

**AYRSHIRE HOUSING**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

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**AYRSHIRE HOUSING**  
**OPERATING AND FINANCIAL REVIEW**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

**Background**

**Activities**

The Ayrshire Housing Group consists of Ayrshire Housing (parent) a registered social landlord with charitable status and Ayrshire Homestake Limited, our one subsidiary company retained as a vehicle to pursue potentially non-charitable activities. The subsidiary company has not yet traded.

The Group Head Office is in Ayr and Ayrshire Housing has properties throughout Ayrshire. Ayrshire Housing is now one of Ayrshire's leading housing associations with a stock of almost 1,500 houses thanks to an active acquisition and development programme predominantly but not exclusively in South Ayrshire.

**Mission Statement**

*We aim to enhance the well being of our tenants and the wider communities of Ayrshire through high quality housing and related services.*

We aim to do this by:

- The supply of high quality affordable housing.
- Creating and maintaining attractive neighbourhoods that provide a positive environment for residents to live in – now and in the future.
- Supporting socially useful economic activity and regeneration strategies beyond our immediate tenant base through work with the voluntary sector and others agencies.
- Constantly demonstrating that our services surpass the needs and aspirations of their users.
- Supporting tenants and other service users to lead independent and fulfilling lives.
- Ensuring that our properties are maintained to the highest standards over the long-term.
- Demonstrating quality and genuine value for money in all that we do.
- Engaging with our service users, the wider community and key partners to give them a real stake in the development of Ayrshire Housing.

Our Corporate Plan, reviewed by the Board annually, sets out how we will work to deliver the Mission Statement by analysing the external environment; identifying key objectives at an operational level; setting performance indicators and setting strategy for the association's promotion and engagement with stakeholders. The corporate plan also provides for the review and further development of the thirty year financial plan; the annual budget and the agreed work plan of the Director.

**Our Approach to Business Planning**

In October 2009, the Scottish Housing Regulator issued guidance to housing associations on business planning. This was in light of its survey *Social Landlords in Scotland: Shaping up for improvement*. This confirmed that housing associations generally provide good standards of service to tenants and others. On the other hand, it raised concerns that many associations do not have adequate plans in place to guarantee the long-term quality of their stock and their tenancy services. The report also considered that many associations need to do more in terms of developing financial plans which can maintain access to funding on favourable terms.

In January 2011, the Regulator published an analysis of the finances of regulated social landlords: *Beyond the Crunch?* It concludes that "the sector is facing significant but manageable financial stresses". It however reiterates that associations are facing increasing uncertainty due to general economic conditions, emerging government policy developments (e.g. on housing benefit and capital grants) and a more stringent financial regime being imposed by existing and potential lenders.

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It is incumbent on Ayrshire Housing to demonstrate that in responding to these challenges the interests of its tenants and the local communities remain to the fore, and that its existing corporate arrangement continues to be in the best interests of its charitable beneficiaries.

Ayrshire Housing's financial position is however currently strong and we compare well in terms of general performance with our peers. New demands are emerging however. Internally, the growth in our stock, tenant and applicant numbers means that we need to focus more rigorously on the long-term social worth of the stock and standards of service. Externally, limited and more costly access to development funding increases risk and may point to the association reviewing the relative costs and benefits of being a significant developer of new housing.

As part of the process of reviewing its Corporate Plan, Ayrshire Housing's Board has over the past 12 months assessed the strength of its governance with the help of an external consultant. The conclusion was that the Board's arrangements are generally sound. The Board has however identified areas for continuing development particularly around the identification and management of risk.

The Board also commissioned a major independent survey of tenants' views. This shows a continued high level of satisfaction and engagement with the association.

In November 2010, The Board held a standalone strategy meeting to consider the future direction of the association. The Board identified the following key business tasks;

- ▲ To build on continued clear objectives and clear performance.
- ▲ To demonstrate the capacity to maintain the stock to tenants' expectations over the long-term.
- ▲ To demonstrate the financial capacity for prudent growth.
- ▲ To make clear the benefits of the association's financial robustness and geographically focussed investment potential to key partners.
- ▲ To reflect the association's maturity, focus more publicly on wider benefits of the association's tenant and neighbourhood service strengths.
- ▲ To ascertain further the main financial and public policy risks, and demonstrate that these are being addressed positively.
- ▲ To strengthen further the contribution of the volunteer Board and its employees to the association's continued success.

#### **External Influences**

Five key issues remain to the fore which continue to impact and influence our business:

- The impact of restrictions on the Scottish Government's budget for affordable housing as it affects Ayrshire Housing's area of operation. This uncertainty is compounded by the switch to competition for resources amongst an increased range of providers.
- The collapse of private house building and with it real uncertainty regarding the bringing forward of Section 75 sites.
- The potential negative impact of changes to welfare benefits and the general economic position of our tenants.
- The further strengthening of the role of the Councils in the planning and delivery of affordable housing investment.
- The more rigorous terms for obtaining capital finance.

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## AYRSHIRE HOUSING

### OPERATING AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...

#### External Influences/Cont...

For the foreseeable future, the main focus for housing development as opposed to wider activities is likely to be the South Ayrshire Council area. The investment context is provided by that Council's Local Housing Strategy (LHS) and Strategic Housing Investment Plan (SHIP). Whilst there is a demand for affordable housing in all areas, these documents suggest prioritising investment towards areas of highest demand, for example Ayr and Prestwick linked increasingly to access to Section 75 sites. The current problems in the private housebuilding industry point towards a much more pragmatic and outcome focused approach to investment planning, in particular in terms of the programming of locations with different housing needs prioritisation.

Ayrshire Housing is therefore fortunate with its local knowledge and commitment that it can respond with speed and flexibility to shifts in site availability. On the other hand, the association faces competition from national and regional associations for what are limited grant budgets. A situation that is likely to be compounded by a potentially permanent move to formal competition for funding.

Increasingly, Ayrshire Housing's development activity is likely to be complemented by South Ayrshire Council's return to housebuilding. This provides a clear spur to joint working to maximise local investment opportunities and to maximise the effective delivery of new housing.

#### The Efficiency Agenda

The Government's clear aim is to reduce the grant input for new housing association developments substantially. Much attention has been given to the issue of procurement (ie construction) efficiencies but it is clear that the main vehicle sought to achieve this will be by increased self-funding through higher borrowing levels based on expanded rental surpluses and the utilisation of existing asset bases. The recently announced competitive Innovation and Investment Fund appears to be a clear indicator of this trend. Despite rhetorical support for the housing association model it is clear, barring a change in policy by a new Holyrood administration, that funding on terms which guarantee long term social benefits from housing investment may be at an end. This raises major issues in terms of controlling rent levels and maintaining service standards. In the longer-term, the financial plans which guarantee long-term stock quality could be undermined.

The welcome enhancement of the building standards but without concomitant increases in grant support will produce further risk in delivering new houses at affordable rents.

As a further complication, the expectation by the Scottish Government that associations will bring forward the private finance within their development cash flows and in some cases also provide additional overdrafts against deferred payments of Housing Association Grant increases financial risk (e.g., with regard to existing loan covenants) and potentially has a negative impact on obligations to existing tenants.

These trends if continued point to Ayrshire Housing setting limits to its risk exposure and with it accepting a possible cap on growth as an alternative to compromising its obligations to tenants and other stakeholders.

#### Collaborative Working

Since the publication of *Firm Foundations* (2007), the Scottish Government has focused on a radical change in the organisation of development activity with the promotion of a limited number of associations which would build on behalf of management only organisations. Government policy in this area remains unclear and the issue has been further complicated by moves towards competition for funding and the dearth of funding opportunities as a platform to drive restructuring. In practice, the focus may be shifting towards encouraging collaboration between individual Councils and their key association partners to maximise local investment potential particularly with regard to engaging with housebuilders through the application of planning policies on affordable housing.

This could facilitate the further development of joint working with South Ayrshire Council in particular to unlock new opportunities and to maximise investment in the area. The introduction of a single grant mechanism could potentially reduce the level of direct development work but this could be balanced to some degree by the provision of development services to the Council, and by joint investment strategies particularly around regeneration and community care. Ayrshire Housing is well placed here given that investment potential can be applied subject to adequate grant support without the complication of competing relationships.

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Notwithstanding this, Ayrshire Housing is participating in discussions with other associations in Ayrshire to identify new approaches which build on shared interests and complementary skills.

Supporting Individuals

A combination of high demand in South Ayrshire for rented housing and the statutory duties to accommodate homeless people creates ever greater demand in terms of housing management services. In addition, new obligations are being placed on associations with regard to anti-social behaviour. On the one hand, this creates real financial challenges as the “efficiency agenda” is addressed, on the other it opens up new opportunities to develop further services aimed at supporting individual households and to extend these in association with other landlords and the wider community. The Government’s current funding support for wider action coupled with our track record has opened up some possibilities here. However, there remains the possibility that the dedicated housing association wider role fund may be integrated in the near future with other funds aimed at supporting the social economy and regeneration. This would end preferential access to such funds.

Similarly, the ending of ring fenced funding for housing support and community care services may in the longer term adversely affect core services which provide the basis and critical mass to develop and deliver new and innovative services which address the needs and aspirations of tenants and other service users as well as meeting wider objectives.

Of longer-term concern is the impact of rising unemployment and under-employment amongst current and potential tenants on demands for services. The recent negative changes in housing benefit and the proposals for radical welfare reform could potentially place new financial burdens on the association as it endeavours to maintain fair access to housing opportunities.

Mixed Tenure Communities

The Scottish Government is committed to increasing housing supply through the planning system. This coupled with the obligation on local authorities to identify affordable housing requirements in their plans opens up new development opportunities. South Ayrshire Council has led the field in the promotion of affordable housing through the planning system. Ayrshire Housing has already benefited significantly from this and in the future such (Section 75) sites may become its main source of new dwellings, at least once private housebuilding resumes.

As well as creating new opportunities both in terms of stock growth and in new estate based services, it poses challenges in ensuring that the association’s interest in guaranteeing quality and best value is protected in negotiations with the major house builders.

Regeneration

The Scottish Government defines regeneration as the successful and sustainable transformation of communities across Scotland by creating the right environment for private and public investment. Its latest discussion paper *Building a Sustainable Future* builds on current practice in light of reducing public and private investment. Since the mid 2000s, we have seen an increased focus through the Community Regeneration Fund on the most deprived 15% of areas on the one hand and, overlapping with this, an increasing emphasis on a limited number of “place” based initiatives through, in particular, the new urban regeneration companies. These policy shifts represent a real challenge for Ayrshire Housing since the level of regeneration funding in South Ayrshire, its main area of operation, has declined sharply. There may, however, be limited opportunities which should be explored to provide a comprehensive approach to regeneration which focuses on both people and place to local authorities and communities. In addition, the emerging focus on community asset holding could provide for new initiatives which complement direct activities, including the provision of new property development services, by the association.

Environmental Sustainability

Addressing environmental considerations is a growing priority for the construction sector.

Ayrshire Housing has a sound record of creating developments which address the environmental agenda and are of real social worth in terms of, for example, *homes for life*. The Government’s efficiency agenda presents us, however, with real challenges if these standards are to be maintained in the face of competing priorities.

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Regulation

The Scottish Housing Regulator continues its move to a more risk based approach to regulation. This creates a clear incentive for the association to focus on the soundness of its own internal management and audit regimes. It is also likely to expect that associations more rigorously justify their corporate and management structures, and business priorities. The impending Scottish Housing Charter will provide an additional level of scrutiny in terms of the services to and engagement with tenants.

**Key Business Issues**

**Maintaining Independence**

Ayrshire Housing is committed to maintaining its independence on the basis that it has a distinctive place in the Scottish housing association movement. It is tenant and community led with a clear area of operation and is well regarded, both nationally and locally. We have a strong potential for investment focused on a limited geographic area, and key strategic and development partners. With the current shift to competition for grant this may prove to be a real strength.

Ayrshire Housing will however seek to form new relationships with local authorities and other housing associations where these are appropriate to realise mutually beneficial objectives.

Ayrshire Housing will also seek collaborative arrangements with local authorities that decide to resume house building on a long-term basis. In this regard, the further strengthening of the partnership with South Ayrshire Council will be a key focus for the Board and the Director.

**Housing Association Grant Funded Development**

The absence of significant funding for affordable housing, falling grant rates and a shift to direct competition for grant presents many associations with real challenges. Irrespective of this Ayrshire Housing is probably nearing the end of a phase where the focus is on direct development. The prospects for independent development appear likely to diminish due to a combination of limited direct site purchase opportunities and a desire for housebuilders to provide package deals.

Whilst we will consider positively all opportunities to secure grant funding including the competition announced in March 2011, it is likely that we will shift to a model where we seek to secure a pipeline of stock acquisitions through Section 75 and similar arrangements. This would be subject to the units being acquired on a basis that contributed to the overall objectives of the association.

We will continue to support the Mortgage to Rent scheme if it continues on a workable basis. This is proving to be a useful vehicle for steady stock growth as well as bringing real social benefits to individual households.

**Financial Capacity**

Ayrshire Housing is financially strong with a solid asset base, and a funded stock maintenance and improvement plan. The challenge over the coming period will be to utilise this strength to support continued business development. At the same time, the Board will need to establish robust financial checks to ensure that it can weigh the benefits of continued growth against any negative effects on rent levels, service standards and long-term viability.

**Supporting Individuals and Communities**

Diversification into new areas of activity will continue to be pursued which support the Mission Statement. Such activities will also help to foster new collaborations with key partners and project the geographic impact of Ayrshire Housing. This will focus on regeneration, training, and support services to individuals. In addition, the association will continue to pursue non-residential property development opportunities. The general prospects though in these areas whilst worth pursuing may be modest at least in the short-term. In the longer-term, we will seek to identify resourcing opportunities in our financial plan as we shift the primary business development focus from stock growth to a broader view of the activities that may benefit our tenants and the communities they are part of.

## AYRSHIRE HOUSING

### OPERATING AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...

#### Tenant Engagement

As it meets future challenges, Ayrshire Housing will continue to ensure that its obligations to potential and existing tenants are to the fore. New forms of engagement with our tenants and applicants will be needed to support Board consideration of business developments which will have an impact on rent levels, service standards or access to housing.

#### Performance Management

At each meeting, Ayrshire Housing's Board receives reports underpinned where appropriate by key performance indicators (KPIs) around the following activity areas to demonstrate progress in delivering the above corporate objectives:

- ▲ Housing Management
- ▲ Property Maintenance
- ▲ Development Activity
- ▲ Wider Action Activity
- ▲ Financial Matters
- ▲ Marketing and Public Relations
- ▲ General Operational Matters

#### Key Performance Indicators

Complementing the narrative reports and where applicable, critical activities are measured against the following key performance indicators (KPIs). Generally, these are consistent with those set out in previous Internal Management and Corporate Plans following comparison with national benchmarks where these were available. In all relevant cases, performance is intended to exceed that of the median housing association in Scotland. The targets are also reviewed against actual prior year performance.

Housing Management	2010/11 Target	2010/11 Actual
Current non-technical arrears	1.1% of total gross rent	0.80%
Long-term arrears	No more than 3.5% of tenants over 13 weeks in arrears and owing over £250	2.26%
Former tenant non-technical arrears	No more than 1.3% of total rent due	0.49%
Void rent loss	No more than 0.8% of total rent due	0.68%
Housing application processing	Within 10 days	4 days

Property Management	2010/11 Target	2010/11 Actual
Emergency repairs performance	99% attendance within 4 hours	96%
Other repairs	96% completed on time	92%
Gas safety certificates	100% compliance aimed for and never below external benchmark of 93%	100%
Satisfaction with repairs service	At least 70% satisfied	96.2%

Development Activity	2010/11 Target	2010/11 Actual
Stock growth target	60	8
Pipeline	Minimum of 90 plots	61
Energy efficiency	Minimum of SAP (2007) of 85	100%
Brownfield development	At least 40% of units 2008-2011	84% 2008-2011
Building elements rated at "A" per BRE Green Guide to Housing Specification	100%	100%

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**Key Performance Indicators/Cont...**

<b>Financial Matters</b>	<b>2010/11 Target</b>	<b>2010/11 Actual</b>
Staff costs	Less than 21% of turnover	19.0%
Administration cost/tenancy	Less than £660 per tenancy	£651
Liquidity – current assets:current liabilities (adjusted for development overdrafts)	1.10:1	2.88:1
Liquidity – cash:current liabilities (adjusted for development overdrafts)	1:1	2.62:1
<i>Interest cover – operating surplus;interest payable (adjusted for depreciation)</i>	1.52:1	3.14:1
Debt per unit	Maximum of £22,500 ( as adjusted to reflect new HAG assumptions)	£19,838

<b>General Operational Matters</b>	<b>2010/11 Target</b>	<b>2010/11 Actual</b>
Board meetings quorate per session (AGM to AGM)	100%	100%
Board attendance per session	Average of 75%	71%

**Performance in the year ended 31 March 2011**

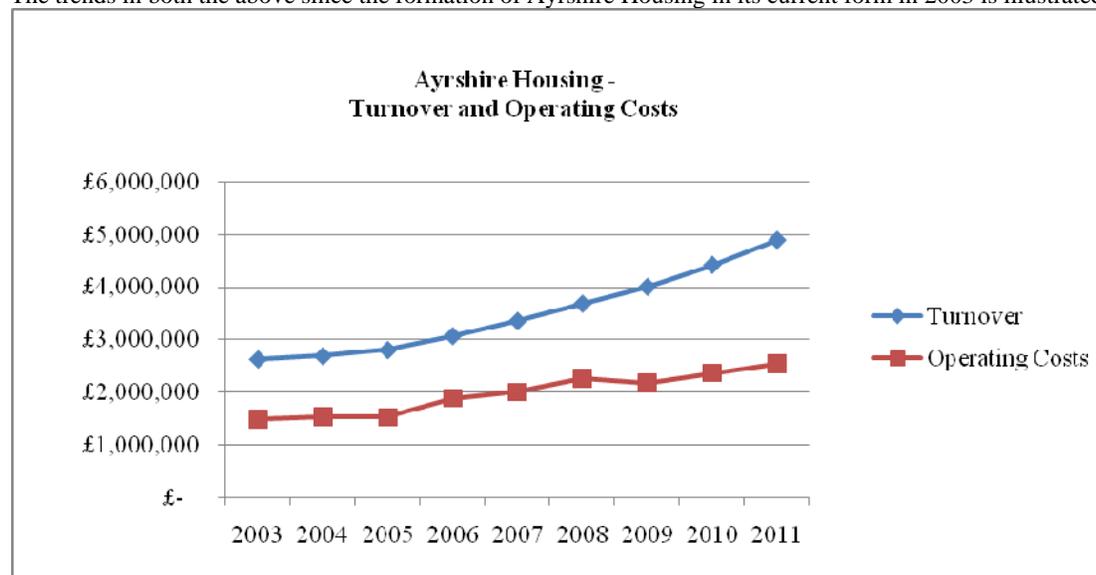
**Turnover**

Turnover has increased by £0.5M to £4.9M reflecting the full year rent for the previous year's completions and the annual rent increase. Rents accounted for almost 100% of our turnover with a very small percentage (0.4%) relating to recoveries made from owners for landscape maintenance.

**Operating Costs**

Operating costs represent 52% of turnover which is 1% lower than the previous year.

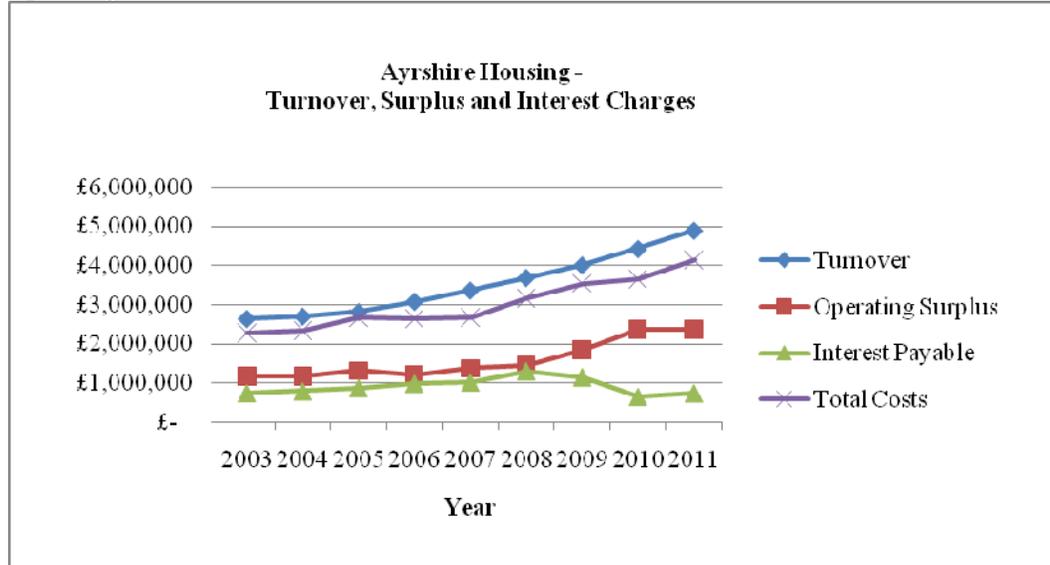
The trends in both the above since the formation of Ayrshire Housing in its current form in 2003 is illustrated below:



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The growth in turnover can be further illustrated against operating surplus, interest payable and total costs including loan repayments for the nine years since the formation of Ayrshire Housing.

**Operating Costs/Cont...**



**Interest**

Sterling base rates remained low in the year to 31 March 2011 and this had a positive effect on the variable rate loans within our portfolio. For our development programme we minimised our borrowing requirements as far as possible by utilising surplus cash holdings prior to drawing on agreed facilities.

**Surplus for the Year**

Surplus on ordinary activities for the year was £1.7M compared to £1.4M for 2009/10. This exceeded budgeted projections due largely to the reduction in interest payable on our variable rate based borrowings.

**Reserves**

Financial reserves, consisting of revenue reserves set aside to manage the general risks faced by the association and designated reserves set aside to contribute to the funding of future major repairs, stood at £9.2M. This represents an increase of 26% over the same reserves at 31 March 2010.

**Cash flow**

Positive cash flows of £2.9M were generated from our operating activities. Interest payable was £730k offset slightly by interest receivable of £9k. We used cash holdings to minimise interest costs for some project expenditure prior to drawing on their agreed facilities. We spent just over £5.5M on our capital programme which was funded by grants and private finance. We also repaid capital of £0.9M of our housing loans as per the individual loan agreements.

**Capital Structure and Treasury Policy**

Borrowings at the year end were £27M million. This debt is borrowed wholly from banks and building societies in the UK.

The Board recognises that the association's level of debt makes it important to consider its treasury policy. The treasury function operates within a framework of clearly defined Board approved policies, procedures and delegated authorities. The association borrows on a conventional basis with loans typically repayable over 30 years. These loans are secured over the properties being financed.

## AYRSHIRE HOUSING

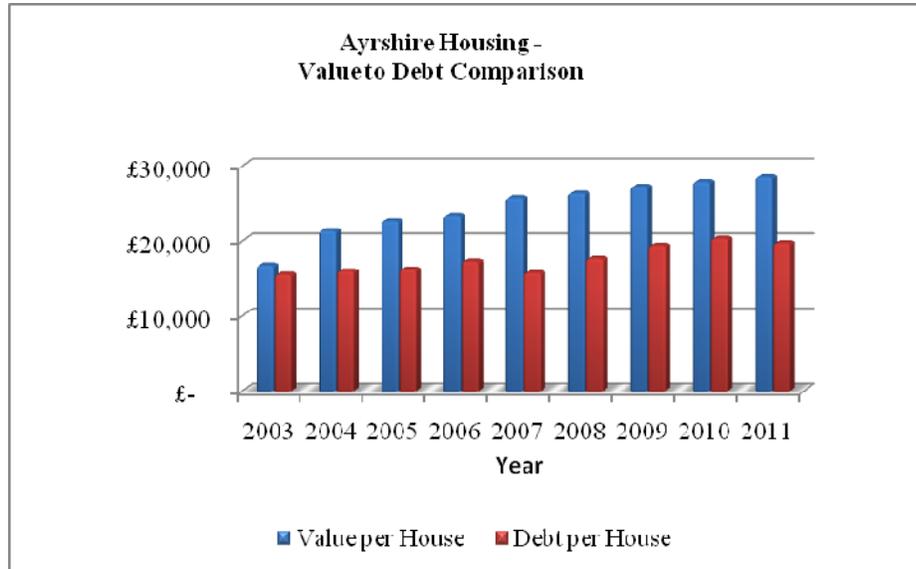
### OPERATING AND FINANCIAL REVIEW

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Maturity profile: the following table provides an analysis of when the debt falls due for repayment.

Between one and two years	£ 2M
Between three and five years	£ 2M
In five years or more	£ 23M
<b>Total</b>	<b>£ 27M</b>

A graphical representation of our Loan to Value can be found in the graph below:



#### Future Prospects:

The association's financial position is sound and a trend of improvement in its financial and operational performance has been maintained over many years. We comply with all of our lenders covenants which, based on our financial projections, will continue into the future.

We will continue to manage our finances in a prudent manner and will also deliver value for money to our tenants and private owners.

We will achieve this by:

- Setting rents at levels which are affordable to our tenants;
- Providing a high quality service and
- Tight cost control.

We have a well motivated and competent workforce of 23 employees with a relatively low turnover. We are full members of the Federation of Employers in Voluntary Housing which provides us with support in managing and developing our staff to foster a culture of continuous improvement.

The association is following a number of strategies which we expect will contribute and inform the above actions.

The association continues to invest in housing through its development and refurbishment programme. However, new build opportunities may now be lost through the reduced amount of grant assistance currently available from government. We will look towards innovative approaches in generating finance to allow much needed new houses to be delivered where possible.

Our major repair programme remains a key element of our strategy to provide good quality homes for all of our tenants. Our financial projections demonstrate that we will be able to meet our obligations under the Scottish Housing Quality Standards.

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We are aware of the possible impact that a continued economic recession may have on our tenants. Our housing officers work closely with all our tenants identifying issues as early as possible to ensure that the tenant is aware of the different types of assistance available to them. In this way it is hoped to minimise rent arrears and bad debt write off and other costs associated with rent arrears.

**AYRSHIRE HOUSING**  
**ADVISORS AND REGISTERED OFFICE**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

**Auditors**

Armstrongs, Chartered Accountants  
142 West Nile Street  
Glasgow, G1 2RQ

**Bankers**

The Royal Bank of Scotland plc  
Corporate Banking  
139 St Vincent Street  
Glasgow, G2 5JF

**Legal advisors**

HBJGateleyWareing  
19 Canning Street  
Edinburgh, EH3 8EU

Drummond Miller  
65 Bath Street  
Glasgow, G2 2DD

**Registered Office**

119 Main Street  
Ayr, KA8 8BX

**Registration Particulars**

Communities Scotland Registration Number : 304

Scottish Charity Number : SC027906

**AYRSHIRE HOUSING**  
**REPORT OF THE TRUSTEES**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

The Trustees present their report and the audited financial statements for the year ended 31<sup>st</sup> March, 2011.

**Principal Activities**

Ayrshire Housing is a company limited by guarantee and is governed by its Memorandum and Articles of Association. Accordingly the Company has no share capital. It is a registered charity and is registered with the Housing Regulator as a Registered Social Landlord. The Company's principle activities are the provision, construction, improvement and management of rented and shared ownership accommodation.

**Review of the Year**

The financial results for the year are set out in the income and expenditure account. The surplus for the year is £1,665,271 (2010 - £1,431,967) and this will be transferred to our reserves as part of our overall risk management strategy. In addition, a transfer of £Nil (2010 - £225,000) was made to a Designated Major Repair Reserve. During the year our involvement with the national Mortgage to Rent Scheme added 7 new properties to our stock. We also had 65 units under construction at the end of the financial year which will be brought into management in the year following.

**Changes in Fixed Assets**

Details of changes in fixed assets are set out in Notes 12-13.

**The Trustees and Executive Officer**

The Trustees and Executive Officer of the Company are as follows:-

Executive Officer

. J. Whiston

Trustees

. P. Torrance	(Chairperson)	. J. Mitchell	
. P. Boyd	(Vice Chairperson)	. R. Smith	
. G. McDines		. R. Leith	
. Cllr J. McDowall		. G. McIntosh	(Appointed 15.09.10)
. Cllr W. Grant		. K. MacIsaac	(Appointed 15.09.10)
. Cllr M. Low		. J. Scott	(Resigned 30.06.10)
. A. Cassidy		. L. Allison	(Resigned 15.09.10)
. M. Imrie			

**AYRSHIRE HOUSING**  
**REPORT OF THE TRUSTEES**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**Insurance**

The Company has purchased insurance against liabilities in relation to the Company arising from the actions of Trustees and other officers of the Company.

**Statement of Trustees' Responsibilities**

Housing Association legislation requires the Trustees to prepare financial statements for each financial year which gave a true and fair view of the state of affairs of the Company and of the income and expenditure of the Company for the year ended on that date. In preparing these financial statements, the Trustees are required to:-

- . select suitable accounting policies and then apply them consistently;
- . make judgements and estimates that are reasonable and prudent;
- . state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- . prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- . prepare a statement on internal financial control.

Key procedures that have been established, and are designed to provide effective internal financial control, are:-

**Control environment** – the Company has an organisational structure with clearly defined lines of responsibility, job descriptions and delegation of authority. These are set out in accordance with the Company's Standing Orders and Policy and Procedure Manuals. The Company has complied with the Scottish Housing Regulator Code of Audit Practice (SHGN 97/06).

**Information systems** – the Company has a comprehensive system of financial reporting. The annual budget and thirty year projections are approved by the Trustees. Quarterly actual results are reported against budget and any significant adverse variances are examined by management and remedial action taken. There are quarterly and thirty year cashflow projections and revised budget forecasts are considered as at 30<sup>th</sup> September each year.

**Control procedures** – policies and procedures are maintained for all areas of operations. In particular, there are clearly defined policies for development projects and capital expenditure. Large or unusual capital expenditure projects require Trustees' approval.

The Trustees are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and to enable it to ensure that the financial statements comply with the requirements of the Industrial and Provident Societies Acts 1965-2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords (Accounting Requirements) (Scotland) Order 2007. It is also responsible for safeguarding the assets of the Trust and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Corporate Governance**

The Company has complied throughout the accounting period with the Code of Best Practice published by the Cadbury Trustees in 1992 on the Financial Aspects of Corporate Governance.

In accordance with the requirements of the Scottish Housing Regulator, the auditors have confirmed that they consider this statement appropriately reflects the Company's compliance with those paragraphs of the Code of Best Practice required to be revised by them. The auditors have also confirmed that, in their opinion, with regard to the Trustees' Statement on Internal Financial Control on page fifteen the Trustees have provided the disclosures required by Paragraph 4.5 of the Code of Best Practice as supplemented by the related guidance for Trustees and such a statement is not inconsistent with the information of which they are aware from their audit work on the financial statements.

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**REPORT OF THE TRUSTEES**  
**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**Statement as to Disclosure of Information to Auditors**

So far as the Trustees are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each Trustee has taken all the steps that he or she ought to have taken as a Trustee in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Auditors**

A resolution to appoint the auditors, Armstrongs, will be proposed at the Annual General Meeting.

By order of the Board

**Secretary**

Dated :

**AYRSHIRE HOUSING**

**TRUSTEES STATEMENT ON THE COMPANY'S  
SYSTEM OF INTERNAL FINANCIAL CONTROL  
FOR THE YEAR ENDED 31ST MARCH, 2011**

The Trustees acknowledge their ultimate responsibility for ensuring that the Company has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- . The reliability of financial information used within the Company or for publication;
- . The maintenance of proper accounting records;
- . The safeguarding of assets (against unauthorised use or disposition).

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

- . Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets;
- . Experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- . Forecasts and budgets are prepared regularly which allow the Trustees and staff to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term;
- . Regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate;
- . All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Trustee members and others;
- . The Trustees review reports from management, from directors, staff and from the external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Company;
- . Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Trustees have reviewed the effectiveness of the system of internal financial control in existence in the Company for the year ended 31<sup>st</sup> March 2011 and until the below date. No weaknesses were found in internal financial controls, which resulted in material losses, contingencies, or uncertainties, which require disclosure in the financial statements or in the Auditor's Report on the financial statements.

By order of the Board

**Secretary**

Dated :

**AYRSHIRE HOUSING**  
**REPORT OF THE AUDITORS ON THE TRUSTEES**  
**STATEMENT ON THE COMPANY'S SYSTEM OF INTERNAL FINANCIAL CONTROL**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

**Corporate Governance**

In addition to our audit of the financial statements, we have reviewed the Trustees' statement concerning the Company's compliance with the information required by the section on internal financial control within SFHA's publication "Raising Standards in Housing".

**Basis of Opinion**

We carried out our review having regard to the Bulletin "Disclosures Relating to Corporate Governance" issued by the Auditing Practices Board. The Bulletin does not require us to review the effectiveness of the Company's procedures for ensuring compliance with the Guidance Notes, nor to investigate the appropriateness of the reasons given for non-compliance.

**Opinion**

In our opinion the statement on internal financial control on page fifteen has provided the disclosures required by the section on internal financial control within SFHA's publication "Raising Standards in Housing" and is consistent with the information which came to our attention as a result of our audit work on the financial statements.

Through enquiry of certain Trustee members, directors and officers of the Company, and examination of relevant documents, we have satisfied ourselves that the Trustees' Statement on Internal Financial Control appropriately reflects the Company's compliance with the information required by the section on internal financial control within SFHA's publication "Raising Standards in Housing".

Adam Armstrong, LLB, CA, (Senior Statutory Auditor),  
for and on behalf of Armstrongs,  
Statutory Auditor,  
Chartered Accountants,  
Victoria Chambers,  
142, West Nile Street,  
Glasgow,  
G1 2RQ.

Dated :

**REPORT OF THE INDEPENDENT AUDITORS TO  
THE MEMBERS OF AYRSHIRE HOUSING**

We have audited the financial statements for the year ended 31<sup>st</sup> March 2011 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Registered Social Landlords (Accounting Requirements) (Scotland) Order 2007.

This report is made solely to the Company's members, as a body, in accordance with Industrial and Provident Societies Acts 1965 to 2002. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Trustees and Auditors**

As explained more fully in the Statement of Trustee's Responsibilities, the Trustees are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Trustees, and the overall presentation of the financial statements.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31<sup>st</sup> March 2011 and of its surplus for the year then ended;  
and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 1, the Housing (Scotland) Act 2001 and the Registered Social Landlords (Accounting Requirements) (Scotland) Order 2007.

**Opinion on Committee Report**

In our opinion the information given in the Report of the Trustees for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the current legislation requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Trustee's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Adam Armstrong, LLB, CA, (Senior Statutory Auditor),  
for and on behalf of Armstrongs,  
Statutory Auditor,  
Chartered Accountants,  
Victoria Chambers,  
142, West Nile Street,  
Glasgow,  
G1 2RQ.

Dated :

**AYRSHIRE HOUSING**  
**INCOME AND EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

	Notes	2011 £	2010 £
Turnover	2	4,897,036	4,425,396
Operating Costs	2	( 2,537,423)	( 2,361,711)
Operating Surplus	2	2,359,613	2,063,685
Gain on Disposal of Housing Property	5	26,233	-
Interest Receivable and Other Income	8	9,208	6,735
Interest Payable and Similar Charges	9	( 729,783)	( 638,453)
Surplus for the year		<u>1,665,271</u>	<u>1,431,967</u>

The results for the year relate wholly to continuing activities.

**AYRSHIRE HOUSING**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

	<b>2011</b> £	<b>2010</b> £
Surplus/(Deficit) for the year	1,665,271	1,431,967
Actuarial gain/(loss) on pension scheme	216,000	( 328,000)
Unrealised Surplus/(Deficit) on Revaluation of Properties	-	457,858
Total recognised gains and losses relating to the year	<u>1,881,271</u>	<u>1,561,825</u>

**AYRSHIRE HOUSING**  
**NOTE OF HISTORICAL SURPLUSES AND DEFICITS**  
**FOR THE YEAR ENDED 31ST MARCH 2011**

	<b>2011</b> £	<b>2010</b> £
Reported surplus/(deficit) on ordinary activities before taxation	1,881,271	1,561,825
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	47,282	47,282
Realisation of property revaluation gains of previous years	15,444	-
Historical cost surplus/(deficit) on ordinary activities	<u>1,943,997</u>	<u>1,609,107</u>
Historical cost surplus/(deficit) on ordinary activities	<u>1,943,997</u>	<u>1,609,107</u>

**AYRSHIRE HOUSING**

**BALANCE SHEET**

**AS AT 31ST MARCH, 2011**

	<b>Notes</b>	<b>2011</b> £	<b>2010</b> £
<b>Tangible Fixed Assets</b>			
Housing Properties (net of depreciation)	12	40,845,369	39,071,412
Other	13	<u>271,925</u>	<u>276,514</u>
		<u>41,117,294</u>	<u>39,347,926</u>
<b>Current Assets</b>			
Investments	14	1	1
Debtors	15	1,149,588	910,654
Cash at Bank and in Hand		<u>2,885,064</u>	<u>4,116,193</u>
		4,034,653	5,026,848
<b>Creditors</b> : amounts falling due within one year	16	2,802,995	5,983,421
Net Current Assets/(Liabilities)		<u>1,231,658</u>	<u>( 956,573)</u>
Total Assets less Current Liabilities		42,348,952	38,391,353
<b>Creditors</b> : amounts falling due after more than one year	17	( 26,386,601)	( 24,094,273)
pension liability	20	( 135,000)	( 351,000)
Net Assets		<u>15,827,351</u>	<u>13,946,080</u>
<b>Capital and Reserves</b>			
Designated Reserve	18	625,000	625,000
Revaluation Reserves	19	6,518,210	6,580,936
Revenue Reserve	21	<u>8,684,141</u>	<u>6,740,144</u>
		<u>15,827,351</u>	<u>13,946,080</u>

These financial statements were approved by the Trustees on

and signed on their behalf by:

..... Chairperson

..... Trustee

..... Secretary

**AYRSHIRE HOUSING**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31ST MARCH, 2011**

	<b>2011</b>	<b>2010</b>
	£	£
<b>Net Cash inflow from operating activities</b>	<u>2,950,676</u>	<u>2,483,879</u>
<b>Returns on investments and servicing of Finance</b>		
Interest Received	9,208	6,735
Interest Paid	( 729,783)	( 638,453)
	<u>( 720,575)</u>	<u>( 631,718)</u>
<b>Capital Expenditure and Financial Investment</b>		
Payments to acquire and develop housing properties	( 5,510,572)	( 8,694,229)
Payments to acquire other fixed assets	( 29,810)	( 19,712)
Grants Received	2,728,897	6,073,054
Proceeds of disposal of housing property	50,800	-
	<u>( 2,760,685)</u>	<u>( 2,640,887)</u>
<b>Net cash inflow (outflow) before financing</b>	<u>( 530,584)</u>	<u>( 788,726)</u>
<b>Financing</b>		
Loans - Received	3,268,526	1,940,055
- Repaid	( 860,401)	( 657,048)
	<u>2,408,125</u>	<u>1,283,007</u>
<b>Increase/(Decrease) in cash</b>	<u>1,877,541</u>	<u>494,281</u>
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase/(Decrease) in cash in the year	1,877,541	494,281
Cash (inflow)/outflow from (increase)/decrease in loan finance	( 2,408,125)	( 1,283,007)
Decrease/(Increase) in net debt resulting from cash flow	( 530,584)	( 788,726)
Net debt at 01.04.10	( 24,850,114)	( 24,061,388)
Net debt at 31.03.11	<u>( 25,380,698)</u>	<u>( 24,850,114)</u>

**AYRSHIRE HOUSING**

**NOTES TO THE CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31ST MARCH, 2011**

	<b>2011</b>	<b>2010</b>
	£	£
<b>1. Reconciliation of surplus for the year to net cashflow from operating activities</b>		
Operating Surplus	2,359,613	2,063,685
Depreciation	504,399	503,675
(Increase)/Decrease in Debtors	( 122,519)	( 22,057)
Increase/(Decrease) in Creditors	209,183	( 61,424)
	<u>2,950,676</u>	<u>2,483,879</u>

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

	2011	Cash Flow	2010
	£	£	£
Cash in hand and at bank	2,885,064	( 1,231,129)	4,116,193
Development Overdraft	( 907,719)	3,108,670	( 4,016,389)
Debt due within one Year	( 971,442)	( 115,797)	( 855,645)
Debt due after one Year	(26,386,601)	( 2,292,328)	(24,094,273)
	<u>(25,380,698)</u>	<u>( 530,584)</u>	<u>(24,850,114)</u>

	2010	Cash Flow	2009
	£	£	£
Cash in hand and at bank	4,116,193	1,655,694	2,460,499
Development Overdraft	( 4,016,389)	( 1,161,413)	( 2,854,976)
Debt due within one Year	( 855,645)	( 182,105)	( 673,540)
Debt due after one Year	(24,094,273)	( 1,100,902)	(22,993,371)
	<u>24,850,114</u>	<u>( 788,726)</u>	<u>(24,061,388)</u>

## AYRSHIRE HOUSING

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31ST MARCH, 2011

#### 1. Principal Accounting Policies

The Company is incorporated under the Industrial and Provident Societies Acts 1965 to 2002.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of housing properties and in compliance with the Registered Social Landlords (Accounting Requirements) (Scotland) Order 2007, the Statement of Recommended Practice (SORP) 2008 and applicable Accounting Standards. A summary of the more important accounting policies is set out below.

##### Turnover

Turnover relates to the income from letting of properties at affordable rents, and the supply of feuing services, together with revenue grants from the Scottish Housing Regulator, local authorities and other organisations.

##### Housing Properties

Housing Properties are stated at cost, less social housing and other public grants and less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the properties at an annual rate of 2%.

Improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancement can occur if the improvements result in an increase in rental income, a material 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 Income and Expenditure Account.

Reviews for impairment of housing properties are carried out regularly and any impairment in an income-generating unit is recognised by a charge to the Income and Expenditure Account. Impairment is recognised where the carrying value of an income-generating unit exceeds the higher of its net realisable value or its value in use. Value in use represents the net present value of expected future cash flows from these units. Impairment of assets would be recognised in the Income and Expenditure Account.

##### Work to Existing Housing Properties

Expenditure on improvements to existing property, which adds to the value of the property or extends its useful life, is capitalised as part of the cost of the property. All other maintenance expenditure is written off the income and expenditure account in the year in which it is incurred.

##### Sale of Housing Properties

Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of property sold are removed from the financial statements at the date of sale, except for first tranche sales. Any grants received that cannot be repaid from the proceeds of sale are abated and the grants removed from the financial statements.

The Statement of Recommended Practice 2008 states that the disposal of shared-ownership properties first tranche sales be included in turnover at completion with the balance being classified as fixed assets. Due to the Company's last shared-ownership scheme being off-site in 2000 and records only being required to be held for six years, this exercise has not been carried out.

##### Other Fixed Assets

Other fixed assets are stated at cost less accumulated depreciation. Depreciation is charged by equal instalments commencing with the year of acquisition at rates estimated to write off costs less any residual value over the expected economic useful lives at annual rates :-

Furniture and Fittings	- 20% straight line
IT Systems	- 20% straight line
Offices	- 2% straight line
Let Properties	- 20% straight line

/Cont...

## AYRSHIRE HOUSING

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...

#### 1. Principal Accounting Policies/Cont...

##### **Social Housing Grant and Other Grants**

Where developments have been financed wholly or partly by Social Housing Grant or other capital grant, the cost of those developments have been reduced by the amount of the grant receivable. The amount of the grants receivable is shown separately on the notes to the financial statements.

Social Housing Grant received in respect of revenue expenditure is credited to the Income and Expenditure Account in the same period as the expenditure to which it relates.

Although Social Housing Grant is treated as a grant for accounting purposes, it may nevertheless become repayable in certain circumstances, such as the disposal of certain assets. The amount repayable would be restricted to the net proceeds of sale.

##### **Pension Costs**

The Organisation participates in the centralised SFHA defined benefit pension scheme and retirement benefits to employees of the Organisation are funded by contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Members taken as a whole.

The expected costs to the Organisation of pension is charged to the income and expenditure accounts so as to spread the cost of pensions over the service lives of employees.

The Organisation participates in the centralised Strathclyde Pensions Trust defined benefits pension scheme and retirement benefits to employees of the Organisation are funded by the contributions from all participating employers and employees in the scheme. Payments are made to the Trust in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating employers taken as a whole.

The expected cost to the Organisation of pensions is charged to income so as to spread the cost of pensions over the service lives of the employees in the scheme taken as a whole.

The Organisation has fully adopted accounting standard FRS17 'Retirement Benefits' during the year. The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the Organisation's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Organisation's balance sheet as a pension scheme liability.

##### **Leases**

Assets held under operating leases are not capitalised. The lease rentals are expensed to the income and expenditure account in the year in which they are incurred.

##### **Capitalisation of Interest**

Interest incurred on the financing of a development is capitalised up to the date of completion of the scheme.

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**2. Lettings and other related information**

**Particulars of turnover, operating costs and operating surplus by class of business**

		<b>2011</b>		
	<b>Notes</b>	Turnover £	Operating Costs £	Operating Surplus/ (Deficit) £
Social Lettings	3	4,868,422	2,537,423	2,330,999
Other Activities	4	28,614	-	28,614
<b>Total</b>		<u>4,897,036</u>	<u>2,537,423</u>	<u>2,359,613</u>
		<b>2010</b>		
	<b>Notes</b>	Turnover £	Operating Costs £	Operating Surplus/ (Deficit) £
Social Lettings	3	4,398,490	2,361,711	2,036,779
Other Activities	4	26,906	-	26,906
<b>Total</b>		<u>4,425,396</u>	<u>2,361,711</u>	<u>2,063,685</u>

None of the income or expenditure from lettings related to special needs.

**3. Particulars of Income and Expenditure from Lettings**

	<b>General Needs £</b>	<b>Shared Ownership £</b>	<b>Total 2011 £</b>	<b>2010 £</b>
<b>Income from Lettings</b>				
Rent receivable net of identifiable service chrgs	4,635,141	40,536	4,675,677	4,224,400
Service charges receivable	226,690	-	226,690	204,665
<b>Gross income from rents and service charges</b>	<u>4,861,831</u>	<u>40,536</u>	<u>4,902,367</u>	<u>4,429,065</u>
Less: voids	( 33,945)	-	( 33,945)	( 30,575)
<b>Total turnover from social letting activities</b>	<u>4,827,886</u>	<u>40,536</u>	<u>4,868,422</u>	<u>4,398,490</u>
<b>Expenditure on Lettings</b>				
Management and maintenance admin costs	960,442	10,682	971,124	921,070
Reactive repairs and maintenance	732,014	-	732,014	626,425
Bad debts/(credit balances written back – rents)	( 13,098)	-	( 13,098)	24,247
Planned and cyclical maintincl major repairs	377,383	-	377,383	319,969
Depreciation of social housing	463,232	6,768	470,000	470,000
<b>Operating costs for social letting activities</b>	<u>2,519,973</u>	<u>17,450</u>	<u>2,537,423</u>	<u>2,361,711</u>
<b>Operating surplus for social lettings for 2011</b>	<u>2,307,913</u>	<u>23,086</u>	<u>2,330,999</u>	<u>2,036,779</u>
<b>Operating surplus for social lettings for 2010</b>	<u>2,014,103</u>	<u>22,676</u>	<u>2,036,779</u>	

The amount of service charges receivable on housing accommodation not eligible for housing benefit is £Nil.

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**4. Particulars of Turnover, Operating Costs & Operating Surpluses or Deficits from Other Activities**

	<b>Grants from Scottish Ministers £</b>	<b>Other Revenue Grants £</b>	<b>Supportin g People Income £</b>	<b>Other Income £</b>	<b>Total Turnover £</b>	<b>Operating Costs- Bad Debt £</b>	<b>Other Operating Costs £</b>	<b>Operating Surplus/ Deficit for 2011 £</b>	<b>Operating Surplus/ Deficit for 2010 £</b>
Wider Action Role	-	-	-	-	-	-	-	-	-
Care & Repair	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	18,681	18,681	-	-	18,681	17,168
Development Activities	-	-	-	-	-	-	-	-	-
Support Activities	-	-	-	-	-	-	-	-	-
Care Activities	-	-	-	-	-	-	-	-	-
Other Management Services	-	-	-	-	-	-	-	-	-
Aids & Adaptations	-	-	-	-	-	-	-	-	-
Other Activities	-	-	-	-	-	-	-	-	-
Commercial Rent	-	-	-	9,933	9,933	-	-	9,933	9,738
Total from Other Activities 2011	-	-	-	28,614	28,614	-	-	28,614	26,906
Total from Other Activities 2010	-	-	-	26,906	26,906	-	-	-	26,906

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**5. Profit on Disposal of Fixed Assets**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Proceeds from sale of fixed assets	<u>50,800</u>	<u>-</u>
<b>Less: Cost of Sales</b>		
Value of property	23,949	-
HAG received	-	-
HAG repaid	-	-
Legal and valuation costs	<u>618</u>	<u>-</u>
	<u>24,567</u>	<u>-</u>
	<u>26,233</u>	<u>-</u>

**6. Directors Emoluments**

The directors are defined as the members of the Trustees, the Chief Executive Officer and any other person reporting directly to the directors or the Trustees whose total emoluments exceed £60,000 per year.

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Total Emoluments (including pension contributions and benefits in kind)	<u>65,721</u>	<u>64,316</u>
Total Emoluments (excluding pension contributions) to the highest paid director amounted to	<u>61,045</u>	<u>55,135</u>
Total expenses reimbursed to the Committee in so far as not chargeable to United Kingdom income tax	<u>224</u>	<u>278</u>

None of the Trustees received any remuneration during the year.

**7. Employee Information**

The monthly average number of full time equivalent employees (excluding Executive Trustees) during the year was :-

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
	<u>19</u>	<u>21</u>
Wages and Salaries	584,611	579,638
Social Security Costs	45,070	45,768
Pension Contributions	<u>92,558</u>	<u>80,001</u>
	<u>722,239</u>	<u>705,407</u>

**8. Interest Receivable and Other Income**

Bank Interest Receivable	<u>9,208</u>	<u>6,735</u>
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**9. Interest Payable and Similar Charges**

Loan Interest	729,783	709,027
Interest Capitalised on Housing Properties	-	( 70,574)
	<u>729,783</u>	<u>638,453</u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**10. Operating Surplus**

Operating surplus is stated after charging/(crediting):-

Depreciation - Property	470,000	470,000
- Other Assets	34,399	33,675
Auditor's Remuneration	7,056	6,362
Leasing	11,887	9,266
Bad Debts written off/(credit balances written back)	<u>(13,098)</u>	<u>24,247</u>

**11. Taxation**

The organisation was granted charitable status on 5<sup>th</sup> May 1998 and as such is no longer subject to taxation.

**12. Tangible Fixed Assets - Housing Properties**

	Heritable Housing Prop. Held For Letting £	Rented Accommod. Under Construction £	Shared Ownership Held For Letting £	Total £
<b>Cost/Valuation</b>				
At 01.04.10	38,350,000	297,562	480,000	39,127,562
Additions	1,154,803	3,958,416	-	5,113,219
Disposals	<u>(23,949)</u>	<u>-</u>	<u>-</u>	<u>(23,949)</u>
At 31.03.11	<u>39,480,854</u>	<u>4,255,978</u>	<u>480,000</u>	<u>44,216,832</u>
<b>Grants</b>				
At 01.04.10	-	56,150	-	56,150
Received	<u>353,342</u>	<u>2,411,971</u>	<u>-</u>	<u>2,765,313</u>
At 31.03.11	<u>353,342</u>	<u>2,468,121</u>	<u>-</u>	<u>2,821,463</u>
<b>Other Grants</b>				
At 01.04.10	-	-	-	-
Received in year	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>80,000</u>
At 31.03.11	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>80,000</u>
<b>Depreciation</b>				
At 01.04.10	-	-	-	-
Charge for Year	<u>463,232</u>	<u>-</u>	<u>6,768</u>	<u>470,000</u>
At 31.03.11	<u>463,232</u>	<u>-</u>	<u>6,768</u>	<u>470,000</u>
<b>Net book value at 31.03.11</b>	<u>38,664,280</u>	<u>1,707,857</u>	<u>473,232</u>	<u>40,845,369</u>
<b>Net book value at 31.03.10</b>	<u>38,350,000</u>	<u>241,412</u>	<u>480,000</u>	<u>39,071,412</u>

Development Administration cost capitalised amounted to £95,525 (2010 - £93,675) for which grants of £11,405 (2010 - £62,983) were received in the year. Interest capitalised in the year amounted to £Nil (2010 - £70,574).

Completed housing properties were revalued on the basis of existing use value for social housing at 30<sup>th</sup> July 2010 by DTZ, Chartered Surveyors. The valuation report has been made in accordance with the RICS Appraisal and Valuation Manual. The Trustees do not believe that the values would have been materially different at the balance sheet date.

All housing properties are freehold.

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**12. Tangible Fixed Assets - Housing Properties/Cont...**

	<b>2011</b>	<b>2010</b>
Cost of Properties	93,525,904	85,735,250
Less: Social Housing and Other Grants	<u>58,767,672</u>	<u>52,785,532</u>
	34,758,232	32,949,718
Less: Depreciation	( 2,625,929)	( 2,155,929)
	<u><u>32,132,303</u></u>	<u><u>30,793,789</u></u>

**13. Tangible Fixed Assets - Other Fixed Assets**

	Office Premises £	Fixtures and Fittings £	Computer Equipment £	Let Properties Furniture & Fittings £	Total £
<b>Cost</b>					
As at 01.04.10	266,524	99,059	212,065	140,667	718,315
Additions	899	-	12,817	16,094	29,810
As at 31.03.11	<u>267,423</u>	<u>99,059</u>	<u>224,882</u>	<u>156,761</u>	<u>748,125</u>
<b>Depreciation</b>					
As at 01.04.10	35,786	95,001	174,922	136,092	441,801
Charge for Year	5,382	1,392	22,449	5,176	34,399
As at 31.03.11	<u>41,168</u>	<u>96,393</u>	<u>197,371</u>	<u>141,268</u>	<u>476,200</u>
<b>Net Book Value as at 31.03.11</b>	<u>226,255</u>	<u>2,666</u>	<u>27,511</u>	<u>15,493</u>	<u>271,925</u>
<b>Net Book Value as at 01.04.10</b>	<u>230,738</u>	<u>4,058</u>	<u>37,143</u>	<u>4,575</u>	<u>276,514</u>

**14. Investment**

Ayrshire Housing holds the one issued share of Ayrshire Homestake Limited, a company registered in Scotland.

The principal activity of Ayrshire Homestake Limited is the administration of the new supply of shared equity properties.

	<b>2011</b>	<b>2010</b>
	£	£
<b>15. Debtors</b>		
Rental Debtors	176,036	195,000
Provision for Doubtful Debts	( 10,000)	( 10,000)
Other Debtors	<u>983,552</u>	<u>725,654</u>
	<u><u>1,149,588</u></u>	<u><u>910,654</u></u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**16. Creditors due within one year**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Housing Loans	971,442	855,645
Trade Creditors	442,505	108,714
Development Creditors	315,443	712,179
Other Taxes and Social Security	25,802	22,787
Accruals	10,001	78,726
Development Overdrafts	907,719	4,016,389
Prepaid Rents	130,083	188,981
	<b>2,802,995</b>	<b>5,983,421</b>

Creditors due within one year include development guarantees totalling £907,719 (2010 - £4,016,389) for which agreement in principal has been received for conversion into long term finance.

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>17. Creditors due after more than one year</b>		
Loans	<b>26,386,601</b>	<b>24,094,273</b>

Loans are secured by specific charges on the Company's properties and are repayable at rates of interest ranging from 1.05% to 6.50% (2010-1.01% to 6.5%) which will mature over a period of 13 to 30 years as follows:-

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Between one and two years	987,742	868,590
Between two and five years	2,024,382	1,785,683
In five years or more	23,374,477	21,440,000
	<b>26,386,601</b>	<b>24,094,273</b>

**18. Designated Reserves**

	<b>Major Repair Reserve</b>
	<b>£</b>
Balance at 01.04.10	625,000
Transfers from Income & Expenditure Account	-
Balance at 31.03.11	<b>625,000</b>

**19. Revaluation Reserve**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Balance at 01.04.10	6,580,936	6,170,360
Transfer on Disposal of Properties	( 15,444)	-
Depreciation Adjustment	( 47,282)	( 47,282)
Transfer on Revaluation of Properties	-	457,858
Balance at 31.03.11	<b>6,518,210</b>	<b>6,580,936</b>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**20. Pensions**

The Company is a member of two pension funds in order to provide benefits for its employees.

Firstly, the Company is a member of the Strathclyde Pension Fund administered by Glasgow Council, a defined benefit scheme, which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. The pension costs are assessed with the advice of independent qualified actuaries, using the projected unit method.

The assumptions and other data that have the most significant effect on the determination of the contribution levels of the scheme were taken at the last actuarial date of 31<sup>st</sup> March 2010.

	<b>2011</b>	<b>2010</b>
Last actuarial date	31 <sup>st</sup> March 2011	31 <sup>st</sup> March 2010
Inflation/Pension Increase Rate	2.8%	3.8%
Salary scale increase per annum	5.1%	5.3%
Discount rate	5.5%	5.5%
Expected return on assets	6.9%	7.2%

The Organisation's expected rate of return and share of assets in the scheme were :-

	<b>2011</b>	<b>2010</b>
Equities	7.5%	7.8%
Bonds	4.9%	5.0%
Property	5.5%	5.8%
Cash	4.6%	4.8%

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Estimated employer asset share	729,000	641,000
Present value of scheme liabilities	864,000	992,000
Present value of unfunded liabilities	-	-
Total value of liabilities	864,000	992,000
Net Pension Liability	135,000	351,000

<b>Analysis of amount charged to operating profit</b>	<b>2011</b>
	<b>£</b>
Service costs	33,000
Past service costs	(83,000)
Curtailment and settlements	-
Decrease in irrecoverable surplus	-
Total operating gain	(50,000)

<b>Analysis of amount credited to other finance income</b>	<b>2011</b>
	<b>£</b>
Expected return on employers assets	47,000
Interest on pension scheme liabilities	(52,000)
Net return	5,000
Net revenue account gain	(45,000)

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**20. Pensions/Cont...**

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

	<b>2011</b>
	<b>£</b>
Actual return less expected return on pension scheme assets	-
Experience gains and losses arising on the scheme liabilities	5,000
Changes in financial assumptions underlying the present value of the scheme liabilities	<u>139,000</u>
Actual gain/(loss) in pension plan	144,000
Increase in irrecoverable surplus from the membership fall and other factors	72,000
Actuarial gain recognised in STRGL	<u>216,000</u>

**Movement in surplus during the year**

	<b>2011</b>
	<b>£</b>
Deficit at 1 <sup>st</sup> April 2010	351,000
Current service cost	33,000
Employers contributions	(27,000)
Past service costs	(83,000)
Estimated benefits paid	-
Net returns on assets	5,000
Actuarial gain	(144,000)
Deficit at 31 <sup>st</sup> March 2011	<u>(135,000)</u>

**History of Experience Gains and Losses**

	<b>2011</b>
	<b>£</b>
Fair value of employer assets	729,000
Present value of defined benefit obligation	864,000
Surplus/(Deficit)	(135,000)
Experience gains/(losses) on assets	5,000
Experience gains/(losses) on liabilities	-

Secondly, the Company participates in the Scottish Housing Associations' Pension Scheme ('the Scheme'). The Scheme is funded and is contracted out of the State Pension scheme.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers as the Scheme is a multi-employer arrangement where the scheme assets are co-mingled for investment purposes, benefits are paid from the total Scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the Scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, so that the Scheme can meet its pension obligations as they fall due.

The last formal valuation of the Scheme was performed as at 30<sup>th</sup> September 2009 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £295million. The valuation revealed a shortfall of assets compared with the value of liabilities of £160 million, equivalent to a past service funding level of 64.8%.

## AYRSHIRE HOUSING

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...

#### 20. Pensions/Cont...

The Scheme Actuary has prepared an actuarial report that provides an approximate update on the funding position of the Scheme as at 30<sup>th</sup> September 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £335 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £162 million, equivalent to a past service funding level of 67.4%.

As a result of this valuation the total contribution rate must increase on average by 7% of pensionable earnings for all existing benefit option structures from April 2011.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. The debt for the scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the scheme's liability attributable to employment with the leaving employer compared to the total amount of the scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total scheme liabilities, scheme investment performances, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Company has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the SFHA scheme based on the financial position of the scheme as at 30<sup>th</sup> September 2009. As of that date the estimated employer debt for the Company was £727,742.

The total pension cost for the Company was £57,171 (2010: £45,419) of which £7,645(2010: £6,819) was unpaid and is included in creditors.

#### 21. Revenue Reserves

	2011 £	2010 £
Balance at 01.04.10	6,740,144	5,813,895
Surplus for the year	1,943,997	1,609,107
Transfer to designated reserves	-	( 225,000)
Transfer to revaluation reserve	-	( 457,858)
Balance at 31.03.11	<u>8,684,141</u>	<u>6,740,144</u>

#### 22. Related Parties

Some members of the Trustees are tenants of the Company. Their transactions with the Company are all done on standard terms, as applicable to all tenants and they cannot use their position to their advantage.

Three Trustees are Councillors with South Ayrshire Council. Any transactions with the Council are made at arms length, on normal commercial terms and the said Trustees cannot use their position to their advantage.

During the period five tenants of the Company acted as Trustees. In total they paid rent of £15,229 (2010 - £15,487), which is at arm's length.

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH, 2011/Cont...**

**23. Financial Commitments**

At 31<sup>st</sup> March 2011 the amounts due in future years under operating leases were as follows :-

	£	£
Expiring within one year	9,520	8,259
Expiring between one and two years	19,040	16,518
Expiring between two and five years	19,859	18,092
	48,419	42,869

**24. Housing Stock**

**2011**

**2010**

The number of units of accommodation in management at the period end was :-

General Needs	1,376	1,334
Shared Ownership	17	17
	1,393	1,351

**25. Capital Commitments**

**2011**

**2010**

£

£

Expenditure authorised and contracted

3,076,721

141,590

The Board of Management expect that expenditure they have authorised to be fully funded by the Scottish Housing Regulator, Local Authorities, banks and building societies.

Expenditure not yet contracted, on a scheme by scheme basis, is subject to formal Trustee approval procedures.

**26. Contingent Liabilities**

At 31<sup>st</sup> March 2011, the Company had £Nil contingent liabilities (2010 - £Nil).

**27. Group Structure**

Ayrshire Housing is a housing company registered in Scotland and forms part of a group. The other member is Ayrshire Homestake Limited and the company is registered in Scotland. The main activity of Ayrshire Homestake Limited is the administration of the supply of low cost home ownership. Ayrshire Housing is considered to be the ultimate parent. Separate group accounts are not prepared as the Trustees are of the opinion that the group is exempt from this requirement.