

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT and CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2022

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 2022

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MELVILLE HOUSING ASSOCIATION LIMITED

EXECUTIVES AND ADVISERS

Year ended 31 March 2022

BOARD:

Ms C Quinn (Chair)
Mr D Bond (Vice Chair)
Mrs B Shearer (Secretary)
Mr G Alexander (resigned 15 September 2021)
Ms L Stang
Ms D Bogdanovic
Mr P Cameron
Mr A Dougherty
Ms H Johnston
Ms C Marshall
Ms C Moore
Mr D Takhar
Mrs C Hanlan (co-opted 17 November 2021)

SENIOR OFFICERS AND KEY MANAGEMENT

Mr J McMorrow, Chief Executive Officer
Ms K Dean, Head of Finance & Corporate Services / Deputy CEO

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 2022

The Board of Melville Housing Association Limited presents the group report and the audited financial statements for the year ended 31 March 2022.

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 2022, the Association held 2,074 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 2021-2026 which was approved by the Board in September 2021. The headline objectives are set out below:

1. Enhance the Quality of our Homes and Neighbourhoods
2. Strengthen Core Services
3. Maintain Excellent Standards of Governance
4. Support our Communities to Thrive
5. Spend Wisely

The following paragraphs set out how Melville has performed during the year ended 31 March 2022 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 as most staff were already working from home. As of 23rd March 2020, all staff were working from home. In February 2022, during this financial year, we have adopted a hybrid working model whereby staff work from the office two days a week and from home for the remainder. At the start of the pandemic, Contractor services were stopped for a period and we mainly undertook emergency work and some urgent non-emergency work.

It has taken some time for contractors to be back to normal and as a result we have again underspent slightly on our planned programmes during the year but anticipate that we will fully catch up during 2022/23. The overall impact on the business as a direct consequence of the pandemic is that we have built up additional cash reserves some of which will be used in 2022/23 as we get our programmes up to date.

Despite the pandemic impacting our communities, we continue to see a reduction in overall arrears. We will be monitoring the longer term impact during 2022/23 as we anticipate that the true impact on our tenants, the economy, and some external costs (materials) is still to fully materialise.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

General overview

During the year we invested £3.8m in property maintenance and refurbishment, and £2.7m in developing new properties. Our annual rental income increased by 1% in the year as we try to balance our 30 year plan expectations while minimising the financial impact on our tenants.

We returned an operating surplus after interest payable and receivable of £2.9m (2021: £2.2m) after adjustment to reflect an impairment of £2.7m to the cost of housing properties completed during the year. Throughout the year we maintained high levels of customer satisfaction at 88% in comparison with the Annual Return on the Charter (ARC) Scottish average of 89%. (Source: ARC data 2020/21).

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*, online via our website and Facebook pages, and personalised advisory meetings, visits and phone calls to all affected tenants.

Lettings

During the year, 146 of our properties became available for let compared with 100 in 2021. On average, we took 13 days to relet properties compared with 17 days in 2021. This was just above our target of 12 days due to a high turnover just before the festive period following completion of the 20 unit development at Bogwood Road, Mayfield. This still represents very good performance in comparison with the Annual Return on the Charter (ARC) Scottish average of 56.3 days. (Source: ARC data 2020/21).

Income lost on empty properties was 0.21% of rental income (2021: 0.20%), better than our target of 0.25%. The Scottish average for rent lost on empty properties was 1.4%. (Source: ARC data 2020/21).

Rent arrears

Our current non technical tenant arrears were 1.79% of rental income at 31 March 2022 compared with 2.14% for the year ending 31 March 2021. This is a strong performance against our target of 2.75% given the ongoing impact of Covid-19 and welfare reform. We expect an increase in arrears in 2022/23 as the full impact of increased inflation and associated cost increases hit our tenants. ARC comparison 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 72 tenants .

During the year, our tenancy sustainment has remained high this year with 97.37% tenancies being sustained during 2021/22 compared to an average of 91% (ARC 2020/21 data).

Welfare Advice Services

During the year our welfare advice services helped tenants access £408k in unclaimed benefit monies which will have long term benefits for the individuals and their families, helping them to sustain their homes.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

Asset Management and Value for Money

Housing Stock

During the year we invested £3.8m 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 258 bathrooms, fitting 77 new kitchens, renewing 37 roofs and replacing 100 heating systems.

We invested £82k in medical adaptations during the year, funded by grants received from the Scottish Government, and completed 80 adaptations. This helped people of all ages affected by an impairment, to continue to live independently in their own homes.

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 keep our rent increase lower than most RSLs for 2022-23 at 2%. 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

Melville is committed to developing its services to achieve net-zero status to support climate change target but mainly to provide better services for our tenants. Actions this year include building on our experience of installing air source heat pumps instead of traditional gas heating systems and continuing to repurpose used carpet tiles and providing them free of charge to tenants.

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 utilised the Scottish Government's Tenant Grant Fund to reduce tenant arrears by £34,000
- We also used the Scottish Government's Winter Flexible Fund to issue payments totalling £21,000 to our tenants to help with food, fuel and other essential items such as white goods and travel costs
- We continued to provide support and assistance to local organisations, including:
 - making a cash donation of £400 to the Gorebridge and Penicuik Foodbanks in December
 - donating £350 to the Mayfield Pantry in December
 - making a cash donation of £1,000 to the Housing Associations' Charitable Trust (HACT)
 - donating £400 to both the Dalkeith and Newbattle Storehouse's in December

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

Fundraising and supporting community organisations

- Continuing to sponsor local sports clubs by:
 - making a £500 donation to Easthouses Football Club to allow them to buy new playing shirts
 - donating £750 to Arniston Rangers Cherokees to help source new equipment
- Making cash donations of £400 each to the Aberlour Child Care Trust and Edinburgh and Lothian Trust Fund
- Promoting the work of tenants, Board members, local charities and community groups through our social media channels and our Voice newsletter

Delivering safer, more attractive and more sustainable communities

- Working with contractors to provide no-cost flooring to a further 24 Melville households, saving over 9,000 carpet tiles (enough to cover 9 tennis courts) sourced from office refurbishments ending up in landfill with pro bono support from our main repairs contractor Novus. This project was shortlisted for AICO's Sustainability Project of the Year award.
- Working with Novus to take excess paint and distribute it to tenants, free of charge
- 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

- Helping 29 tenants access digital services by working with Connecting Scotland to issue £15,000 of digital equipment and internet services to those in need
- Promoting and supporting the development of digital skills among staff, tenants and Board members

Health awareness

- Continuing to provide, support and maintain a public access defibrillator as part of a local life-saving network

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 this time, the Board also receives updates and training on governance matters.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

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 28 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 2021 and approved by the Board.

FUTURE DEVELOPMENTS

COVID-19

We had previously indicated that we anticipated that the COVID-19 crisis would have a significant impact on our communities and the full impact is still in our opinion to be realised. Although we had anticipated negative impacts on our finances during the year these have not materialised however, we will continue to monitor the impact on our tenants, our finances next financial year and beyond and we will review the affect of this on future plans of the organisation.

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. We believe the review undertaken in previous years to review and refresh our arrears management practices, add extra resources to deal with rent collections as well as to provide advice and support to tenants, has had a very positive impact on our performance; however we anticipate a deterioration in that position as the full impact of the COVID-19 crisis flows through the economy. We will therefore 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 completed development of the remaining 16 properties in Bilston with Taylor Wimpey. We are in contract with them for a further 30 properties on the same site of which 6 were completed in 2021/22. The Mayfield development noted in last year's financial statements which was due to in September 2021 was finally completed in December 2021. A total of 42 new properties were added to the stock in 2021/22.

We are reviewing our outline plans to develop 93 properties over the next 3 years and we have secured loan finance to fund a number of these properties. We will examine whether we will secure additional loan finance, as required, for the remainder. These will be completed with the support of the Scottish Government and Midlothian Council. With the current rate of inflation at a thirty year high, we are continually reassessing feasibility studies for such future developments to ensure that the increased costs does not detrimentally impact our 30 year plan or funding requirements.

The housing market, particularly in Midlothian, continues to remain buoyant with an increase of 31% in the population anticipated between 2021 and 2041. Midlothian continues to see record levels of grant funding being spent and proposed 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, has been achieved, however, Melville remains well placed to assist with the delivery of this and proposals for a new target.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

FUTURE DEVELOPMENTS (continued)

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.

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 2022 the Lothian Pension Scheme actuary has informed the Association that its share of the pension deficit amounts to £202k (2021: £1,903k) and this is shown in the statement of financial position.

Revaluation Reserve

All of Melville's housing properties in ownership as at 31 March 2021 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 2024.

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

RESERVES (continued)

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 bi-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.

SURPLUS FOR THE YEAR AND TRANSFERS

The results for the Group are shown in the statement of comprehensive income on page 16. The surplus for the Group is £5.8m (2021: £10m). The Group's accumulated reserves are decreased by a £0.3m transfer from the Pensions Reserve. The surplus less transfers result in a £7.9m increase in the Group Revenue Reserves at 31 March 2022 (2021: increase of £9.8m). 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 2022 (2021: operating surplus of £5.2k, after which gift aid of £5.2k 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:

- Longer term COVID-19 -impact on our communities, our staff and our finances.
 - A continued focus on our tenants with continued 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).
 - Continual 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 possible increasing arrears.
- Impact of increased inflation on tenants, our staffing costs and development costs – we will continue to monitor the longer term impact on rent arrears, review our staffing costs while maintaining the lowest possible rent increase for tenants and continually refresh our financial appraisals for development works in line with rising costs.
- 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 with developed succession planning.
- 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 previous year we achieved cyber-security accreditation and in the coming year we will undertake a full review of our IT Strategy now that an IT Manager has been appointed.

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

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

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



Secretary

10 August 2022

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

MELVILLE HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD (continued)

For the year ended 31 March 2022

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



MELVILLE HOUSING ASSOCIATION LIMITED

INTERNAL FINANCIAL CONTROL

The year ended 31 March 2022

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:

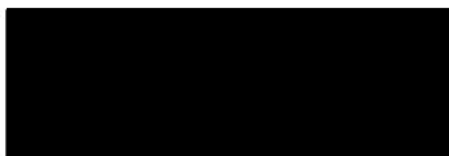
- Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of financial controls and restrict unauthorised use of the Association's assets;
- Experienced and suitably qualified staff take responsibility 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 2022, 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



Opinion

We have audited the consolidated financial statements of Melville Housing Association Limited (the 'Association') for the year ended 31 March 2022 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 2022 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

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We gained an understanding of the legal and regulatory framework applicable to the charitable company and considered the risk of acts by the charitable company which were contrary to the applicable laws and regulations, including fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements. Our tests included, but were not limited to:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- agreement of the financial statement disclosures to underlying supporting documentation;
- enquires of the senior management;
- review of Board meeting minutes throughout the period and since the year end;
- review of legal correspondence and invoices; and
- review of manual adjustments made in coming to the financial statements to identify any unusual adjustments.

Auditor's responsibilities for the audit of the financial statements (continued)

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

14 September 2022

**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

14 September 2022

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of COMPREHENSIVE INCOME

Year ended 31 March 2022

		Group		Association	
	Note	2022	2021	2022	2021
		£'000	£'000	£'000	£'000
TURNOVER	3	12,943	9,457	12,943	9,457
Operating costs – general	3	(5,859)	(5,696)	(5,859)	(5,696)
Operating costs – impairment of social housing	8	(2,668)	-	(2,668)	-
OPERATING SURPLUS	3	4,416	3,761	4,416	3,761
Profit on disposal of fixed assets		-	70	-	70
Interest receivable		-	1	-	1
Interest payable and financing costs	6	(1,539)	(1,548)	(1,539)	(1,548)
OPERATING SURPLUS after profit on disposal of fixed assets and interest payable & receivable		2,877	2,284	2,877	2,284
Movement in fair value of financial instruments		2,967	2,062	2,967	2,062
Reversal of revaluation losses		-	5,680	-	5,680
SURPLUS BEFORE TAX		5,844	10,026	5,844	10,026
Taxation	7	-	-	-	-
SURPLUS FOR THE YEAR		5,844	10,026	5,844	10,026
Actuarial gain/(loss) in respect of pension schemes	17	2,024	(240)	2,024	(240)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,868	9,786	7,868	9,786

All results derive from continuing activities.

The notes on pages 21 to 35 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of CHANGES IN RESERVES

Year ended 31 March 2022

	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 2021	-	-	47,916	(1,903)	46,013	-	46,013
Surplus/(loss) for the year	-	-	5,844	2,024	7,868	-	7,868
Transfer from pensions reserve to revenue reserve/restricted funds movement	-	-	323	(323)	-	-	-
Balance at 31 March 2022	-	-	54,083	(202)	53,881	-	53,881

The notes on pages 21 to 35 form part of these financial statements.

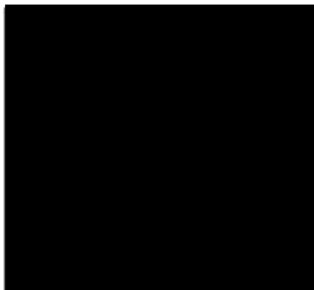
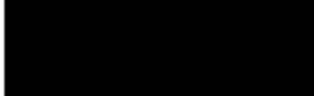
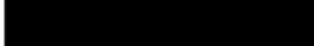
MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED and ASSOCIATION STATEMENTS of FINANCIAL POSITION

At 31 March 2022

	Note	Group 2022 £'000	2021 £'000	Association 2022 £'000	2021 £'000
FIXED ASSETS					
Social housing properties	8	85,362	84,929	85,362	84,929
Other tangible fixed assets	8	3,644	3,730	3,644	3,730
		<u>89,006</u>	<u>88,659</u>	<u>89,006</u>	<u>88,659</u>
CURRENT ASSETS					
Trade and other debtors	10	348	369	353	374
Cash and cash equivalents		3,083	2,792	3,078	2,787
		<u>3,431</u>	<u>3,161</u>	<u>3,431</u>	<u>3,161</u>
CREDITORS: Amounts falling due within one year	11	(3,441)	(5,539)	(3,441)	(5,539)
NET CURRENT LIABILITIES		<u>(4)</u>	<u>(2,378)</u>	<u>(4)</u>	<u>(2,378)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		88,996	86,281	88,996	86,281
CREDITORS: Amounts falling due after more than one year	12	(34,913)	(38,365)	(34,913)	(38,365)
PROVISIONS FOR LIABILITIES					
Pension liability	17	(202)	(1,903)	(202)	(1,903)
NET ASSETS		<u>53,881</u>	<u>46,013</u>	<u>53,881</u>	<u>46,013</u>
CAPITAL AND RESERVES					
Share capital	13	-	-	-	-
Revenue reserve		54,083	47,916	54,083	47,916
Pension reserve		(202)	(1,903)	(202)	(1,903)
		<u>53,881</u>	<u>46,013</u>	<u>53,881</u>	<u>46,013</u>

The financial statements were approved and authorised for issue by the Board on 10 August 2022.

	C Quinn	Chair
	D Bond	Vice Chair
	B Shearer	Secretary

The notes on pages 21 to 35 form part of these financial statements.

MELVILLE HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT of CASH FLOWS

Year ended 31 March 2022

		Group		Association	
	Note	2022	2021	2022	2021
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	i	5,500	5,340	5,500	5,339
Cash flow from investing activities					
Purchase of tangible fixed assets		(4,641)	(3,572)	(4,641)	(3,572)
Proceeds from sale of tangible fixed assets		-	70	-	70
Grants received		1,455	334	1,455	334
Interest received		-	1	-	1
		<u>(3,186)</u>	<u>(3,167)</u>	<u>(3,186)</u>	<u>(3,167)</u>
Cash flow from financing activities					
Interest paid		(1,539)	(1,548)	(1,539)	(1,548)
New secured and unsecured loans		-	-	-	-
Repayments of borrowings		(484)	(484)	(484)	(484)
		<u>(2,023)</u>	<u>(2,032)</u>	<u>(2,023)</u>	<u>(2,032)</u>
Net change in cash and cash equivalents		291	141	291	140
Cash and cash equivalents at beginning of the year		2,792	2,651	2,787	2,647
Cash and cash equivalents at end of the year		3,083	2,792	3,078	2,787
Components of cash and cash equivalents					
Cash at bank and in hand		100	209	95	204
Short term deposits		2,983	2,583	2,983	2,583
		<u>3,083</u>	<u>2,792</u>	<u>3,078</u>	<u>2,787</u>

The notes on page 20 form part of the statement of cash flows.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the STATEMENT of CASH FLOWS

Year ended 31 March 2022

i CASHFLOW FROM OPERATING ACTIVITIES

	Group		Association	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Surplus/(Deficit) for the year	5,844	10,026	5,844	10,026
Adjustments for non-cash items:				
Depreciation for tangible fixed assets	1,597	1,435	1,597	1,435
(Increase)/decrease in trade and other debtors	21	21	21	20
(Decrease)/increase in trade and other creditors	(146)	-	(146)	-
Movement in fair value of financial instruments	(2,967)	(2,062)	(2,967)	(2,062)
Pension costs less contributions payable	323	172	323	172
Carrying amount of tangible fixed asset disposals	28	46	28	46
Reversal of revaluation losses	-	(5,680)	-	(5,680)
Impairment of social housing	2,668	-	2,668	-
	1,524	(6,068)	1,524	(6,068)
Adjustments for investing or financing activities:				
Government grants written back/(utilised) in the year	(3,407)	(165)	(3,407)	(165)
Interest payable	1,539	1,548	1,539	1,548
Interest received	-	(1)	-	(1)
	(1,868)	1,382	(1,868)	1,382
Net cash generated from operating activities	5,500	5,340	5,500	5,339

ANALYSIS OF CHANGES IN NET DEBT

Group	2021	Cash flows	Non-cash changes	2022
	£'000	£'000	£'000	£'000
Long-term borrowings	28,968	-	(494)	28,474
Short-term borrowings	494	(484)	484	494
Total liabilities	29,462	(484)	(10)	28,968
Cash and cash equivalents	(2,792)	(291)	-	(3,083)
Total net debt	26,670	(775)	(10)	25,885
Association	2021	Cash flows	Non-cash changes	2022
	£'000	£'000	£'000	£'000
Long-term borrowings	28,968	-	(494)	28,474
Short-term borrowings	494	(484)	484	494
Total liabilities	29,462	(484)	(10)	28,968
Cash and cash equivalents	(2,787)	(291)	-	(3,078)
Total net debt	26,675	(775)	(10)	25,890

NOTES to the FINANCIAL STATEMENTS

Year ended 31 March 2022

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 including Financial Reporting Standard 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* (FRS 102), the Statement of Recommended Practice for Social Housing Providers 2019 and the Determination of Accounting Requirements – February 2019. The financial statements have been prepared under the historic cost convention, modified to include certain items at fair value. 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 2022. 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 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.

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

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.

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

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.

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

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

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

	GROUP				ASSOCIATION			
	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2022 £'000	Operating Surplus 2021 £'000	Turnover £'000	Operating Costs £'000	Operating Surplus/ (deficit) 2022 £'000	Operating Surplus 2021 £'000
Affordable letting activities (Note 4)	12,855	(8,455)	4,400	3,746	12,855	(8,455)	4,400	3,746
Other activities (Note 5)	88	(72)	16	15	88	(72)	16	15
Total	12,943	(8,527)	4,416	3,761	12,943	(8,527)	4,416	3,761
Total for previous reporting period	9,457	(5,696)	3,761		9,457	(5,696)	3,761	

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

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

	2022 £'000	2021 £'000
Rent receivable net of service charges	9,295	9,055
Service charges	62	56
Gross income from rents and service charges	9,357	9,111
Less voids	(20)	(19)
Net income from rents and service charges	9,337	9,092
Grants released from deferred income (see note 11)	3,407	165
Revenue grants from Scottish Ministers	82	80
Other revenue grants	29	-
Total turnover from affordable letting activities	12,855	9,337
Management and maintenance administration costs before increase in pension provision	2,223	2,220
Increase in pension provision	282	136
Management and maintenance administration costs after increase in pension provision	2,505	2,356
Service costs	55	65
Planned and cyclical maintenance including major repairs costs	810	910
Reactive maintenance costs	899	943
Bad debts – rents and service charges	(11)	(24)
Depreciation of social housing	1,529	1,341
Impairment of social housing	2,668	-
Operating costs for affordable letting activities	8,455	5,591
Operating surplus for affordable letting activities	4,400	3,746

All income is derived from General Needs housing provision.

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

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) 2022 £'000
Other activities	-	-	88	88	-	72	16
Total from other activities	-	-	88	88	-	72	16
Total from other activities for the previous reporting period	-	-	120	120	-	105	15

	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) 2022 £'000
Other activities	-	-	88	88	-	72	16
Total from other activities	-	-	88	88	-	72	16
Total from other activities for the previous reporting period	-	-	120	120	-	105	15

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 £13k was generated from the lease of commercial office space to a third party.

Group – Other income of £75k was generated from the rental of 11 mid market rent units managed by Ironmills. Other trading income of £13k as above.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

6 Interest Payable and Similar Charges

	Group		Association	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
On loans partly repayable after five years	1,498	1,512	1,498	1,512
Net interest costs in respect of defined benefit pension scheme (see note 17)	41	36	41	36
	<u>1,539</u>	<u>1,548</u>	<u>1,539</u>	<u>1,548</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 2022.

8 Tangible Fixed Assets – Association and Group

	Housing Properties Held for Letting £'000	Development Programme £'000	Total Housing Properties £'000	Office Buildings £'000	Office Fixtures Fittings & Equipment £'000	Total £'000
Cost/valuation						
At 1 April 2021	79,181	5,748	84,929	3,839	729	89,497
Additions	1,939	2,691	4,630	-	12	4,642
Transfers	7,137	(7,137)	-	-	-	-
Disposals	(30)	-	(30)	-	-	(30)
At 31 March 2022	<u>88,227</u>	<u>1,302</u>	<u>89,529</u>	<u>3,839</u>	<u>741</u>	<u>94,109</u>
Depreciation						
At 1 April 2021	-	-	-	284	554	838
Provided in year	1,501	-	1,501	56	42	1,599
Disposals	(2)	-	(2)	-	-	(2)
Impairment	2,668	-	2,668	-	-	2,668
At 31 March 2022	<u>4,167</u>	<u>-</u>	<u>4,167</u>	<u>340</u>	<u>596</u>	<u>5,103</u>
Net book value						
At 31 March 2022	<u>84,060</u>	<u>1,302</u>	<u>85,362</u>	<u>3,499</u>	<u>145</u>	<u>89,006</u>
At 31 March 2021	<u>79,181</u>	<u>5,748</u>	<u>84,929</u>	<u>3,555</u>	<u>175</u>	<u>88,659</u>

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

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 2021 at £700k (2018: £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 2022 (except for those developed since 1 April 2021) were valued by an external valuer as at 31 March 2021 in accordance with our Accounting Policies (see note 1f).

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 2021 valuation the assumed real discount rate was between 6.0%-6.5% for the LSVT with the more modern, post LSVT stock, assuming a real discount rate of between 5.75 and 6.25%), For the mid market rent stock JLL have applied a real discount rate of 6.5% and for all other, non-LSVT, stock a range of between 6.0% and 6.5%).

22 properties developed since 1 April 2021 are carried at cost which the Board considers is not materially different to valuation. A further 20 developed in the year were independently valued by JLL as at 31 March 2022 due to contractor changes and project delays resulting in a significant overspend. This resulted in a loss on revaluation of £2,668,000. The next full stock valuation will be carried out in 2024.

The historic cost for all housing stock properties at 31 March 2022 was £108,006,235.

Historic Scotland holds a standard security over a historic building carried at a value of £3,499,000 (2021: £3,556,000) within office buildings in respect of their grant funding.

Works to existing properties during the year comprised of the following:	2022	2021
	£'000	£'000
Charged to income and expenditure (Note 4)	1,708	1,952
Capitalised - Replacement of components and improvements	1,939	1,188
Total	<u>3,647</u>	<u>3,140</u>

9 Investments

The Association owns one share in Ironmills Developments Limited at a cost of £1 (2021: £1).

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

10 Debtors

	Group		Association	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Gross rental debtors	217	255	217	255
Less bad debt provision	(119)	(151)	(119)	(151)
	98	104	98	104
Due from subsidiary company	-	-	5	5
Other debtors	229	281	229	281
Less bad debt provision	(115)	(159)	(115)	(159)
Prepayments and accrued income	136	143	136	143
	348	369	353	374

11 Creditors: Amounts falling due within one year

	Group		Association	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade creditors	485	431	485	431
Other taxes and social security costs	32	29	32	29
Loans payable within one year	494	494	494	494
Accruals	659	859	659	859
Deferred income	1,448	3,401	1,448	3,401
Rents in advance	323	325	323	325
	3,441	5,539	3,441	5,539

	HAG	
	2022	2021
	£'000	£'000
Deferred income – Group and Association		
Deferred income at 1 April 2021	3,401	3,232
Additional income received	1,454	334
Released to statement of comprehensive income	(3,407)	(165)
Deferred income at 31 March 2022	1,448	3,401
Deferred income to be released to the statement of comprehensive income – Group and Association	2022	2021
	£'000	£'000
In less than one year	1,448	3,401
In more than one year	-	-
	1,448	3,401

MELVILLE HOUSING ASSOCIATION LIMITED**NOTES to the FINANCIAL STATEMENTS (continued)****Year ended 31 March 2022****12 Creditors:** Amounts falling due after more than one year, excluding pensions liability

Group and Association	2022 £'000	2021 £'000
Housing property loans not wholly repayable within five years	28,474	28,968
Housing property loans are repayable in instalments:		
Between one year and two years	1,600	494
Between two years and five years	5,001	4,801
After five years	21,873	23,673
	28,474	28,968
Less unamortised loan issue expenses	(110)	(119)
	28,364	28,849
Deferred income (note 11)	-	-
Derivative financial instruments (note 21)	6,549	9,516
	34,913	38,365

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 £542k 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 £516k (2021: £600k).

13 Share Capital

	Association	
	2022 £	2021 £
Shares of £1 each		
At 1 April 2021	67	119
Issued in year	1	4
Cancelled in year	(4)	(56)
At 31 March 2022	64	67

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.

MELVILLE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

14 Unit Numbers

	Association	
	2022	2021
	No.	No.
General Needs	2,074	2,032
Mid market rent	11	11
	<u>2,085</u>	<u>2,043</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.

15 Employees

	2022	2021
	£'000	£'000
Staff costs during year		
Wages and salaries	1,085	1,117
Social security costs	117	120
Other pension costs	245	240
	<u>1,447</u>	<u>1,477</u>
	No.	No.
The average number of staff employed by the Association during the year were	<u>28</u>	<u>31</u>
The average full time equivalent number of persons employed by the Association during the year were	<u>26</u>	<u>26</u>

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:

	2022	2021
	£	£
Aggregate emoluments, excluding pension contributions, payable to key management personnel	153,337	158,376
Pension contributions payable to key management personnel	35,536	34,385
Total emoluments	<u>188,873</u>	<u>192,761</u>

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

	2022	2021
	No.	No.
£110,000 to £120,000*	1	-
£100,000 to £110,000*	-	-
£90,000 to £100,000*	-	-
£80,000 to £90,000*	-	2
£70,000 to £80,000*	<u>1</u>	<u>-</u>

* The bands presented include pension contributions

MELVILLE HOUSING ASSOCIATION LIMITED**NOTES to the FINANCIAL STATEMENTS (continued)****Year ended 31 March 2022****15 Employees (continued)**

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

	2022 £	2021 £
Aggregate emoluments, excluding pension contributions	89,881	93,070
Pension contributions	20,821	20,121
Total emoluments	<u>110,702</u>	<u>113,192</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.

	2022 £	2021 £
Total expenses reimbursed insofar as not chargeable to UK Income Tax:		
Chief Executive	420	-
Board	<u>328</u>	<u>251</u>

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

16 Auditor's Remuneration

	2022 £	2021 £
The remuneration of the auditors (including expenses and VAT for the year) was as follows:		
Audit services	11,700	11,160
Non-audit services	924	2,000
	<u>12,624</u>	<u>13,160</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 27 May 2022.

Principal actuarial assumptions at the balance sheet date:

	2022 % p.a.	2021 % p.a.	2020 % p.a.
Discount rate	2.7	2.0	2.3
Future salary increases	3.7	3.4	3.5
Future pension increases	3.2	2.9	1.9
The expected return on assets	<u>2.7</u>	<u>2.0</u>	<u>2.3</u>

NOTES to the FINANCIAL STATEMENTS (continued)

Year ended 31 March 2022

17 Pension Obligations (continued)

The total pension charge for the year was £244,832. At 31 March 2022, £27,124 was due to be paid over to the pension scheme (2021: £24,343). The agreed employer contribution rate from 1 April 2022 is 23.5% (2021: 23.3%).

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

			Year ended 31 March 2022	Year ended 31 March 2021
	Assets £'000	Obligations £'000	Net liability £'000	Net liability £'000
Fair value of employer assets	11,164	-	11,164	9,786
Present value of funded liabilities	-	13,067	(13,067)	(11,277)
Opening Position as at 31 March 2021	11,164	13,067	(1,903)	(1,491)
Service cost				
Current service cost	-	520	(520)	(376)
Past service cost (including curtailments)	-	-	-	-
Total Service Cost		520	(520)	(376)
Net Interest				
Interest income on plan assets	224	-	224	226
Interest cost on defined benefit obligation	-	265	(265)	(262)
Total net interest	224	265	(41)	(36)
Total defined benefit cost recognised in income and expenditure	224	785	(561)	(412)
Cash flows				
Plan participants contributions	70	70	-	-
Employer contributions	238	-	238	240
Benefits paid	(216)	(216)	-	-
Expected closing position	11,480	13,706	(2,226)	(1,663)
Re-measurements (actuarial losses)				
Changes in demographic assumptions	-	(977)	977	550
Changes in financial assumptions	-	(79)	79	(2,620)
Other experience	-	24	(24)	447
Return on assets excluding amounts included in net interest	992	-	992	1,383
Total re-measurements recognised in Other Comprehensive Income	992	(1,032)	2,024	(240)
Fair value of plan assets	12,472	-	12,472	11,164
Present value of funded liabilities	-	12,674	(12,674)	(13,067)
Closing position as at 31 March 2022	12,472	12,674	(202)	(1,903)

MELVILLE HOUSING ASSOCIATION LIMITED**NOTES to the FINANCIAL STATEMENTS (continued)****Year ended 31 March 2022****17 Pension Obligations (continued)****Changes in the fair value of plan assets, defined benefit obligation and net liability (continued)**

The group expects to contribute £240,000 to its defined benefit pension plans in 2022/23.

	2022	2021
	%	%
The major categories of plan assets as a percentage of stated plan assets are as follows:		
Equities	71	73
Bonds	13	12
Property	7	7
Cash	9	8

18 Capital Commitments

As at 31 March 2022, the Association had the following capital commitments:

	2022	2021
	£'000	£'000
Contracted for less certified*	2,907	1,304

* Funded by Housing Association Grants and loan finance.

19 Other Financial Commitments

At 31 March 2022, the Group and Association had total commitments under non-cancellable operating leases as detailed below:

	Operating leases	
	2022	2021
	£'000	£'000
Leases expiring:		
within 1 year	5	5
within two to five years	2	7

20 Related Party Transactions and subsidiary company

During the year, three 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. Income received during the year amounted to £13,724 (2021: £8,676). 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 £46,069) to be rented out at Mid Market rents. The Association also charged Ironmills £23,781 in respect of management of these properties.

During the year, Ironmills agreed to gift aid surpluses of £5,230 (2020: £5,273) to the Association and this payment was outstanding as at 31 March 2022.

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 2022 amounted to £40,350,000. 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.