

MELVILLE HOUSING ASSOCIATION LIMITED
REPORT and CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

Registered Housing Association No. HAL 286

Financial Conduct Authority No. 2466 R(S)

Recognised Scottish Charity No. SC 032755

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT and CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

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MELVILLE HOUSING ASSOCIATION LIMITED

EXECUTIVES AND ADVISERS

Year ended 31 March 2020

BOARD:

Ms C Quinn (Chair)
Mr D Bond (Vice Chair)
Mrs B Shearer (Secretary)
Mr G Alexander
Ms L Bell (co-opted 20 May 2020)
Ms D Bogdanovic
Mr P Cameron
Mr A Dougherty
Mr S Gillespie (resigned 19 February 2020)
Mr R Jack (resigned 11 September 2019)
Ms H Johnston (co-opted 20 May 2020)
Mrs E Kasiera (resigned 19 August 2019)
Ms C Marshall
Ms C Moore (co-opted 20 May 2020)
Mr T Powell (co-opted 20 May 2020)
Mr D Takhar

**SENIOR OFFICERS AND
KEY MANAGEMENT**

Mr A Noble, Chief Executive Officer
Ms M MacDonald, Chief Operating Officer

REGISTERED OFFICE:

The Corn Exchange
200 High Street
Dalkeith
EH22 1AZ

AUDITORS:

Chiene + Tait LLP
Chartered Accountants & Statutory Auditor
61 Dublin Street
Edinburgh EH3 6NL

SOLICITORS:

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

BANKERS:

The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH2 2YB

Registration Particulars:

Financial Conduct Authority Co-operative and Community
Benefit Societies Act 2014
Registered Number 2466 R(S)
Recognised Scottish Charity SC 032755
The Scottish Government, Housing (Scotland) Act 2010
Registered Number HAL 286

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD

For the year ended 31 March 2020

The Board of Melville Housing Association Limited presents the group report and the audited financial statements for the year ended 31 March 2020.

Principal activities

The Association was formed on 9 February 1994 and is registered under the Co-operative and Community Benefit Societies Act 2014 and with the Scottish Government under the Housing (Scotland) Act 2010.

Ironmills Developments Limited is a wholly-owned subsidiary of Melville Housing Association Limited and was incorporated on 17 October 2007.

The principal activities of the group are the provision and management of affordable rented accommodation. At 31 March 2020, the Association held 2,021 units for social rent and 11 units for letting to Ironmills. Ironmills continued to develop mid market rental opportunities.

Objectives

The Association's objectives are set out in its business plan 2016-2021 which was approved by the Board in October 2016. The headline objectives are set out below:

- Deliver high quality housing, support and repairs services to our customers.
- Grow our business in a financially sound and controlled manner to help meet housing need.
- Manage our assets effectively and efficiently, demonstrating value for money.
- Demonstrate high standards for governance and staff management, including compliance with our statutory and regulatory frameworks.
- Make a difference in the communities in which we operate, working effectively with our current and future customers and partner organisations.

In 2018, following a review of the business plan the Board also committed to exploring ways to improve the environmental impact of the services delivered with a particular focus on reducing carbon emissions.

The following paragraphs set out how Melville has performed during the year ended 31 March 2020 against these objectives.

OPERATING AND FINANCIAL REVIEW

COVID-19

On 23rd March 2020, the UK Government put in place measures to restrict the movements of the UK population as a control mechanism to deal with the COVID-19 pandemic crisis. Melville had previously closed its office to the public on 13th March and the majority of staff were already working from home. As at 23rd March all staff were working from home. Our repairs contractors continued to provide emergency services but all non essential works including capital improvements were stopped. Likewise development programmes stopped.

Given the date of government action being so close to year end, the impact on the results reported in these accounts is not significant. We do however anticipate a more significant impact beyond this financial year.

General overview

During the year we invested £3.9m in property maintenance and refurbishment, and £2.3m in developing new properties. Our annual rental income increased by 4% as a result of an annual inflationary increase of 2% and the addition of 59 homes in 2018/19. We returned an operating surplus after interest payable and receivable of £2m compared with a surplus of £6.7m in the prior year, prior year having benefited from £4.3m of housing association grant (HAG) income. Throughout the year we maintained high levels of customer satisfaction (92%).

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2020

Housing and Housing Support Services

Housing Services

We continued to focus on the management of arrears and voids and the excellent work of our Tenancy Support and Money Advice services provided by CHAI (Community Help and Advice Initiative) who support people and communities across the Lothians. We also continued our comprehensive communications strategy to inform our tenants of changes arising from welfare reforms. This included detailed articles in our newsletter *VOICE*, on line via our website and Facebook pages, and personalised advisory meetings, visits and phone calls to all affected tenants.

Lettings

During the year, 73 of our properties became available for let compared with 154 in 2019. On average, we took 12 days to relet properties compared with 12 days in 2019. This was better than our target of 15 days and represented very good performance in comparison with the Annual Return on the Charter (ARC) Scottish average of 31.9 days. (Source: ARC data 2018/19).

Income lost on empty properties was 0.11% of rental income (2019, 0.15%), better than our target of 0.25%. The Scottish average for rent lost on empty properties was 0.88%. (Source: ARC data 2018/19).

Rent arrears

Our current non technical tenant arrears were 2.87% of rental income at 31 March 2020 compared with 3.45% for the year ending 31 March 2019. The implementation of new income management strategies resulted in an improvement in our overall performance despite the negative impact of welfare reform, in particular the roll out of Universal Credit. ARC data on non technical tenant arrears is not available.

Tenancy Support and Money Advice

The aim of our tenancy support service is to help tenants become established in their new homes, reducing tenancy failures and helping to build stable, sustainable communities. Our money advice service provides support with personal budgeting, debt consolidation and debt management. During the year we provided tenancy support and money advice services to 189 tenants.

During the year, only 5 tenancies failed to last one year representing 3% of new tenancies. In 2008, the year before we commenced our support service, almost 25% of new tenancies failed within one year.

Welfare Advice Services

During the year our welfare advice services helped tenants access £839k in unclaimed benefit monies which will have long term benefits for the individuals and their families, helping them to sustain their homes.

Asset Management and Value for Money

Housing Stock

During the year we invested £3.9m in property maintenance and improvements, underlining our commitment to maintaining the standard of our existing properties. We carried out a range of planned and cyclical programmes, including replacing 92 bathrooms, fitting 186 new kitchens, renewing 25 roofs and replacing 150 heating systems.

We invested £100k in medical adaptations during the year, funded by grants received from the Scottish Government, and completed 67 adaptations. This helped people of all ages affected by an impairment, to continue to live independently in their own homes.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2020

Value for Money

We have continued to develop and implement our value for money strategy and have made significant financial savings through staff restructuring and tendering of major contracts. We have also now completed the full harmonisation of our rents. These actions and other cost savings have meant we were again able to offer a low increase on our rents for 2020-21 of 1.5%. We will continue to review our financial plans which enable the provision of a quality sustainable service with affordable rents, while being mindful of sustaining the financial viability of the organisation.

We have an active group of tenant representatives who meet at least three times a year undertaking activities which include a review of our performance and our Annual Report to Tenants, discussing value for money ideas and giving input on ways to improve our service. The group also actively reviews our financial results with a particular focus on how Melville invests and spends its rental income.

Sustainability

The Climate Change (Emissions Reduction Targets) (Scotland) Act 2019, set targets to reduce Scotland's emissions of all greenhouse gases to net-zero by 2045 at the latest. Melville is committed to developing its services to achieve net-zero status not only to achieve the climate change target but also to provide better services for our tenants. The Board amended its strategy during the year to include specific actions to research sustainable development and maintenance programmes, improve the energy efficiency of our office space and to play our part in changing behaviours in support of the climate change agenda. Actions to date include a resource efficiency review of our office, building on our experience of installing air source heat pumps instead of traditional gas heating systems, repurposing used carpet tiles and providing them free of charge to tenants, and rolling out an E-car club scheme with funding from the Energy Savings Trust.

Financial Assets

Through active treasury management and in accordance with our treasury management policy, we have minimised our loan drawdowns, keeping interest costs as low as possible. We take third party advice on all new loans to ensure best terms, and update our cash flow forecasts each month to ensure ongoing liquidity. Any surplus cash is invested in interest-bearing accounts.

Making a difference in our communities

We strongly believe that as well as our core responsibilities to existing and future tenants Melville has a much wider role to play in our communities. On a day-to-day basis we work closely with these communities through the services we deliver and are well placed to provide further focussed support. Over the past year staff across all areas of the organisation, have contributed to these activities which have included:

Tackling poverty

- We continued to provide support and assistance to local foodbanks, including:
 - receiving public and staff donations at the Corn Exchange for the primary foodbank in the local area based in Gorebridge
 - making a cash donation of £250 to the Gorebridge Foodbank in October to mark Challenge Poverty week
 - donating £100 to the Dalkeith Storehouse Christmas appeal
- Continuing to work with the Scottish Government and *FareShare* to help end period poverty in Scotland by offering and promoting free sanitary products from the reception area of our office
- Taking part in Forth One's *Mission Christmas* project, working to prevent local children from going without presents on Christmas day.
- Staff donating an assortment of gifts to Women's Aid East and Midlothian, to be distributed to some of the women they support over the festive season
- Distributing a large number of pre-loved cuddly toys to tenants from the reception area of our office

MELVILLE HOUSING ASSOCIATION LIMITED
REPORT OF THE BOARD (continued)

For the year ended 31 March 2020

Making a difference in our communities (continued)

Fundraising and supporting community organisations

- Raising over £500 for our nominated staff charity, St David's Bradbury Day Centre, through regular monthly events including raffles, bake sales, dress down days and sponsored events
- Raising £182 for MacMillan Cancer Support by taking part in their annual coffee morning
- Substituting this year's annual donation to Arniston Rangers Youth Football Club for assistance in making the club's defibrillator available to the public with pro bono help from our electrical contractor Magnus.
- Continuing to promote the work of local youth charity Y2K including:
 - making a £1,000 donation to help with day-to-day running costs
 - providing free admin support to help keep down costs
- Contributing to the Mayfield & Easthouses Development Trust Christmas Lights appeal in December
- Promoting the work of tenants, Board members, local charities and community groups through our social media channels and our Voice newsletter
- Providing a free meeting space for the Dalkeith History Society, who hold regular meetings in our Board room
- Providing discounted community space for local charities such as Anam Cara (previously Pink Ladies)

Delivering safer, more attractive and more sustainable communities

- Working with contractors to provide no-cost flooring to almost 50 Melville households, saving over 4,000 carpet tiles sourced from office refurbishments ending up in landfill with pro bono support from our main repairs contractor Novus.
- Working with Novus to take excess paint and distribute it to tenants, free of charge
- Sourcing funding to install 5 new car charging points in Melville developments, and provide 5 electric cars allowing us to launch Midlothian's first electric car club in October with heavily discounted rates for Melville tenants
- Working with Scottish Fire and Rescue to promote fire safety, with a particular emphasis on common stairs
- Continuing to promote the *Make a Stand campaign* to raise awareness of, and to take action to support victims of domestic abuse
- Encouraging recycling through our Voice newsletter and in the office to Melville staff
- Continuing to run our annual garden competition as a way of recognising tenants who look after their gardens and keep local neighbourhoods looking attractive

Digital events, skills and employability

- Promoting and supporting the development of digital skills among staff, tenants and Board members
- Providing regular work experience placements for local school children
- Providing an S5 pupil from Newbattle High School with a work placement for two afternoons a week

Health awareness

- Continuing to provide, support and maintain a public access defibrillator as part of a local life-saving network
- Providing free fruit to visitors to the office

**MELVILLE HOUSING ASSOCIATION LIMITED
REPORT OF THE BOARD (continued)**

For the year ended 31 March 2020

GOVERNANCE AND STAFFING

Governance

Our Board can have a maximum of 15 members elected at the Annual General meeting. Some members also serve on our Audit Committee. Each Board member holds one fully paid share of £1 in Melville Housing Association. The Board is responsible for the governance, strategies, and policies of the Association. The Board and executive officers of the Association are listed on page 1.

New Board members receive formal induction training to develop their knowledge and understanding of their role to help them to participate effectively in the performance of their duties, and all members are encouraged to attend relevant conferences and training events. All members receive an annual appraisal and skills audit, where combined Board performance, individual contribution, information requirements and future training needs are reviewed. The results of the appraisals are reported to the Board and are used to develop future training plans and to influence the development of governance arrangements.

The Board meets at least annually to consider and update (where necessary) the strategic direction of the organisation during a two day "away day". During this time the Board also receives updates and training on governance matters.

We greatly appreciate the efforts of all of our Board members for their time, commitment and enthusiasm in helping the Association achieve its aims and objectives.

Staffing

During the year, we employed 29 staff (26 full time equivalents). We take a positive approach to individual and group development to ensure staff have the skills to carry out their jobs in a changing environment. This is delivered through structured group and individual training and supporting staff to attain relevant professional qualifications.

All staff, including key management personnel are remunerated based on job grades which were independently appraised in 2019 and approved by the Board.

FUTURE DEVELOPMENTS

COVID-19

We anticipate that the COVID-19 crisis will have a significant impact on our communities and on our finances during the next financial year and beyond which will ultimately affect the future plans of the organisation. All future developments set out below will therefore be reviewed and revised as necessary as the crisis and the world's response to same is determined.

EU Referendum

On 23 June 2016, the Government held a UK wide referendum on whether the UK should remain a member of the European Union. The Referendum result was 52% in favour of leaving the European Union. On 28 March 2017, the Scottish Government backed the First Minister's call for a second Independence Referendum in Scotland. Several years on, considerable uncertainty remains on the outcome for both events. Melville Housing Association has no political view on these events but is aware that there will be repercussions for the UK's economy and social policy, which will in turn have an impact on many aspects of our business and on our tenants. The Board will monitor the impact of the changes arising from these events and will develop any strategies necessary to ensure we continue to operate in the best interests of our tenants, other customers and our staff.

MELVILLE HOUSING ASSOCIATION LIMITED
REPORT OF THE BOARD (continued)

For the year ended 31 March 2020

FUTURE DEVELOPMENTS (continued)

Welfare Reform

The application of Universal Credit and the direct payment of housing costs to tenants continues to bring challenges as many tenants find themselves unable to pay their rent due to the way in which Universal Credit is administered in particular the time taken to receive benefit payments following a claim. This has an impact on rent collection strategies and arrears management. During the year we reviewed and refreshed our arrears management practices and added extra resources to deal with rent collections as well as to provide advice and support to tenants. This has already had a positive impact on our performance, however we anticipate a deterioration in that position as a result of the COVID-19 crisis. We will continue to monitor our tenancy sustainment, arrears, bad debts and cash flow as we navigate both the continued roll out of Universal Credit and the COVID-19 crisis.

Development plans and opportunities

During the year, we started development of 26 properties in Bilston with Taylor Wimpey and have a conditional contract for a further 22 properties on the same site for 2020/21. We will also enter into a contract for 2 properties on a gap site in Mayfield. The Mayfield development noted in last year's accounts which was due to complete in August 2019, and deliver a further 20 properties, has unfortunately been delayed until November 2020. We determined the employment of the developer in February 2020 under the terms of the contract as a result of consistent levels of non-performance.

We are considering outline plans to develop over 100 properties over the next 3 years and while we have secured loan finance to fund a number of these properties we will look to secure additional loan finance, as required, for the remainder. These will be completed with the support of the Scottish Government and Midlothian Council.

The housing market, particularly in Midlothian, continues to remain buoyant and Midlothian continues to see record levels of grant funding being spent and allocated for future years. It remains to be seen if the Affordable Housing Supply Programme target of 50,000 units, 35,000 of these being for social rent, will be met by March 2021, however, Melville remains well placed to assist with the delivery of this target. While the Scottish Government has outlined the resources allocated for the delivery of the Affordable Housing Supply Programme in 2021/22 on a nationwide basis, the local authority allocations will not be confirmed until later in the year.

Environmental impact

We are passionate about developing our sustainability strategy to contribute to the net-zero target for Scotland by 2045. This will include setting a definition or base-line for a net-zero property, gathering data on all of our properties to measure performance against that base line, addressing any issues with the fabric of our properties, and ensuring the use of homes is optimised providing advice to tenants on energy usage, smart meters and utility switching. We will also research the requirements to ensure all new build properties are built to net-zero standards. We will continue with our influencing strategies on food waste and energy usage.

Governance

In line with the Scottish Housing Regulator's Regulatory Framework, the Board will continue to develop and strengthen its governance role, including recruiting new members to add to the range of skills on the Board.

The Board adapted to the restrictions on movement and social distancing requirements imposed as a result of the COVID-19 crisis by holding meetings by video conference call. The Board agreed and monitored actions to be taken through their regular planned meetings as well as shorter update meetings during the duration of the crisis.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2020

CREDIT PAYMENT POLICY

Melville always seeks to pay suppliers within agreed payment terms. The average payment period is less than thirty days.

TREASURY MANAGEMENT POLICY

The Association's Treasury Management policy seeks to ensure that Melville always has access to sufficient resources to operate its business and that these are available in a timely manner, and at reasonable cost. In addition, our policy aims to achieve value for money and limit risk in managing our cash resources.

MAINTENANCE POLICIES

The Association seeks to maintain its properties to the highest standard commensurate with good practice. Programmes of cyclical repairs are carried out in the medium term to deal with the gradual and predictable deterioration of building components. It is expected that the cost of these repairs will be charged to the statement of comprehensive income.

In addition, the Association has a long term programme of major repairs for works which have become necessary as properties mature, including works required by subsequent legislative changes. This includes replacement of or repairs to features of the properties which have come to the end of their economic lives. The cost of these repairs is reviewed to identify whether or not they add value to the properties; if so the cost will be capitalised in line with the Statement of Recommended Practice (SORP); if not they will be treated as revenue expenditure.

RESERVES

Revenue Reserve

Details of movements in the year are set out below, under 'Surplus for the year and transfers'.

Pension Reserve

For the year ended 31 March 2020 the Lothian Pension Scheme actuary has informed the Association that its share of the pension deficit amounts to £1,491k (2019: £1,938k) and this is shown in the statement of financial position.

Revaluation Reserve

All of Melville's housing properties in ownership as at 31 March 2018 were re-valued at that date by Jones Lang LaSalle (JLL) and changes in value were shown in the revaluation reserve. Where properties are revalued and the value is less than the carrying value of the property, and where this represents impairment, this loss is recognised in the statement of comprehensive income. Where these deficits are reversed in subsequent revaluations, those surpluses are also recognised. Our next housing stock revaluation will be in March 2021.

Reserves Policy

Melville has a history of reinvesting any surpluses in improving and growing its housing stock. This means the majority of its reserves are tied up in property and not available as cash. The Association maintains a level of cash adequate to meet the day to day needs of the business.

EMPLOYEE INVOLVEMENT AND HEALTH AND SAFETY

Melville Housing Association encourages employee involvement in all major initiatives and holds an annual review day where there is an opportunity for staff to discuss and agree strategic objectives. A staff meeting is held monthly where staff members can and do raise health and safety issues. In addition, health and safety matters are considered on an ongoing basis at senior management and Board meetings.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2020

SURPLUS FOR THE YEAR AND TRANSFERS

The results for the Group are shown in the statement of comprehensive income on page 15. The surplus for the Group is £0.9m (2019: £6.6m). The Group's accumulated reserves are increased by a £0.26m transfer from the Pensions Reserve. The surplus plus transfers result in a £1.6m increase in the Group Revenue Reserves at 31 March 2020 (2019: increase of £6.8m). Our subsidiary company, Ironmills Developments Limited, returned an operating surplus of £5.2k (after which gift aid of £5.2k will be made to the Association) during the year to 31 March 2020 (2019: operating surplus of £6k, after which gift aid of £6k was made to the Association).

KEY RISKS

The Association regularly reviews and assesses the risks faced by the organisation in all areas of its works. The Association uses a risk register to record identified risks and these are reviewed regularly and action taken as appropriate.

Key risk themes identified are:

- COVID-19 -impact on our communities, our staff and our finances.
 - A focussed response to our tenants with additional training provided to housing staff to ensure guidance can be provided on financial support for our tenants; this in addition to our 2 welfare benefit advisors and support from CHAI (tenancy support and money advice).
 - Full review of our cash planning including weekly updates to ensure that we have sufficient cash to meet the needs of the business against a back-drop of increasing arrears.
 - Continuing to provide an emergency repairs service and gas servicing provision during the UK lock-down.
 - Review of insurance cover to ensure full coverage for our office which is closed, our staff who are working at home and against the increased risk of cyber attacks/scams.
- Tenant safety (gas inspections and air quality of homes) – annual gas inspections are completed and action is taken quickly to address any air quality issues
- Impact of welfare reform – see notes above for actions to mitigate impact of welfare reform
- Loss of key staff/board experience – management restructuring to improve resilience and support for senior team and ongoing monitoring of Board recruitment needs and Board development
- Maintaining a high quality service – see sections above on how we delivered our corporate strategy aims
- IT and cyber security - we provide our staff with regular training and advice on IT security and cyber awareness. During the year we upgraded our IT infrastructure which will further improve the security, resilience and efficiency of our systems and we also increased our cyber-security insurance cover.

The Board is satisfied that adequate policies, procedures and controls are in place to mitigate these risks as far as possible.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

The Board and executive officers 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 Board and executive officers have confirmed that they have taken all the steps that they ought to have taken as Board members and executive officers in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

BY ORDER OF THE BOARD

.....
B Shearer
Secretary

12 August 2020

The Corn Exchange, 200 High Street, Dalkeith, Midlothian, EH22 1AZ

MELVILLE HOUSING ASSOCIATION LIMITED

STATEMENT OF RESPONSIBILITIES OF THE BOARD

For the year ended 31 March 2020

The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 and social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association at the balance sheet date, and of its income and expenditure for the year ended on that date.

In preparing these financial statements, the Board 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 and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business; and
- prepare a Statement on Internal Financial Control.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – February 2019. The Board 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.

The Board 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.

BY ORDER OF THE BOARD

B Shearer
Secretary

12 August 2020

MELVILLE HOUSING ASSOCIATION LIMITED

INTERNAL FINANCIAL CONTROL

The year ended 31 March 2020

The Board acknowledges its ultimate responsibility for ensuring that the Association has in place a system of financial controls that is appropriate for the business environment in which it operates. These financial 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;
- The safeguarding of assets against unauthorised use or disposition.

It is the Board'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 of the Association's systems include ensuring that:

- Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of financial controls and restrict unauthorised use of the Association's assets;
- Experienced and suitably qualified staff take responsibility for important business functions, and annual appraisal procedures have been established to maintain standards of performance;
- Forecasts and budgets are prepared which allow the Board and executive officers to monitor the key business risks, financial objectives and the progress being made towards achieving financial plans set for the year and for the medium term;
- Regular 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;
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the Board;
- The Board receives an annual report from its external auditors who review and test the systems of internal financial control to the extent necessary to express their audit opinion;
- Formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports.

The effectiveness of the Association's system of internal financial control has been reviewed during the year ended 31 March 2020, and until the date noted below to the extent that formal policies and procedures are in place. A full Risk Assessment has been carried out and the Audit Committee has satisfied itself that the Association has an adequate framework of risk management and internal controls systems.

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 external auditors' report on the financial statements.

BY ORDER OF THE BOARD

B Shearer
Secretary

12 August 2020

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MELVILLE HOUSING ASSOCIATION LIMITED**



Opinion

We have audited the consolidated financial statements of Melville Housing Association Limited (the 'Association') for the year ended 31 March 2020 which comprise the Consolidated and Association Statement of Comprehensive Income, the Consolidated and Association Statement of Financial Position, the Consolidated and Association Statement of Changes in Reserves, the Consolidated and Association Statement of Cash Flows and the related notes, 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 Financial Reporting Standard 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 and the Group's affairs as at 31 March 2020 and of the Association's and the Group's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly 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 Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board 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 Board is 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

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 necessary for the purposes of our audit.

Responsibilities of the Board

As explained more fully in the Statement of the Board's Responsibilities set out on page 10, the Board members (who are also the Trustees of the Association for the purposes of charity law) 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 Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

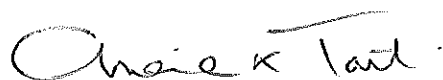
Auditor's responsibilities for the audit of the financial statements

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: 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 section 87 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.



CHIENE + TAIT LLP
Chartered Accountants and Statutory Auditor
61 Dublin Street
Edinburgh
EH3 6NL

17 August 2020

**REPORT BY THE AUDITOR TO THE MEMBERS OF
MELVILLE HOUSING ASSOCIATION LIMITED
ON CORPORATE GOVERNANCE MATTERS**



In addition to our audit of the Financial Statements, we have reviewed your statement on page 11 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. 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 11 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 Group Financial Statements.

Through enquiry of certain members of the Board and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Board'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 contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls.

CHIENE + TAIT LLP
Chartered Accountants and Statutory Auditors
61 Dublin Street
Edinburgh
EH3 6NL

17 August 2020

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of COMPREHENSIVE INCOME

Year ended 31 March 2020

	Note	Group		Association	
		2020 £'000	2019 £'000	2020 £'000	2019 £'000
TURNOVER	3	9,414	13,063	9,415	13,064
Operating costs	3	(5,947)	(5,280)	(5,948)	(5,281)
OPERATING SURPLUS	3	3,467	7,783	3,467	7,783
Profit on disposal of fixed assets		100	536	100	536
Interest receivable		5	8	5	8
Interest payable and financing costs	6	(1,621)	(1,598)	(1,621)	(1,598)
OPERATING SURPLUS after profit on disposal of fixed assets and interest payable & receivable		1,951	6,729	1,951	6,729
Movement in fair value of financial instruments		(1,030)	(140)	(1,030)	(140)
Reversal of revaluation losses		-	-	-	-
SURPLUS BEFORE TAX		921	6,589	921	6,589
Taxation		-	-	-	-
SURPLUS FOR THE YEAR		921	6,589	921	6,589
Actuarial gain/(loss) in respect of pension schemes	17	706	(337)	706	(337)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,627	6,252	1,627	6,252

All results derive from continuing activities.

The notes on pages 20 to 35 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of CHANGES IN RESERVES

Year ended 31 March 2020

	Share capital £'000	Revaluation reserve £'000	Revenue reserve £'000	Pension reserve £'000	Total reserves £'000	Restricted funds £'000	Unrestricted funds £'000
Balance at 1 April 2019	-	-	36,538	(1,938)	34,600	-	34,600
Surplus/(loss) for the year	-	-	921	706	1,627	-	1,627
Transfer from pensions reserve to revenue reserve/restricted funds movement	-	-	259	(259)	-	-	-
Balance at 31 March 2020	-	-	37,718	(1,491)	36,227	-	36,227

The notes on pages 20 to 35 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of FINANCIAL POSITION

At 31 March 2020

	Note	Group		Association	
		2020 £'000	2019 £'000	2020 £'000	2019 £'000
FIXED ASSETS					
Social housing properties	8	77,072	74,100	77,072	74,100
Other tangible fixed assets	8	3,822	3,858	3,822	3,858
		<u>80,894</u>	<u>77,958</u>	<u>80,894</u>	<u>77,958</u>
CURRENT ASSETS					
Trade and other debtors	10	390	591	394	597
Cash and cash equivalents		2,651	1,911	2,647	1,904
		<u>3,041</u>	<u>2,502</u>	<u>3,041</u>	<u>2,501</u>
CREDITORS: Amounts falling due within one year	11	<u>(5,308)</u>	<u>(3,558)</u>	<u>(5,308)</u>	<u>(3,557)</u>
NET CURRENT LIABILITIES		<u>(2,267)</u>	<u>(1,056)</u>	<u>(2,267)</u>	<u>(1,056)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>78,627</u>	<u>76,902</u>	<u>78,627</u>	<u>76,902</u>
CREDITORS: Amounts falling due after more than one year	12	<u>(40,909)</u>	<u>(40,364)</u>	<u>(40,909)</u>	<u>(40,364)</u>
PROVISIONS FOR LIABILITIES					
Pension liability	17	<u>(1,491)</u>	<u>(1,938)</u>	<u>(1,491)</u>	<u>(1,938)</u>
NET ASSETS		<u>36,227</u>	<u>34,600</u>	<u>36,227</u>	<u>34,600</u>
CAPITAL AND RESERVES					
Share capital	13	-	-	-	-
Revenue reserve		37,718	36,538	37,718	36,538
Restricted reserve		-	-	-	-
Pension reserve		<u>(1,491)</u>	<u>(1,938)</u>	<u>(1,491)</u>	<u>(1,938)</u>
		<u>36,227</u>	<u>34,600</u>	<u>36,227</u>	<u>34,600</u>

The financial statements were approved and authorised for issue by the Board on 12 August 2020.

..... C Quinn Chair

..... D Bond Vice Chair

..... B Shearer Secretary

The notes on pages 20 to 35 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT of CASH FLOWS

Year ended 31 March 2020

	Note	Group		Association	
		2020 £'000	2019 £'000	2020 £'000	2019 £'000
Net cash inflow from operating activities	i	5,387	4,957	5,340	4,955
Cash flow from investing activities					
Purchase of tangible fixed assets		(4,413)	(7,962)	(4,413)	(7,962)
Proceeds from sale of tangible fixed assets		100	536	100	536
Grants received		1,766	1,054	1,766	1,054
Interest received		5	8	5	8
		<u>(2,542)</u>	<u>(6,364)</u>	<u>(2,542)</u>	<u>(6,364)</u>
Cash flow from financing activities					
Interest paid		(1,621)	(1,641)	(1,571)	(1,641)
New secured and unsecured loans		-	305	-	305
Repayments of borrowings		(484)	(400)	(484)	(400)
		<u>(2,105)</u>	<u>(1,736)</u>	<u>(2,055)</u>	<u>(1,736)</u>
Net change in cash and cash equivalents		740	(3,143)	743	(3,145)
Cash and cash equivalents at beginning of the year		1,911	5,054	1,904	5,049
Cash and cash equivalents at end of the year		<u>2,651</u>	<u>1,911</u>	<u>2,647</u>	<u>1,904</u>
Components of cash and cash equivalents					
Cash at bank and in hand		344	119	340	112
Short term deposits		2,307	1,792	2,307	1,792
		<u>2,651</u>	<u>1,911</u>	<u>2,647</u>	<u>1,904</u>

The notes on page 19 form part of the statement of cash flows.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the STATEMENT of CASH FLOWS

Year ended 31 March 2020

i CASHFLOW FROM OPERATING ACTIVITIES

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Surplus/(Deficit) for the year	921	6,589	921	6,589
Adjustments for non-cash items:				
Depreciation for tangible fixed assets	1,359	1,258	1,359	1,258
(Increase)/decrease in trade and other debtors	200	(111)	203	(113)
(Decrease)/increase in trade and other creditors	(10)	(458)	(10)	(458)
Movement in fair value of financial instruments	1,030	140	1,030	140
Pension costs less contributions payable	259	201	259	201
Carrying amount of tangible fixed asset disposals	12	10	12	10
	<u>2,850</u>	<u>1,040</u>	<u>2,853</u>	<u>1,038</u>
Adjustments for investing or financing activities:				
Government grants written back/(utilised) in the year	-	(4,262)	-	(4,262)
Interest payable	1,621	1,598	1,571	1,598
Interest received	(5)	(8)	(5)	(8)
	<u>1,616</u>	<u>(2,672)</u>	<u>1,566</u>	<u>(2,672)</u>
Net cash generated from operating activities	<u>5,387</u>	<u>4,957</u>	<u>5,340</u>	<u>4,955</u>

ANALYSIS OF CHANGES IN NET DEBT

Group	2019	Cash	Non-cash	2020
	£'000	flows £'000	changes £'000	£'000
Long-term borrowings	29,954	-	(493)	29,461
Short-term borrowings	494	(484)	484	494
Total liabilities	<u>30,448</u>	<u>(484)</u>	<u>(9)</u>	<u>29,955</u>
Cash and cash equivalents	(1,911)	(740)	-	(2,651)
Total net debt	<u>28,537</u>	<u>(1,224)</u>	<u>(9)</u>	<u>27,304</u>
Association	2019	Cash	Non-cash	2020
	£'000	flows	changes	£'000
Long-term borrowings	29,954	-	(493)	29,461
Short-term borrowings	494	(484)	484	494
Total liabilities	<u>30,448</u>	<u>(484)</u>	<u>(9)</u>	<u>29,955</u>
Cash and cash equivalents	(1,904)	(743)	-	(2,647)
Total net debt	<u>28,544</u>	<u>(1,227)</u>	<u>(9)</u>	<u>27,308</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS

Year ended 31 March 2020

1 General Information

Melville Housing Association Limited is registered under the Co-operative and Community Benefit Societies Act 2014 and is a social landlord registered with the Scottish Housing Regulator under the Housing (Scotland) Act 2010. The principal activity is the provision and management of affordable rented accommodation. The registered office is The Corn Exchange, 200 High Street, Dalkeith, EH22 1AZ. The Association is a Public Benefit Entity.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

a) Accounting basis

The financial statements of the group and Association are prepared in accordance with applicable accounting standards and in accordance with the accounting requirements included within the Determination of Accounting Requirements 2019, and under the historic cost convention, modified for the revaluation of housing properties held for letting. The financial statements have also been prepared in accordance with the Statement of Recommended Practice for registered social housing providers 2014 (SORP 2014), issued by the National Housing Federation, and under Financial Reporting Standard (FRS) 102. There were no material departures from that standard.

b) Group financial statements - basis of preparation

The group financial statements consolidate the financial statements of Melville Housing Association Limited and its subsidiary, Ironmills Developments Limited, for the year ended 31 March 2020. Profits or losses on intra-group transactions are eliminated in full in accordance with FRS 102.

c) Going concern

The financial statements have been prepared on a going concern basis. The Board has assessed the Association's ability to continue as a going concern, in particular taking into consideration the impact of COVID-19, and has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

d) Turnover

Turnover, which is stated net of value added tax, represents rental and service charge income receivable, fees receivable and grants receivable from the Scottish Government, local authorities and other agencies.

e) Sale of housing properties

Properties are disposed of under the appropriate legislation and guidance. All costs relating to the share of property sold are removed from the financial statements at the date of sale.

f) Fixed Assets

Social housing stock and Mid Market Rent properties are held at valuation and are assessed annually by the Association, and formally valued by an external valuer every three years in line with the conditions of the Association's loan arrangements. Any material movements are adjusted through the statement of comprehensive income as appropriate.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

1 General Information (continued)

f) Fixed Assets (continued)

Social Housing stock improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancements can occur if the improvements result in:-

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

Works to existing properties which fail to meet the above criteria are charged to the statement of comprehensive income.

Other fixed assets are initially stated at cost.

g) Depreciation

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties held for letting on practical completion of construction.

Freehold land is not depreciated.

Freehold housing properties are depreciated by component on a straight line basis over the estimated useful economic lives of component categories.

Useful economic lives for identified components are as follows:

Component	Useful economic life
Structure	80 -100 years
Windows and external doors	30 years
Kitchens	15 years
Bathrooms	25 years
Central heating and boilers	20 years

Impairment reviews are carried out where there is considered to be an indicator of impairment, in accordance with Financial Reporting Standard 102.

Impairment is calculated as the difference between the carrying value of income generating units and the estimated value in use at the date an impairment loss is recognised. Value in use represents the net present value of expected future cash flows from these units.

Impairment of assets is recognised in the statement of comprehensive income.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

2 Accounting Policies (continued)

g) Depreciation (continued)

Depreciation is provided on all non-housing tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Office buildings	- over 100 years
Office Enhancements	- over 100 years
Office Ventilation System	- over 10 years
Office fixtures, fittings and equipment	- over 3 to 10 years

Where heritable properties are acquired and developed, no depreciation is charged until development is complete.

h) Housing Association Grants and other Grants

Housing Association Grants (HAG) are made by the Scottish Government, and are utilised to reduce the capital costs of an approved scheme to an amount of required loan finance which it is estimated can be serviced by the net rental income of the scheme. The amount of HAG is calculated on qualifying costs of the scheme in accordance with instructions issued from time to time by the Scottish Government. The total amount of HAG Melville has received to date is stated in Note 22.

Where HAG received contributes to the capital cost of housing property, which is held at valuation, it is recognised as income in the statement of comprehensive income when new build properties are completed or the capital work is carried out. HAG receivable is held as deferred income on the statement of financial position until any performance conditions are satisfied.

Grant funding received in respect of revenue expenditure is recognised as income in the same period to which it relates.

HAG and other grants are repayable under certain circumstances, primarily following sale of property, but will normally be restricted to net proceeds of sale. Any grant that is repayable is accounted for as a liability on disposal of the property. Where a disposal is deemed to have taken place for accounting purposes, but the repayment conditions have not been met in relation to the HAG, the potential future obligation to repay is disclosed as a contingent liability.

i) Pensions

The Association participates in a defined benefit, final salary scheme operated by the Lothian Pension Fund. Contributions are charged to the statement of comprehensive income to spread the cost of pensions over the employees' working lives within the Association.

j) Pension Reserve

This reserve is based on the Association's liability with regard to the defined benefits, final salary pension scheme. In line with FRS 102 the deficit is disclosed on the face of the statement of financial position.

k) Operating leases

Rentals paid under operating leases are charged to the statement of comprehensive income as they are incurred.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

2 Accounting Policies (continued)

l) Financial Instruments

Loan finance provided to the Association are for the purposes of FRS102 defined as basic financial instruments and measured at amortised cost. The Association has entered into variable to fixed interest rate swap contracts in respect of these loans to manage its exposure to interest rate cash flow risk on its variable debt. These derivatives are measured at fair value at each reporting date. Changes in the fair value of the derivatives are recognised in the statement of comprehensive income.

m) Significant accounting judgements and estimates

Preparation of the financial statements requires significant judgements and estimates to be made at times. Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts where required, or as appropriate to other factors. The following are the areas in which significant accounting judgements and estimates are considered to exist:

- (i) Valuation of property, plant and equipment (fixed assets)
- (ii) Useful lives of property, plant and equipment (fixed assets)
- (iii) The main components of housing properties and their useful lives
- (iv) Recoverable amount of rental and other trade receivables (debtors)
- (v) The obligations under the Association's defined benefit pension scheme
- (vi) The measurement of the recoverable amount of assets for impairment reviews and the calculation of depreciated replacement cost
- (vii) Valuation of the Association's interest rate swaps

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

3 Particulars of turnover, operating surplus and net surplus by class of business.

	GROUP				ASSOCIATION			
	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2020 £'000	Operating Surplus 2019 £'000	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2020 £'000	Operating Surplus 2019 £'000
Affordable letting activities (Note 4)	9,204	(5,754)	3,450	7,767	9,204	(5,754)	3,450	7,767
Other activities (Note 5)	210	(193)	17	16	211	(194)	17	16
Total	9,414	(5,947)	3,467	7,783	9,415	(5,948)	3,467	7,783
Total for previous reporting period	13,063	(5,280)	7,783		13,064	(5,281)		7,783

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

4. Particulars of turnover, operating costs and operating surplus or deficit from affordable letting activities – Association

	2020 £'000	2019 £'000
Rent receivable net of service charges	8,910	8,567
Service charges	55	54
Gross income from rents and service charges	8,965	8,621
Less voids	(10)	(13)
Net income from rents and service charges	8,955	8,608
Grants released from deferred income (see note 11)	-	4,262
Revenue grants from Scottish Ministers	101	102
Other revenue grants	148	-
Total turnover from affordable letting activities	9,204	12,972
Management and maintenance administration costs before increase in pension provision	2,219	2,079
Increase in pension provision	209	161
Management and maintenance administration costs after increase in pension provision	2,428	2,240
Service costs	60	59
Planned and cyclical maintenance including major repairs costs	982	682
Reactive maintenance costs	912	967
Bad debts – rents and service charges	83	44
Depreciation of social housing	1,289	1,213
Operating costs for affordable letting activities	5,754	5,205
Operating surplus for affordable letting activities	3,450	7,767

All income is derived from General Needs housing provision.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

5. Particulars of Turnover, operating costs and operating surplus or deficit from other activities – Association

	Grants from Scottish Ministers £'000	Other Revenue Grants £'000	Other income £'000	Total Turnover £'000	Operating costs – bad debts £'000	Other Operating costs £'000	Operating surplus or (deficit) 2020 £'000
Other activities	-	108	103	211	-	(194)	17
Total from other activities	-	108	103	211	-	(194)	17
Total from other activities for the previous reporting period	-	-	92	92	-	76	16

Particulars of Turnover, operating costs and operating surplus or deficit from other activities – Group

	Grants from Scottish Ministers £'000	Other Revenue Grants £'000	Other income £'000	Total Turnover £'000	Operating costs – bad debts £'000	Other Operating costs £'000	Operating surplus or (deficit) 2020 £'000
Other activities	-	108	102	210	-	(193)	17
Total from other activities	-	108	102	210	-	(193)	17
Total from other activities for the previous reporting period	-	-	91	91	-	75	16

Association - Other income of £70k was generated from a management and lease agreement with Ironmills Development Ltd. A gift aided donation of £5k was also received from Ironmills. Further trading income of £28k was generated from room hire, the lease of commercial office space to a third party, and receipts for decant costs from Midlothian Council.

Group – Other income of £74k was generated from the rental of 11 mid market rent units managed by Ironmills. Other trading income of £28k as above.

Association and Group – Grants of £108k received from the Energy Savings Trust to deliver 5 electric cars with charging points for use throughout Midlothian.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

6 Interest Payable and Similar Charges

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
On loans partly repayable after five years	1,571	1,558	1,571	1,558
Net interest costs in respect of defined benefit pension scheme (see note 17)	50	40	50	40
	<u>1,621</u>	<u>1,598</u>	<u>1,621</u>	<u>1,598</u>

7 Taxation on Surplus for the Year

Melville Housing Association's charitable activities fall within the exemptions afforded by the Corporation Tax Act 2010. Accordingly, there is no Corporation Tax charge in these financial statements.

The Group is subject to tax in respect of Ironmills Developments Limited and a charge of £nil has arisen in respect of the period to 31 March 2020.

8 Tangible Fixed Assets – Association and Group

	Housing Properties Held for Letting	Development Programme	Total Housing Properties	Office Buildings	Office Fixtures Fittings & Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost/valuation						
At 1 April 2019	73,735	1,541	75,276	3,839	660	79,775
Additions	1,922	2,340	4,262	-	77	4,339
Transfers	-	-	-	-	-	-
Disposals	(19)	-	(19)	-	(25)	(44)
At 31 March 2020	<u>75,638</u>	<u>3,881</u>	<u>79,519</u>	<u>3,839</u>	<u>712</u>	<u>84,070</u>
Depreciation						
At 1 April 2019	1,176	-	1,176	172	469	1,817
Provided in year	1,280	-	1,280	56	56	1,392
Disposals	(9)	-	(9)	-	(24)	(33)
At 31 March 2020	<u>2,447</u>	<u>-</u>	<u>2,447</u>	<u>228</u>	<u>501</u>	<u>3,176</u>
Net book value						
At 31 March 2020	<u>73,191</u>	<u>3,881</u>	<u>77,072</u>	<u>3,611</u>	<u>211</u>	<u>80,894</u>
At 31 March 2019	<u>72,559</u>	<u>1,541</u>	<u>74,100</u>	<u>3,667</u>	<u>191</u>	<u>77,958</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

8 Tangible Fixed Assets – Association and Group (continued)

Included within housing properties held for letting are 11 mid market rent units which were valued at 31 March 2018 at £678k.

None of the Association's land or buildings is held under a lease.

All Housing properties held for letting as at the 31 March 2020 (except for those developed since 1 April 2018) were valued by an external valuer as at 31 March 2018 in accordance with our Accounting Policies (see note 1f). Properties developed since 1 April 2018 are carried at cost which the Board considers is not materially different to valuation. The next valuation will be carried out in 2021.

The valuation was carried out by Jones Lang LaSalle (JLL), on the basis of Existing Use Value for Social Housing (EUV-SH) as defined in the RICS Valuation Standards. In determining this valuation, the valuers made use of discounted cash flow methodology and key assumptions regarding the level of future rental growth and the discount rate. For the 2018 valuation the assumed real discount rate was between 6% and 6.25% for LSVT stock (2015, 6.25%), 7.5% for mid market rent stock and between 5.75% and 6% for all other, non-LSVT, stock (2015, 5.75% and 6.5%).

The historic cost for all housing stock properties at 31 March 2020 was £97,255,000.

Historic Scotland holds a standard security over a historic building carried at a value of £3,611,000 (2019: £3,667,000) within office buildings in respect of their grant funding.

Works to existing properties during the year comprised of the following:	2020	2019
	£'000	£'000
Charged to income and expenditure (Note 4)	1,954	1,708
Capitalised - Replacement of components and improvements	1,922	2,390
Total	<u>3,876</u>	<u>4,098</u>

9 Investments

The Association owns one share in Ironmills Developments Limited at a cost of £1 (2019: £1).

10 Debtors

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Gross rental debtors	315	410	315	410
Less bad debt provision	(182)	(149)	(182)	(149)
	<u>133</u>	<u>261</u>	<u>133</u>	<u>261</u>
Due from subsidiary company	-	-	4	6
Other debtors	276	245	276	245
Less bad debt provision	(163)	(159)	(163)	(159)
Prepayments and accrued income	<u>144</u>	<u>244</u>	<u>144</u>	<u>244</u>
	<u>390</u>	<u>591</u>	<u>394</u>	<u>597</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

11 Creditors: Amounts falling due within one year

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Trade creditors	453	431	453	431
Other taxes and social security costs	32	30	32	30
Loans payable within one year	494	494	494	494
Accruals	788	877	788	876
Deferred income	3,232	1,466	3,232	1,466
Rents in advance	309	260	309	260
	<u>5,308</u>	<u>3,558</u>	<u>5,308</u>	<u>3,557</u>

Deferred income – Group and Association	HAG	
	2020	2019
	£'000	£'000
Deferred income at 1 April 2019	1,466	5,029
Additional income received	1,766	699
Released to statement of comprehensive income	-	(4,262)
Deferred income at 31 March 2020	<u>3,232</u>	<u>1,466</u>
Deferred income to be released to the statement of comprehensive income – Group and Association	2020	2019
	£'000	£'000
In less than one year	3,232	1,466
In more than one year	-	-
	<u>3,232</u>	<u>1,466</u>

12 Creditors: Amounts falling due after more than one year, excluding pensions liability

Group and Association	2020	2019
	£'000	£'000
Housing property loans not wholly repayable within five years	<u>29,461</u>	<u>29,954</u>
Housing property loans are repayable in instalments:		
Between one year and two years	494	494
Between two years and five years	1,480	1,480
After five years	<u>27,487</u>	<u>27,980</u>
	29,461	29,954
Less unamortised loan issue expenses	<u>(129)</u>	<u>(138)</u>
	29,332	29,816
Deferred income (note 11)	-	-
Derivative financial instruments (note 21)	<u>11,577</u>	<u>10,548</u>
	<u>40,909</u>	<u>40,364</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

12 Creditors: Amounts falling due after more than one year, excluding pensions liability (continued)

Housing property loans are secured with RBS plc by a standard security over the Association's property. The loans are repayable by quarterly instalments which commenced on 6 January 2013 on £3.83m, on 31 August 2016 on £7m, and will commence on 15 October 2022 on £16.6m, and on 15 October 2025 on £3m. Interest is currently charged quarterly on variable rate loans at LIBOR plus mandatory costs and margins with a range between 0.25% and 2%.

Interest rate swap contracts have been entered into as follows:

- £10m is fixed at 6.67% until 2037.
- £4m is fixed at 4.86% until 2037.
- £3m is fixed at 4.83% commencing July 2011 until 2036
- £2.6m is fixed at 4.89% commencing July 2011 until 2036
- £3.5m fixed at 3.475% commencing April 2014 until 2039.

Included in creditors are non interest bearing loans of £729k which were received from the Energy Savings Trust to fund external wall insulation (EWI) and heating replacement programmes in Easthouses and Penicuik. These loans are repayable in equal monthly instalments over 10 years. We have estimated that the fair value of these loans is £681k.

13 Share Capital

	Association	
	2020	2019
	£	£
Shares of £1 each		
At 1 April 2019	120	124
Issued in year	2	-
Cancelled in year	(3)	(4)
At 31 March 2020	<u>119</u>	<u>120</u>

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions on winding up. When a shareholder ceases to be a member, 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.

14 Unit Numbers

	Association	
	2020	2019
	No.	No.
General Needs	2,021	2,022
Mid market rent	11	11
	<u>2,032</u>	<u>2,033</u>

One property, comprising 6 self-contained flats has been included as 6 individual units in the number of properties to comply with the Registered Social Landlords Accounting Requirements (Scotland) Order 2007 definition.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

15 Employees

	2020 £'000	2019 £'000
Staff costs during year		
Wages and salaries	1,085	997
Social security costs	115	105
Other pension costs	218	190
	<u>1,418</u>	<u>1,292</u>

	No.	No.
The average number of staff employed by the Association during the year were	<u>29</u>	<u>27</u>

The average full time equivalent number of persons employed by the Association during the year were	<u>26</u>	<u>25</u>
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Key management personnel are defined as the members of the Board, the Chief Executive and any other person reporting directly to the Chief Executive or the Board whose total emoluments, excluding pension contributions, exceed £60,000 per year and who have authority and responsibility for directing and controlling the activities of the Association. Details are as follows:

	2020 £	2019 £
Aggregate emoluments, excluding pension contributions, payable to key management personnel	167,725	160,965
Pension contributions payable to key management personnel	34,844	31,518
Total emoluments	<u>202,569</u>	<u>192,483</u>

The number of key management personnel whose emoluments were above £60,000 for the year was:

	2020 No.	2019 No.
£100,000 to £105,000*	1	1
£95,000 to £100,000*	1	-
£90,000 to £95,000*	-	1

* The bands presented include pension contributions

The emoluments of the Chief Executive, excluding pension contributions, were as follows:

	2020 £	2019 £
Aggregate emoluments, excluding pension contributions	86,472	83,698
Pension contributions	18,134	16,488
Total emoluments	<u>104,606</u>	<u>100,186</u>

The Chief Executive is an ordinary member of the Association's pension scheme described in note 17. No enhanced or special terms apply to his membership and he has no other pension arrangements to which the Association contributes.

MELVILLE HOUSING ASSOCIATION LIMITED**NOTES to the FINANCIAL STATEMENTS (continued)**

Year ended 31 March 2020

15 Employees (continued)

	2020	2019
	£	£
Total expenses reimbursed insofar as not chargeable to UK Income Tax:		
Chief Executive	348	313
Board	3,369	5,828

No member of the Board received any emoluments in respect of their services to the Association.

16 Auditor's Remuneration

	2020	2019
	£	£
The remuneration of the auditors (including expenses and VAT for the year) was as follows:		
Audit services	10,740	10,740
Non-audit services	870	870
	<u>11,610</u>	<u>11,610</u>

17 Pension Obligations

The company's employees belong to one pension scheme, the Lothian Pension Fund (LPF) which provides benefits based on final pensionable salary.

The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the Board on the advice of the actuaries. In the intervening years the actuaries review the progress of the scheme and prepare an interim valuation for the purposes of reporting under FRS 102 as at the end of March.

The performance of the scheme has been reported under FRS 102 as amended, based on the latest available report dated 28 May 2020.

Principal actuarial assumptions at the balance sheet date:

	2020	2019	2018
	% p.a.	% p.a.	% p.a.
Discount rate	2.3	2.4	2.7
Future salary increases	3.5	4.2	4.1
Future pension increases	1.9	2.5	2.4
The expected return on assets	<u>2.3</u>	<u>2.4</u>	<u>2.7</u>

The total pension charge for the year was £217,794. At 31 March 2020, £24,977 was due to be paid over to the pension scheme (2019: £20,858). The agreed employer contribution rate from 1 April 2020 is 23.2% (2019: 22%).

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

17 Pension Obligations (continued)

Changes in the fair value of plan assets, defined benefit obligation and net liability

	Assets £'000	Obligations £'000	Year ended 31 March 2020 Net liability £'000	Year ended 31 March 2019 Net liability £'000
Fair value of employer assets	10,172	-	10,172	9,216
Present value of funded liabilities	-	12,110	(12,110)	(10,616)
Opening Position as at 31 March 2019	10,172	12,110	(1,938)	(1,400)
Service cost				
Current service cost	-	426	(426)	(356)
Past service cost (including curtailments)	-	-	-	(1)
Total Service Cost	-	426	(426)	(357)
Net Interest				
Interest income on plan assets	244	-	244	249
Interest cost on defined benefit obligation	-	294	(294)	(289)
Total net interest	244	294	(50)	(40)
Total defined benefit cost recognised in income and expenditure				(397)
Cash flows				
Plan participants contributions	68	68	-	-
Employer contributions	217	-	217	196
Benefits paid	(217)	(217)	-	-
Expected closing position	10,484	12,681	(2,197)	(1,601)
Re-measurements (actuarial losses)				
Changes in demographic assumptions	-	-	-	-
Changes in financial assumptions	-	(1,350)	1,350	(990)
Other experience	-	(54)	54	-
Return on assets excluding amounts included in net interest	(698)	-	(698)	653
Total re-measurements recognised in Other Comprehensive Income	(698)	(1,404)	706	(337)
Fair value of plan assets	9,786	-	9,786	10,172
Present value of funded liabilities	-	11,277	(11,277)	(12,110)
Closing position as at 31 March 2020	9,786	11,277	(1,491)	(1,938)

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

17 Pension Obligations (continued)

Changes in the fair value of plan assets, defined benefit obligation and net liability (continued)

The group expects to contribute £260,000 to its defined benefit pension plans in 2020/21.

	2020	2019
	%	%
The major categories of plan assets as a percentage of stated plan assets are as follows:		
Equities	75	75
Bonds	11	11
Property	8	7
Cash	6	7

18 Capital Commitments

As at 31 March 2020, the Association had the following capital commitments:

	2020	2019
	£'000	£'000
Contracted for less certified*	2,427	1,025

* Funded by Housing Association Grants and loan finance.

19 Other Financial Commitments

At 31 March 2020, the Group and Association had total commitments under non-cancellable operating leases as detailed below:

	Operating leases	
	2020	2019
	£'000	£'000
Leases expiring:		
within 1 year	6	6
within two to five years	11	17

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2020

20 Related Party Transactions and subsidiary company

During the year, 2 members of the Board rented property from the Association on standard terms, as applicable to all tenants. The members are not able to use their position to their advantage. At the year end there were no amounts owing to Melville from these members.

A subsidiary company limited by shares, Ironmills Developments Limited, was incorporated on 17 October 2007, registered number: SC 332523.

During the year, the Association let 11 properties to Ironmills (lease charge of £45,617) to be rented out at Mid Market rents. The Association also charged Ironmills £23,545 in respect of management of these properties.

During the year, Ironmills Developments Limited repaid £5,928 of the intercompany balance owing to the Association, reducing amounts due from the subsidiary company at the year end to £nil. Ironmills agreed to gift aid surpluses of £5,233 to the Association and this payment was outstanding as at 31 March 2020.

21 Derivative financial instruments

Derivative financial instruments comprise interest rate swaps which are measured at fair value as provided by the Association's lender RBS plc, and as set out in note 12.

22 Contingent liabilities

Housing Association Grants (HAG) received in respect of all properties owned at 31 March 2020 amounted to £38,561,000. HAG remains legally repayable to the Scottish Government in certain circumstances.

Other grants attributable to office buildings comprise grant funding awarded by Historic Scotland and the Heritage Lottery Fund for the development of a historic building. Under the terms of the awards, amounts received may be repayable in certain circumstances such as the disposal of the building.

23 Post Balance Sheet event – COVID-19

As noted in the report of the Board on page 2, on 23 March 2020 the UK government put in place measures to restrict the movements of the UK population as a control mechanism to deal with the COVID-19 pandemic crisis. Since that date, the Board and the staff team have continued to risk assess the impact of the crisis on staff and tenant safety, service provision, and the finances of the organisation. We have reforecast our financial plans to take into account an expected significant increase in arrears and bad debts, and delays to development and planned maintenance programmes. The Board meets regularly with the executive officers, via an online platform, and has satisfied itself that the organisation will remain financially viable and that services will not be materially affected.