, matched by a corresponding reduction of £490,258 in the Association's reserves. See note 24 for details.

The accounting changes have not had any impact on compliance with loan covenants.

Surplus for the year

The financial results of Hjaltland are as follows:

	2019 £000s	2018 £000s
Unrestricted surplus for the year before pension remeasurement	994	676
Pension remeasurement	-	4
Other comprehensive expense	(490)	-
Revenue Reserves (unrestricted)	<u>7,109</u>	<u>6,605</u>

Having a strong financial position with Capital and Reserves of £7.109m allows Hjaltland to continue to deliver its planned programme.

Operational Review

1 Corporate Governance

Hjaltland has a Committee of Management who are elected by the members of the Association. (See below for details). It is the responsibility of the Committee to undertake the strategy, setting of policy and overall direction for the Association. They also monitor the operational activities of the Association. The members of the Committee of Management are unpaid.

The Executive Team of Hjaltland is responsible for achieving the strategy set, and undertaking the operational activities in line with the policies set.

The governing body is the Committee of Management, which is responsible to the wider membership. Committee Members serve in a voluntary capacity, and they recognise that this puts even more onus on them to ensure that they set and achieve high standards of professionalism in the Association's work. They take governance very seriously, and regularly review governance arrangements to ensure that the Committee and Association are fit for purpose. The internal auditors also review committee structure and governance as part of their remit.

2 Corporate Issues

Hjaltland is committed to improving levels of service and regularly carries out a Tenant Satisfaction Survey. It is intended to carry out a survey of 100% of tenants on a regular basis. We aim to deliver high quality services, and we set ourselves the goal of achieving continuous improvement in what we do.

Hjaltland is committed to involving staff in decision making and policy making. In November 2018 the Association was proud to receive the Investors in People Gold award and celebrate 20 years of Investors in People accreditation.

The Hjaltland group continued to promote the provision of a One Stop Shop agency on behalf of Shetland Island Council through its subsidiary Hjaltland Trading Ltd. This service provides local residents with advice, support and limited access to grant funding for property repairs and improvements. At 31st March 2019 there were 3 staff employed to ensure the successful running of this service.

We continued to deliver adaptations to existing properties to meet specific needs of our tenants.

3 Development Issues

The year just completed has continued to be busy as Hjaltland progressed a number of projects that had received development funding from the Scottish Government. Significant staff resources have been applied to progressing current & future development opportunities this year. We have spent £4,416k (2018 - £5,697k) during the year. Of this spending £3,154k (2018 – £3,292k) is funded by grants received from the Scottish Government and £123k (2018 - £250k) is funded by grants received from other sources.

Subject to grant funding becoming available through the Affordable Housing Investment Programme, and the availability of other forms of subsidy, it is hoped to increase stock numbers through completion of new housing. This will consolidate the Association's asset base at around 798 by 2020 and 846 by 2021.

4 Housing Issues

The Association continues to work on minimising the period of time taken to re-let or let new properties to ensure that we maintain our effectiveness in housing people in need and reduce our costs. The rent loss due to empty properties increased very slightly to £5,021 from £4,044 in the previous year. By offering a Choice Based Lettings system the average time taken to re-let a property is only 3.75 days. Net tenant arrears has reduced slightly to 1.80%, (previous year 2.06%), and efforts continue to be made to bring the level down.

5 Property Maintenance

The performance of the Association's repair service remains very strong with all emergency repairs being completed in an average of 1.15 hours. On average the non-emergency repairs took 6.03 days to complete, well with the 10-day target.

6 Support Services Issues

The sheltered service continues to be regulated under the Care Inspectorate as a housing support service. The Association also provides support services via the Financial inclusion Officer which is included in our registration with the Care Inspectorate.

7 Finance and IT Issues

During the year additional private finance arrangements were agreed with the Bank of Scotland to provide finance for three new development projects which are due to start on site during 2019/20. The loan documentation for this had not been finalised at 31st March 2019.

8. Policies and Procedures and Risk Management

Risk Events and Risk Management Policy

The Association re-visits its Business Continuity Plan annually and makes amendments based on any lessons learned during the course of the year. The Committee has continued to operate a formal risk management process to assess business risks and implement risk management strategies. This involves identifying the types of risks the Association faces, prioritising them in terms of potential impact and likelihood of occurrence, and identifying means of mitigating the risks. As part of this process the Committee have reviewed the adequacy of the Association's current internal controls and this continues to be kept under review.

Financial covenants are kept under close scrutiny with regular reporting on actual and forecast levels considered by the Committee.

Credit Payment Policy

Hjaltland's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The average payment period is within thirty days.

Rental Income

The Association's Rent Policy is a points formula system based on the size, type and facilities of the accommodation. The policy ensures that the rent structure is easy to administer and covers the wide variations within the Association's properties. The point's value is reviewed annually to ensure that the rents cover costs. This policy follows the generally accepted practice/principles of the Housing Movement and was reviewed in consultation with the tenants through 2014/15.

Maintenance Policies

Hjaltland seeks to maintain its properties to the highest standard. 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

In addition, Hjaltland has a long-term programme of major repairs to cover work which has become necessary since the original development was completed, including works required for subsequent legislative changes. This includes replacement or repairs to features of the properties, which have come to the end of their economic lives.

Budgetary Process

Each year the Committee of Management approves the annual budget and rolling five-year strategic plan. Key risk areas are identified. Performance is monitored, and relevant action taken throughout the year through quarterly reporting to the Committee of Management of variances from the budget, updated forecasts for the year together with information on the key risk areas. Approval procedures are in place in respect of major areas of risk such as major contract tenders, expenditure and treasury management.

Treasury Management

Hjaltland has an active treasury management function, which operates in accordance with the Treasury Policy approved by the Committee of Management. Hjaltland manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held. At 31 March 2019 Hjaltland had £2.3m in loan facilities agreed, but not yet drawn down.

Hjaltland, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2019, Hjaltland had a mix of fixed and variable rate finance, which it considered appropriate at this time. During the year the proportion of fixed rates to variable continued to be reviewed to take advantage of the prevailing low interest rates.

Quality and Integrity of Personnel

The integrity and competence of personnel are ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the Chief Executive.

Equality & Diversity

There is an Equality & Diversity policy in place which is kept under review and has been amended to ensure compliance with legislative changes. All reasonable adjustments will be made to assist those with a disability through the application process and throughout the course of their employment.

Hjaltland Housing Association Limited

Report of the Management Committee For the year ended 31 March 2019

Committee and Officers' Insurance

Hjaltland has purchased and maintains insurance to cover its Committee and officers against liabilities in relation to their duties on behalf of Hjaltland, as authorised by the Association's rules.

The Committee of Management of Hjaltland during the year to 31 March 2019 was as follows:

A Tallack	Chairperson	Appointed 23 August 2018	1
J Goddard	Vice Chairperson	Appointed 23 August 2018	1
K Eunson	Treasurer	Appointed 23 August 2018	1
R Hunter	Chairperson	Resigned 23 August 2018	
A Tallack	Vice Chairperson	Resigned 23 August 2018	
J Goddard	Treasurer	Resigned 23 August 2018	
J Anderson			1
L Anderson			1
P Coleman			
K Eunson		Appointed 23 August 2018	
R Hunter			1
L Irvine			
D Leask		Resigned 14 February 2019	
G Mitchell			1
C Nicholson			
T Smith			

Sub committee membership 1

Finance Committee

Each member of the Committee of Management holds one fully paid share of £1 in Hjaltland. The executive officers of Hjaltland hold no interest in the share capital and although not having the legal status of "director" they act as executives within the authority delegated by the Committee.

Auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

RSM UK Audit LLP have agreed to offer themselves for re-appointment as auditors of Hjaltland.

On behalf of the Committee of Management
B Leask
Secretary
2 Harbour Street
Lerwick, Shetland

22 August 2019

**Statement of Management Committee's Responsibilities
For the year ended 31 March 2019**

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Management Committee to ensure that financial statements are prepared for each financial year, which give a true and fair view of the Association's state of affairs and of the surplus or deficit of the Association for that period. In preparing those financial statements, the Management Committee is required to:

- select suitable accounting policies and 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 being disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is not appropriate 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 must ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Registered Housing Associations Determination of Accounting Requirements 2019. It has general responsibility for taking reasonable steps to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The Management Committee is responsible for the maintenance and integrity of the corporate and financial information included on the Association's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Management Committee's Statement of Internal Financial Control
For the year ended 31 March 2019**

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

- the reliability of financial information used within the Association, or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposition.

It is the 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 misstatement or loss or failure to meet objectives. Key elements of the Association's systems include ensuring that:

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority which allow the monitoring of controls and restrict the unauthorised use of the Association's assets;
- experienced and suitably qualified staff take responsibility for the important business functions and annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the Management Team and Management Committee to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;
- quarterly management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, with significant variances from budget being investigated as appropriate;
- Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the Management Committee;
- the Management Committee receives reports from management and from the external and internal auditors, to provide reasonable assurance that control procedures are in place and are being followed, and that a general review of the major risks facing the Association is undertaken; and
- formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal and external audit reports.

The effectiveness of the Association's system of internal financial control has been reviewed by the Management Committee for the year ended 31 March 2019. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in these financial statements or in the auditor's report on the financial statements.

By Order of the Management Committee

A Tallack

Chairperson

22 August 2019

Opinion

We have audited the financial statements of Hjaltland Housing Association Limited (the 'Association') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2019 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – February 2019.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Committee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Report by the Auditors to the members of Hjaltland Housing Association Limited on Corporate Governance Matters
For the year ended 31 March 2019**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Committee

As explained more fully in the Committee's responsibilities statement set out on page 9, the Committee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
St Olaf's Hall
Church Road
Lerwick
Shetland
ZE1 0FD

Date: 27 August 2019

**Report by the Auditors to the members of Hjaltland Housing Association Limited on Corporate Governance Matters
For the year ended 31 March 2019**

In addition to our audit of the Financial Statements, we have reviewed your statement on page 10 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 which are issued by the Scottish Housing Regulator.

Basis of Opinion

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

Opinion

In our opinion the Statement on Internal Financial Control on page 10 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
St Olaf's Hall
Church Road
Lerwick
Shetland
ZE1 0FD

27 August 2019

Hjaltland Housing Association Limited**Statement of Comprehensive Income
For the year ended 31 March 2019**

	Notes	2019 £	2018 £
Turnover	2	4,491,561	4,350,887
Operating expenditure	2	(3,102,563)	(3,136,880)
Remeasurement of pension provision	2	-	4,000
Operating surplus	7	1,388,998	1,218,007
Gain on disposal of property, plant and equipment	8	111,946	20,964
Interest receivable		6,537	10,782
Interest and financing costs	6	(584,664)	(534,062)
Surplus before tax		922,817	715,691
Taxation		-	-
Surplus for the year		922,817	715,691
Other comprehensive income			
Initial recognition of multi-employer defined benefit scheme	24	(362,258)	-
Actuarial losses in respect of pension scheme	24	(128,000)	-
Total comprehensive income		432,559	715,691

The results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

Statement of Financial Position
For the year ended 31 March 2019

	Notes	2019 £	2018 £
Fixed assets			
Housing properties	10.A	77,044,131	73,830,347
Other fixed assets	10.B	399,678	411,762
		<u>77,443,809</u>	<u>74,242,109</u>
Current assets			
Stock	11	1,210	1,210
Work in progress	11	697,099	128,692
Trade and other debtors	13	206,846	226,372
Cash and cash equivalents		<u>1,307,302</u>	<u>1,904,627</u>
		2,212,457	2,260,901
Current liabilities			
Creditors: amounts falling due within one year	14	(1,576,753)	(1,205,061)
Net Current assets		<u>635,704</u>	<u>1,055,840</u>
Total assets less current liabilities		78,079,513	75,297,949
Creditors: Amounts falling due after more than one year	15	(70,120,741)	(68,167,993)
Provisions for liabilities			
Pension deficit funding liability	19	-	(453,742)
Pension defined benefit net liability	24	(850,000)	-
Total net assets		<u>7,108,772</u>	<u>6,676,214</u>
Reserves			
Share capital	20	84	85
Income and expenditure reserve	20	7,108,688	6,604,909
Restricted reserve	20	-	71,220
Total reserves	20	<u>7,108,772</u>	<u>6,676,214</u>

The financial statements on pages 14 to 40 were approved by the Management Committee and Authorised for issue on 22 August 2019 and are signed on its behalf by:

Vice Chairperson:
J Goddard

Secretary:
B Leask

Chairperson:
A Tallack

Hjaltland Housing Association Limited

Statement of Changes in Equity For the year ended 31 March 2019

	Income and expenditure reserve	Restricted reserve	Share Capital	Total
	£	£	£	£
Balance at 1 April 2017	5,924,942	35,496	79	5,960,517
Surplus for the year	675,967	35,724	-	711,691
Pension remeasurement	4,000	-	-	4,000
Shares issued	-	-	7	7
Shares cancelled	-	-	(1)	(1)
Balance at 31 March 2018	6,604,909	71,220	85	6,676,214
Surplus/(deficit) for the year	994,037	(71,220)	-	922,817
Other comprehensive expense	(490,258)	-	-	(490,258)
Shares issued	-	-	2	2
Shares cancelled	-	-	(3)	(3)
Balance at 31 March 2019	7,108,688	-	84	7,108,772

Hjaltland Housing Association Limited

Statement of Cashflows For the year ended 31 March 2019

	Notes	2019 £	2018 £
Net cash generated from operating activities	21	1,323,400	1,208,362
Cash flow from investing activities			
Purchase of tangible fixed assets		(4,376,600)	(6,081,678)
Proceeds from sale of tangible fixed assets		245,000	61,000
Grants received		3,288,412	3,721,318
Grants repaid		(107,149)	(30,041)
Interest received		6,537	10,782
Net cash used in investing activities		<u>(943,800)</u>	<u>(2,318,619)</u>
Cash flow from financing activities			
Interest paid		(556,522)	(516,917)
New secured loans		150,000	2,950,000
Repayments of borrowings		(570,405)	(2,024,697)
Issue of shares		2	7
Net cash from financing activities		<u>(976,925)</u>	<u>408,393</u>
Net decrease in cash and cash equivalents		(597,325)	(701,864)
Cash and cash equivalents at beginning of year		1,904,627	2,606,491
Cash and cash equivalents at end of year	21	<u>1,307,302</u>	<u>1,904,627</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. ACCOUNTING POLICIES

LEGAL STATUS

The Association is registered under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Scottish Housing Regulator under the Housing (Scotland) Act 2010.

The address of the Company's registered office and principal place of business is 2 Harbour Street, Lerwick, Shetland, ZE1 0LR.

The Association's principal activities are shown in the Report of the Committee of Management.

Hjaltland Housing Association Limited is a Public Benefit Entity.

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), the Housing SORP 2014 "Statement of Recommended Practice for Registered Housing Providers" and they comply with the Determination of Accounting Requirements 2015, and under the historical cost convention.

Hjaltland Housing Association Limited and its subsidiary (Hjaltland Trading Limited) comprise a group. The Association has obtained exemption from the Financial Conduct Authority (formerly the Financial Services Authority) from producing Consolidated Financial Statements. The financial statements reflect only the transactions of Hjaltland Housing Association Limited and not of the group.

The financial statements are prepared in sterling. Monetary amounts in these financial statements are rounded to the nearest £.

CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Preparation of the financial statements requires management to make critical judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included below.

Critical accounting estimates

Useful lives of property – Management reviews its estimate of the useful lives of depreciable assets at each reporting date. Major components of housing properties are depreciated over specific economic lifespans. There have been no changes in the useful lives or economic lifespans of components in the year.

Components of housing properties – the cost of housing developments is allocated between major components using a model that provides a reasonable estimate of the actual cost of each component. Each component is then depreciated over its own specific economic lifespan as described above.

Obligations under a defined benefit pension scheme – Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the liability and the annual defined benefit expenses (as analysed in Note 24). The net defined benefit pension liability at 31 March 2019 was £850,000.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. ACCOUNTING POLICES (CONTINUED)

Critical areas of judgement

Categorisation of housing properties as investment property or property, plant and equipment – Properties held for social housing lets are considered to be property, plant and equipment. Other lets are assessed based on the characteristics of the lease and classified as property, plant and equipment or investment property as appropriate. At present management have classified all properties as property, plant and equipment.

GOING CONCERN

The Management Committee has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, based upon consideration of long term financial plans and the availability of loan finance at affordable rates of interest and repayment periods that are appropriate for Hjaltland's business. As such, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

TURNOVER AND REVENUE RECOGNITION

Turnover comprises rental and service charge income receivable in the period, income from shared ownership first tranche sales, sale of properties built for sale, other services provided at the invoice value (excluding VAT) and revenue grants receivable in the period.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids.

Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the transaction.

Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities.

GOVERNMENT GRANTS

Government grants include grants receivable from the Scottish Government, local authorities and other government bodies. Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Government grants received for housing properties are recognised in income over the useful economic life of the structure of the asset and, where applicable, the individual components of the structure (excluding land) under the accruals model.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, then any unamortised grant remaining is derecognised as a liability and recognised as income. Where there is a requirement to repay a grant, a liability is included in the Statement of Financial Position to recognise this obligation.

OTHER GRANTS

Grants received from non-government sources are recognised using the performance model. Grants are recognised as income when the associated performance conditions are met.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. ACCOUNTING POLICIES (CONTINUED)

OTHER INCOME

Interest income

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding at the effective interest rate.

TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

Housing properties are properties for the provision of social housing or to otherwise provide social benefit and are principally properties available for rent and shared ownership.

Completed housing and shared ownership properties are stated at cost less accumulated depreciation and impairment losses.

Cost includes the cost of acquiring land and buildings, and expenditure incurred during the development period. Retentions are excluded from the cost and are only recognised when they fall due for payment. These retentions are included in capital commitments.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that enhance the economic benefits of the assets, are capitalised as improvements. Such enhancements can occur if improvements result in either:

- An increase in rental income;
- A material reduction in future maintenance costs; or
- A significant extension to the life of the property.

Shared ownership properties are split proportionally between fixed assets and current assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds are included in turnover.

The remaining element is classed as a fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment. Where the first tranche has been sold prior to the acquisition of the properties, these are included in fixed assets only.

DONATED LAND AND OTHER ASSETS

Land or other assets which have been donated by a government source is added to the cost of assets at the fair value of the land at the time of the donation. The difference between the fair value of the asset donated and the consideration paid is treated as a non-monetary government grant and included within the Statement of Financial Position as a liability. The terms of the donation are considered to be performance related conditions. Where the donation is not from a public source, the value of the donations less the consideration is included in income.

DEPRECIATION OF HOUSING PROPERTIES

Freehold land or assets under construction are not depreciated.

The Association separately identifies the major components of its housing properties and charges depreciation so as to write-down the cost of each component to its estimated residual value, on a straight-line basis over the following years:

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. ACCOUNTING POLICIES (CONTINUED)

Structure	100 years
Land	Nil
Assets under construction	Nil
Windows	30 years
External doors	30 years
Kitchens	15 years
Roof	45 years
Heating systems	20 years

A full year's depreciation is charged on these assets in the year of purchase/ completion, but no charge is made in the year of disposal

IMPAIRMENT OF FIXED ASSETS

An assessment is made at each reporting date of whether there are indications that a fixed asset (including housing properties) may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, the RSL estimates the recoverable amount of the asset.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use of the asset based on its service potential, are recognised as impairment losses in the income and expenditure account.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in income and expenditure. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

OTHER TANGIBLE FIXED ASSETS

Tangible fixed assets are initially measured at cost, net of depreciation and any impairment losses. Depreciation is provided on all tangible fixed assets, other than freehold land at rates calculated to write off the cost of each asset to its estimated residual value on a straight-line basis over its expected useful life, as follows:

Premises	60 years
Furniture and equipment	Between 3 and 25 years

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life.

A full year's depreciation is charged on these assets in the year of purchase, but no charge is made in the year of disposal.

BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition and construction of qualifying properties are added to the cost of those properties until such a time as the properties are ready for their intended use or sale.

All other borrowing costs are expensed as incurred.

STOCKS

Stocks are valued at the lower of cost and net realisable value. Materials for repairs with a cost of below £300 are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. ACCOUNTING POLICIES (CONTINUED)

TAXATION

Hjaltland Housing Association Limited has charitable status and is registered with the Office of Scottish Charities Regulator and is therefore exempt from paying Corporation Tax on charitable activities.

VAT

The Association is VAT registered, however a large proportion of income, namely rents, is exempt for VAT purposes therefore giving rise to a Partial Exemption calculation. Expenditure is shown inclusive of VAT.

DEPOSITS AND LIQUID RESOURCES

Cash comprises cash in hand and deposits repayable on demand less overdrafts repayable on demand. Liquid resources are current asset investments that are disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at or close to their carrying value.

LEASES

The Association as lessee – Operating leases

Operating leases are charged to income and expenditure on a straight-line basis over the lease term.

Rent free periods or other incentives received for entering into an operating lease are accounted for as a reduction to the expense and are recognised, on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

The costs of short-term employee benefits are recognised as a liability and an expense.

Employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the reporting date. The cost of any unused entitlement is recognised in the period in which the employee's services are received.

The best estimate of the expenditure required to settle an obligation for termination benefits is recognised immediately as an expense when the RSL is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

RETIREMENT BENEFITS

Defined contribution plans

For defined contribution schemes the amount charged to income and expenditure is the contributions payable in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments.

Defined benefit plans

In previous years, the Association was unable to recognise its share of the scheme assets and scheme liabilities, therefore had applied defined contribution accounting in respect of the Scottish Housing Association Pension Scheme.

For the year ended 31 March 2018, the Association had recognised a past service deficit liability of £453,742, within provisions based on the present value of the Association's deficit funding agreement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. ACCOUNTING POLICIES (CONTINUED)

For the year ended 31 March 2019, the Association is able to identify its share of the scheme assets and scheme liabilities from 1 April 2018 and therefore has applied defined benefit accounting from this date onwards. For accounting purposes, the relevant date for accounting for this change from defined contribution to defined benefit accounting is 1 April 2018. The scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

The deficit funding agreement liability that was previously recognised within provisions of £453,742 was derecognised on the 1 April 2018, and an initial net defined benefit pension liability of £816,000 was recognised at this date in the statement of financial position. The resulting net difference of £362,258 on initial recognition of the SHAPS obligation was recognised in other comprehensive income.

As at the year ended 31 March 2019, the net defined benefit pension deficit liability was £850,000, which has been included within the provisions for pensions liability in the financial statements.

In the year ended 31 March 2019, the current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period within the income and expenditure account. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Refer to Note 24 for more details.

FINANCIAL INSTRUMENTS

The Association has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Association becomes a party to the contractual provisions of the instrument, and are offset only when the Association currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Debtors

Debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

A provision for impairment of debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in income and expenditure.

Financial liabilities

Trade creditors

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. ACCOUNTING POLICIES (CONTINUED)

Borrowings

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

PROVISIONS

Provisions are recognised when the RSL has an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and that obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

RESERVES

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

2019 2018

		Turnover	Operating costs	Remeasurement of pension provision	Operating surplus/(deficit)	Operating Surplus
Notes		£	£	£	£	£
Affordable letting activities	3	4,337,407	2,855,986	-	1,481,421	1,183,487
Other activities	4	154,154	246,577	-	(92,423)	30,520
Remeasurement of pension provision		-	-	-	-	4,000
Total		4,491,561	3,102,563	-	1,388,998	1,218,007
Total for previous reporting period		4,350,887	3,136,880	4,000	1,218,007	

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019
3. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM AFFORDABLE LETTING ACTIVITIES

	General Needs Social Housing £	Supported Social Housing Accommodation £	Shared Ownership Housing £	Total 2019 £	Total 2018 £
Rent receivable net of service charges	3,101,311	158,544	137,229	3,397,084	3,120,637
Service charges	55,259	5,898	4,508	65,665	61,946
Gross income from rents and service charges	3,156,570	164,442	141,737	3,462,749	3,182,583
Less voids	(5,121)	-	-	(5,121)	(4,044)
Net income from rents and service charges	3,151,449	164,442	141,737	3,457,628	3,178,539
Grants released from deferred income	820,158	37,925	21,696	879,779	857,249
Total turnover from affordable letting activities	3,971,607	202,367	163,433	4,337,407	4,035,788
Management and maintenance administration costs	937,675	41,205	39,822	1,018,702	970,059
Service costs	55,462	5,860	12,293	73,615	55,719
Planned and cyclical maintenance including major repairs costs	360,167	3,505	-	363,672	476,004
Reactive maintenance costs	267,981	16,686	-	284,667	291,482
Bad debts - rents and service charges	22,491	-	-	22,491	10,800
Depreciation of affordable let properties	1,027,456	42,234	23,149	1,092,839	1,048,237
Operating Costs for affordable letting activities	2,671,232	109,490	75,264	2,855,986	2,852,301
Operating surplus for affordable letting activities	1,300,375	92,877	88,169	1,481,421	1,183,487
Operating surplus for affordable letting activities for previous reporting period	1,000,957	91,539	90,991	1,183,487	

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

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

	Other revenue grants £	Other Income £	Total Turnover £	Other operating Costs £	Operating (deficit) or surplus £	Operating (deficit) or surplus for previous reporting period £
Wider role activities undertaken to support the community, other than the provision, construction, improvement and management of housing	-	-	-	(12,125)	(12,125)	(11,521)
Factoring	-	8,826	8,826	(15,181)	(6,355)	754
Development and construction of property activity	-	-	-	-	-	(420)
Support activities	-	-	-	(13,179)	(13,179)	(12,406)
Other activities:						
Miscellaneous	-	13,902	13,902	(310)	13,592	10,665
Recharges	-	129,860	129,860	(129,860)	-	-
Big Lottery Funding (restricted)	-	-	-	(69,495)	(69,495)	35,724
Shetland Islands Council HUB funding	1,566	-	1,566	(6,427)	(4,861)	7,724
Total from other activities	1,566	152,588	154,154	(246,577)	(92,423)	30,520
Total from other activities for the previous reporting period	164,271	150,828	315,099	(284,579)	30,520	

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

5. ACCOMMODATION IN MANAGEMENT

	2019 Units	2018 Units
General needs housing	691	675
Shared ownership	46	49
Supported housing	31	31
TOTAL UNITS IN MANAGEMENT	768	755

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £	2018 £
Interest arising on:		
Bank loans and overdrafts	535,004	463,403
Other loans	-	68,035
Deferred interest on other loans	48,750	47,079
Defined benefit pension charge	19,000	6,000
	602,754	584,517
Less: Interest capitalised on housing properties under construction	(18,090)	(50,455)
	584,664	534,062

Loans are assigned to schemes under development and the interest is capitalised as it accrues during the period of construction at the rate in force for that borrowing.

7. OPERATING SURPLUS

	2019 £	2018 £
Operating surplus is stated after charging:		
Depreciation of housing properties (note 10.A)	1,092,839	1,048,237
Depreciation of other tangible fixed assets (note 10.B)	28,484	29,628
Operating lease rentals (note 23)	2,004	3,155

Fees payable to RSM UK Audit LLP and its associates in respect of both audit and non-audit services are as follows:

	2019 £	2018 £
Audit services - statutory audit of the Association	11,350	10,900
	11,350	10,900

8. SURPLUS OR DEFICIT ON SALE OF FIXED ASSETS – HOUSING PROPERTIES

	2019 £	2018 £
Disposal proceeds	245,000	61,000
Carrying value of fixed assets	(109,353)	(33,268)
	135,647	27,732
Capital grant repaid	(22,493)	(5,408)
Capital grant abated	2,355	1,105
	115,509	23,429
Legal and other costs	(3,563)	(2,465)
	111,946	20,964

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

9. EMPLOYEES

	2019	2018
	No.	No.
The average monthly number of full time equivalent persons (including key management personnel) employed by the Association during the year was:	<u>24</u>	<u>26</u>
	£	£
Staff costs for the above persons:		
Wages and salaries	895,420	922,838
Social security costs	88,837	93,119
Other pension costs (defined contribution)	88,402	89,740
	<u>1,072,659</u>	<u>1,105,697</u>

Key management personnel are defined as the members of the management committee, the Chief Executive and any other person reporting directly to the management committee.

The number of key management personnel who received emoluments (excluding employers' pension contributions) in excess of £60,000 during the reporting period fell within the following bands:

	No.	No.
£60,000 - £70,000	<u>-</u>	<u>1</u>
£70,000 - £80,000	<u>1</u>	<u>-</u>
	2019	2018
	£	£
Aggregate emoluments for the above key management personnel (excluding pension contributions)	<u>241,516</u>	<u>238,468</u>
The emoluments of the Chief Executive (excluding pension contributions)	70,580	68,757
Employer's pension contributions	<u>7,234</u>	<u>7,048</u>
Total emoluments payable	<u>77,814</u>	<u>75,085</u>
Aggregate pension contributions in relation to the above key management personnel	<u>24,620</u>	<u>24,280</u>

No payment or fees or other remuneration was made to the Board members during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

10.A TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

	Social housing properties held for letting £	Housing properties for letting under construction £	Completed Shared ownership housing properties £	Total housing properties £
Cost				
1 April 2018	74,787,573	4,802,616	3,179,317	82,769,506
Additions	380,985	4,034,993	-	4,415,978
Transfers	2,562,760	(2,562,760)	-	-
Disposals	(62,309)	-	(129,135)	(191,444)
31 March 2019	<u>77,669,009</u>	<u>6,274,849</u>	<u>3,050,182</u>	<u>86,994,040</u>
Depreciation and impairment				
1 April 2018	8,577,114	-	362,045	8,939,159
Depreciation charged in year	1,069,689	-	23,150	1,092,839
Released on disposal	(62,309)	-	(19,780)	(82,089)
31 March 2019	<u>9,584,494</u>	<u>-</u>	<u>365,415</u>	<u>9,949,909</u>
Net book value				
31 March 2019	<u>68,084,515</u>	<u>6,274,849</u>	<u>2,684,767</u>	<u>77,044,131</u>
31 March 2018	<u>66,210,459</u>	<u>4,802,616</u>	<u>2,817,272</u>	<u>73,830,347</u>

Land included under housing properties is all freehold.

EXPENDITURE ON WORKS TO EXISTING PROPERTIES

	2019 £	2018 £
Improvement work capitalised	32,013	27,680
Replacement component spend capitalised	274,380	172,421
Amounts charged to income and expenditure	363,672	476,004
Total major repairs spend	<u>670,065</u>	<u>676,105</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

10.B TANGIBLE FIXED ASSETS – OTHER

	Office Accommodation £	Water Treatment Works £	Office Equipment £	Maintenance Equipment £	Total £
Cost					
1 April 2018	365,177	111,500	168,729	71,333	716,739
Additions	-	788	14,544	1,068	16,400
Disposals	-	-	(11,623)	(485)	(12,108)
31 March 2019	365,177	112,288	171,650	71,916	721,031
Depreciation and impairment					
1 April 2018	68,320	32,010	152,339	52,308	304,977
Depreciation charged in year	6,090	1,428	9,281	11,685	28,484
Released on disposal	-	-	(11,623)	(485)	(12,108)
31 March 2019	74,410	33,438	149,997	63,508	321,353
Net book value					
31 March 2019	290,767	78,850	21,653	8,408	399,678
31 March 2018	296,857	79,490	16,390	19,025	411,762

11. STOCK	2019 £	2018 £
Raw materials	1,210	1,210
<u>Work in progress:</u>		
Cost of developing properties (New supply shared equity)	697,099	128,692

12. SUBSIDIARY UNDERTAKING

The RSL's subsidiary undertaking is:

<i>Name of undertaking</i>		<i>Nature of Business</i>
Hjaltland Trading Limited	Company limited by guarantee	Property Management Services

Hjaltland Trading Limited returned a profit of £9,510 for the year ending 31 March 2019 (2018 - £10,592).

Hjaltland Trading Limited had net assets totalling £119,392 as at 31 March 2019 (2018 - £109,882).

During the year, the Association sold goods and services at cost to Hjaltland Trading Limited of £129,860 (2018 - £131,276). The amount due to the Association at year end was £33,580 (2018 - £45,394).

During the year, the Association bought goods and services at normal market rates from Hjaltland Trading Limited of £389 (2018 - £876). The amount due to the company at year end was £nil (2018 - £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

13. DEBTORS

	2019	2018
	£	£
Amounts falling due within one year:		
Rent and service charges receivable	137,748	135,481
Less: provision for bad and doubtful debts	<u>(75,573)</u>	<u>(69,944)</u>
	62,175	65,537
Other debtors	27,384	30,196
Prepayments and accrued income	83,706	74,061
Development funding receivable	-	11,187
Amounts due from Group undertakings	<u>33,581</u>	<u>45,391</u>
	<u><u>206,846</u></u>	<u><u>226,372</u></u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	2018
	£	£
Debt (note 17)	607,485	622,089
Rent and service charges received in advance	45,815	35,336
Trade creditors	446,557	293,290
Other creditors	34,663	52,492
Accruals and deferred income	77,628	123,163
Deferred grant on new supply shared equity properties	<u>364,605</u>	<u>78,691</u>
	<u><u>1,576,753</u></u>	<u><u>1,205,061</u></u>

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

	2019	2018
	£	£
Debt (note 17)	17,930,931	18,288,025
Deferred capital grant (note 16)	52,189,810	49,879,968
	<u><u>70,120,741</u></u>	<u><u>68,167,993</u></u>

	2019	2018
	£	£
Included in creditors are:		
Amounts repayable other than by instalments falling due after more than five years	1,420,747	1,372,040
Amounts repayable by instalments falling due after more than five years	<u><u>13,583,444</u></u>	<u><u>14,221,189</u></u>

16. DEFERRED CAPITAL GRANT

	2019	2018
	£	£
As at 1 April	49,879,968	47,220,474
Grant received in the year	3,277,225	3,542,482
Capital grant amortisation	(879,779)	(857,249)
Net book value of capital grants disposed	<u>(87,604)</u>	<u>(25,739)</u>
As at 31 March	<u><u>52,189,810</u></u>	<u><u>49,879,968</u></u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

17. DEBT ANALYSIS – BORROWINGS

	2019 £	2018 £
Creditors: amounts falling due within one year:		
Bank loans	607,485	622,089
	<u>607,485</u>	<u>622,089</u>
Creditors: amounts falling due after more than one year:		
Bank loans	16,510,184	16,915,985
Other loans	1,420,747	1,372,040
	<u>17,930,931</u>	<u>18,288,025</u>
Total	<u>18,538,416</u>	<u>18,910,114</u>

Other loans include rolled up interest of £95,745 (2018 - £47,038)

Loans are secured by specific charges on the Association's properties and are repayable at rates of interest between 1.05% and 5.75% (2018 – 0.8% and 5.75%) as follows:

	2019 £	2018 £
Due within one year	607,485	622,089
Due between one and two years	607,485	622,089
Due between two and five years	2,319,255	2,072,707
Due more than five years	15,004,191	15,593,229
	<u>18,538,416</u>	<u>18,910,114</u>

The Nationwide Building Society holds a number of standard securities over various properties owned by the Association.

The Royal Bank of Scotland holds a number of standard securities over various properties owned by the Association.

The Bank of Scotland holds a number of standard securities over various properties owned by the Association.

The Bank of Scotland holds a letter of pledge by the Association for all sums and a negative pledge over 5 properties owned by the Association.

The Secretary of State for Defence Limited holds a standard security and a claw back security over 10 properties owned by the Association.

Shetland Islands Council holds a standard security over four plots of ground at Hoofields, Lerwick.

18. FINANCIAL INSTRUMENTS

	2019 £	2018 £
<i>Financial assets:</i>		
Debt instruments measured at amortised cost	<u>127,436</u>	<u>159,243</u>
<i>Financial liabilities:</i>		
Measured at amortised cost	<u>19,067,429</u>	<u>19,350,041</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

19. PROVISIONS

	SHAPS Pension £
1 April 2018	453,742
De-recognition of pension deficit provision	<u>(453,742)</u>
31 March 2019	<u><u>-</u></u>

Pension

The SHAPS provision represented the net present value of the commitment to the multi-employer pension scheme in respect of past deficits for the year ended 31 March 2018. The provision has been eliminated following a change to the accounting treatment and has been replaced by the provision for defined benefit liability in Note 24.

20. SHARE CAPITAL & RESERVES

	2019 Number	2018 Number
Number of members		
1 April 2018	85	79
Joined during the year	2	7
Left during year	<u>(3)</u>	<u>(1)</u>
31 March 2019	<u>84</u>	<u>85</u>

Each member owns one fully paid share of £1 which is non-refundable and carries no rights to dividend or distributions on a winding up. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid becomes the property of the Association. Members are entitled to attend Annual General Meetings and can be elected to the Management Committee.

RESERVES

Reserves of the Association represent the following:

Restricted reserves

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by funders or which have been raised by the charity for particular purposes. The costs of raising and administering such funds are charged against the specific fund.

The restricted reserve is held for the restricted income received from the Big Lottery Fund.

The Hub project is funded by the Big Lottery Fund and provides intensive support, accommodation and outreach to young care leavers to help them develop their skills to manage their own tenancy and support them to obtain employment, training or voluntary work. As well as Big Lottery funding, the Shetland Islands Council financially support this project. Information on the level of funding is contained in note 4. The Hub project was completed in the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

21. RECONCILIATION OF TOTAL COMPREHENSIVE INCOME TO NET CASH GENERATED FROM OPERATIONS

	2019	2018
	£	£
Surplus for the year	922,817	715,691
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	1,121,323	1,077,865
Amortisation of capital grants	(879,779)	(857,249)
(Decrease) in pension provision/ liability	(113,000)	(115,249)
Gain on disposal of tangible fixed assets	(116,101)	(23,429)
Interest receivable (investing not operating)	(6,537)	(10,782)
Interest payable (financing not operating)	584,664	534,062
Shares cancelled	(3)	(1)
Operating cash flows before movements in working capital	1,513,384	1,320,908
Increase in stock	(568,407)	(50,308)
(Increase)/ Decrease in trade and other debtors	8,339	(19,227)
(Decrease)/ Increase in trade and other creditors	370,084	(43,011)
Cash generated from operations	1,323,400	1,208,362

CASH AND CASH EQUIVALENTS

	2019	2018
	£	£
Cash and cash equivalents represent: -		
Cash at bank	502,791	1,304,486
Short-term deposits	804,511	600,141
	1,307,302	1,904,627

22. CAPITAL COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

	2019	2018
	£	£
Capital expenditure contracted for but not provided in the financial statements	3,997,330	8,459,969
The above commitments will be funded through:		
Capital grant receivable	1,547,272	4,875,495
Other grants	-	104,236
Shared ownership sales	635,600	581,349
Loans	1,814,458	2,898,889
	3,997,330	8,459,969

23. COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2019	2018
	£	£
Amounts due:		
Within one year	2,038	2,084
Between one and five years	5,591	7,101
After five years	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

24. RETIREMENT BENEFITS

SCHEME: The Pensions Trust – Scottish Housing Associations' Pension Scheme

The Association participates in the Scottish Housing Associations' Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 150 non-associated employers. The Scheme is a defined benefit scheme in the UK.

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 last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2015. This valuation revealed a deficit of £198m. A Recovery Plan has been put in place to eliminate the deficit which runs to 28 February 2022 for the majority of employers, although certain employers have different arrangements. The amount paid in the year as deficit contribution was £117k.

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.

For financial years ending on or before 28 February 2019, it has not been possible for the Association to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the Association has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the Association to account for the Scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus at the accounting period start and end dates.

**PRESENT VALUES OF DEFINED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND
 DEFINED BENEFIT ASSET (LIABILITY)**

	31 March 2019	31 March 2018
	(£000s)	(£000s)
Fair value of plan assets	3,811	3,634
Present value of defined benefit obligation	4,661	4,450
Deficit in plan	(850)	(816)
Unrecognised surplus	-	-
Defined benefit liability to be recognised	(850)	(816)
Deferred tax	-	-
Net defined benefit (liability) to be recognised	(850)	(816)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

24. RETIREMENT BENEFITS (CONTINUED)

RECONCILIATION OF THE IMPACT OF THE ASSET CEILING

	Period ended 31 March 2019 (£000s)
Impact of asset ceiling at start of period	-
Effect of the asset ceiling included in net interest cost	-
Actuarial losses (gains) on asset ceiling	-
Impact of asset ceiling at end of period	-

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE DEFINED BENEFIT OBLIGATION

	Period ended 31 March 2019 (£000s)
Defined benefit obligation at 1 April	4,450
Current service cost	-
Expenses	4
Interest cost	114
Contributions by scheme participants	-
Actuarial losses/(gains)	195
Plan introductions, changes, curtailments and settlements	-
Benefits paid	(102)
Defined benefit obligation at 31 March	<u>4,661</u>

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE FAIR VALUE OF PLANS ASSETS

	Period ended 31 March 2019 (£000s)
Fair value of plan assets at start of period	3,634
Interest income	95
Experience on plan assets (excluding net interest on the defined benefit liability)	67
Contributions by employer (deficit contribution)	117
Benefits paid	(102)
Plan assets at 31 March	<u>3,811</u>

The actual return on plan assets was £162,000 (2018: not available)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

24. RETIREMENT BENEFITS (CONTINUED)

DEFINED BENEFIT COSTS RECOGNISED IN STATEMENT OF COMPREHENSIVE INCOME (SOCI)

	Period ended 31 March 2019 (£000s)
Current service cost	-
Expenses	4
Net interest expense	19
	<u>23</u>

DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	Period ended 31 March 2019 (£000s)
Experience on plan assets (excluding amounts included in net interest cost) - gain	67
Experience gains arising on the plan liabilities	137
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	(12)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(320)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	(128)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	<u>(128)</u>

ASSETS

	31 March 2019 (£000s)	31 March 2018 (£000s)
Global Equity	613	654
Absolute Return	323	431
Distressed Opportunities	65	16
Credit Relative Value	66	-
Alternative Risk Premia	213	138
Fund of Hedge Funds	11	104
Emerging Markets Debt	122	124
Risk Sharing	110	33
Insurance-Linked Securities	99	99
Property	76	144
Infrastructure	160	66
Private Debt	49	34

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

24. RETIREMENT BENEFITS (CONTINUED)

ASSETS

	31 March 2019	31 March 2018
	(£000s)	(£000s)
Corporate Bond Fund	267	254
Long Lease Property	46	-
Secured Income	133	133
Over 15 Year Gilts	98	117
Index Linked All Stock Gilts	-	-
Liability Driven Investment	1,356	1,280
Net Current Assets	4	7
Total Assets	3,811	3,634

KEY ASSUMPTIONS

	31 March 2019	31 March 2018
	% per annum	% per annum
Discount rate	2.35	2.60
Inflation (RPI)	3.25	3.15
Inflation (CPI)	2.25	2.15
Salary Growth	3.25	3.15
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (years)
Male retiring in 2019	21.7
Female retiring in 2019	23.4
Male retiring in 2039	23.1
Female retiring in 2039	24.7

25. RELATED PARTY TRANSACTIONS

One member of the Management Committee is a shared equity owner. Their service charges, of £320 (2018 - £300) during the year, are on standard terms, as applicable to all shared equity owners. The balance outstanding at the year-end was £Nil.

One member of the Management Committee is a tenant of the Association. Their tenancy is on normal commercial terms. During the year £4,687 (2018 - £4,513) of rent was receivable from this tenant member. At the year-end there was £nil of rent arrears due.

One member of the Management Committee is a councillor with the Shetland Islands Council as well as a Committee member of the Association. Any transactions with the Shetland Islands Council are made at arm's length, on normal commercial terms and

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2019

25. RELATED PARTY TRANSACTIONS (CONTINUED)

committee members cannot use their position to their advantage. There were no transactions with Shetland Islands Council in the year relating to loans.

26. CONTINGENT LIABILITIES

Housing Association Grant received to fund developments may have to be repaid where the property has been disposed of.

Other grants may have to be repaid if conditions are breached or if too large a surplus is made on the particular activity.