

## The Highland Council

Finance, Housing and Resources Committee – 5 June 2013

Agenda Item	
Report No	

### Highland Housing Alliance

#### Report by the Depute Chief Executive/Director of Housing and Property

#### Summary

This report provides Members with information about the current financial position of Highland Housing Alliance, gives Members an update of the proposed new governance arrangements of HHA and seeks approval of The Highland Council's continued involvement under the new governance arrangements.

#### 1. Background

- 1.1 The Highland Housing Alliance (HHA) was established in 2005. It is a joint venture between The Highland Council, five Housing Associations and two Housing Trusts. Its principal activity is that of developing land and infrastructure with a view to ensuring there is an increased supply of housing, and in particular affordable housing, in the Highlands.
- 1.2 The Council is represented on the Board by Councillor Dave Fallows with the Head of Property Partnerships in attendance.
- 1.3 Members may wish to read the "Review of the Highland Housing Alliance and the Highland Revolving Landbank Fund – Research Findings" published by the Scottish Government in 2008.  
Web link: <http://www.scotland.gov.uk/Publications/2008/11/26094641/1>

#### 2. Review of HHA Performance

- 2.1 The objectives of HHA were to:
  - Purchase strategic sites
  - Carry out infrastructure works
  - Use surpluses from sales to cross subsidise affordable housing or fund housing related causes through its charitable subsidiary
  - Carry out research and development.
- 2.2 As recognised in the Scottish Government's independent review, referred to above, HHA has been successful in meeting all of its objectives to date:
  - HHA has purchased fourteen strategic sites throughout the Highlands, with potential development of over 1000 new homes

- HHA has carried out infrastructure works to open previously constrained sites, e.g. Upper Achintore, Fort William, which is a site for up to 200 new homes which had been zoned for over twenty years, but with no development
- HHA has used its previous years' surpluses to invest over £1,200,000 in housing charitable causes, including homelessness projects and to cross subsidise high cost affordable housing
- HHA has carried out research and development on new housing innovation, including the introduction of prefabricated dwelling construction and delivery of the Scottish Housing Expo.
- HHA is the main developer of National Housing Trust units in the Highlands, with completed houses at Westercraigs, Inverness, Kildary and Golspie and further proposed units at Inverness, Kiltarlity and Ardersier.

### **3. Annual Report**

3.1 The Highland Housing Alliance has provided the Council with a copy of their Directors' Report and Financial Statements for the year ending 31 March 2012 and these are attached as **Appendix 1** to this report. The accounts for the year to 31 March 2012 have been given a clean audit report by the company's auditors.

#### **3.2 Profit and Loss account**

3.2.1 For the year to 31 March 2012 the company made a gross profit of £137,980 (representing 6.7% of turnover) compared to a gross profit of £262,943 in the year to 31 March 2011. The company made a net loss for the year amounting to £151,052 after tax, compared to a net loss of £35,071 in the previous year.

#### **3.3 Balance Sheet**

3.3.1 At 31 March 2012, the company had a fairly strong asset position with net current assets of £9.611m. The company had adequate assets to cover its short term obligations and appears to be in good financial health. However, a large percentage of the company's assets are tied up in stocks (land) and therefore the company may be unable to pay all its obligations if they suddenly fell due.

3.3.2 At 31 March 2012, the company had a very high level of gearing which would normally be an indication that the company may be vulnerable to downturns in the economy due to the rising cost of financing its debt. However, as a high proportion of the long term debt relates to interest free loans from The Highland Council this is not a major cause for concern.

### **4. Current Issues**

4.1 As with all developers in the Highlands, the impact of the recession has significantly constrained HHA's development activities. In the current market, there are very few surpluses in the development of private housing which HHA

would normally use to subsidise affordable housing. HHA's involvement in the National Housing Trust model has mitigated the risk of the private sector housing market, giving HHA operational surpluses on this model from 2013/14 onwards.

## **5. Review of Governance**

- 5.1 The board of HHA agreed to appoint an independent consultant (Linda Ewart) to review the governance of the organisation, in the context of a significantly altered operating environment from 2005.
- 5.2 The recommendations of the review were to have a smaller board from a wider variety of backgrounds to deliver the expertise that the board requires. The outcome of the report and discussions with the existing board is a proposal to form a new six person board, comprising two directors nominated from the existing RSLs in the Highlands (currently five board members are RSLs), one director from the Highland Small Communities Housing Trust, one director from the Highland Council and two non-executive directors with the relevant expertise from this type of organisation.
- 5.3 The new board will be charged with developing and delivering a revised business plan to enable the new board to make informed decisions consistent with the aims and objectives of HHA in the context of The Highland Council's local housing strategy. Board members agreed unanimously with this recommendation, subject to ratification of their own boards.

## **6. Implications Arising from this Report**

- 6.1 There are no particular resource, legal, climate change or equalities implications arising from this report.

## **7. Recommendations**

7.1 Members are asked to:

- Note the current financial position of the HHA
- Approve the proposed new governance arrangements for the HHA
- Agree that the Highland Council continues to be represented on the board of the HHA by the Chair of the Council's Finance, Housing and Resources Committee.

Signature:

Designation: **Depute Chief Executive/Director of Housing and Property**

Date: 27 May 2013

**Registration number SC279579**

**The Highland Housing Alliance  
Company limited by guarantee**

**Directors' report and financial statements**

**for the year ended 31 March 2012**

**The Highland Housing Alliance  
Company limited by guarantee**

**Company information**

Directors	A MacFarlane-Slack L Naumann W Hall J S Hair J Nimmo Slater I McLaughlan (Appointed 13/9/11)
Secretary	MacLeod & MacCallum
Company number	SC279579
Registered office	28 Queensgate Inverness IV1 1YN
Auditors	Frame Kennedy Metropolitan House 31-33 High Street Inverness IV1 1HT
Solicitors	MacLeod & MacCallum 28 Queensgate Inverness IV1 1YN

**The Highland Housing Alliance  
Company limited by guarantee**

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**The Highland Housing Alliance  
Company limited by guarantee**

**Directors' report  
for the year ended 31 March 2012**

The directors present their report and the financial statements for the year ended 31 March 2012.

**Principal activity**

The principal activity of the company is that of developing land and infrastructure with a view to ensuring there is an increased supply of housing, and in particular affordable housing, in the Highlands.

**Directors**

The directors who served during the year are as stated below:

A MacFarlane-Slack		J S Hair	
E Moore	(resigned 29/5/12)	J Nimmo Slater	
M Davidson	(resigned 12/9/12)	I McLaughlan	(Appointed 13/9/11)
L Naumann			
W Hall			

**Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**The Highland Housing Alliance  
Company limited by guarantee**

**Directors' report  
for the year ended 31 March 2012**

..... continued

In so far as the directors are aware:

- there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Auditors**

Frame Kennedy are deemed to be reappointed in accordance with an elective resolution made under Section 386(1) of the Companies Act 1985 which continues in force under the Companies Act 2006.

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

This report was approved by the Board on 4 December 2012 and signed on its behalf by

**MacLeod & MacCallum  
Secretary**



**Independent auditor's report to the members of  
The Highland Housing Alliance**

We have audited the financial statements of The Highland Housing Alliance for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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 directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Independent auditor's report to the members of  
The Highland Housing Alliance**

.....continued

**Opinion on other matter prescribed by the Companies Act 2006.**

In our opinion the information given in the Directors' Report 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 Companies Act 2006 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report.

.....  
**Colin Gray B.Com CA (senior statutory auditor)**  
**For and on behalf of Frame Kennedy**  
**Chartered Accountants and**  
**Statutory Auditors**  
**Metropolitan House**  
**31-33 High Street**  
**Inverness**  
**IV1 1HT**

**4 December 2012**

**The Highland Housing Alliance  
Company limited by guarantee**

**Profit and loss account  
for the year ended 31 March 2012**

		2012	2011
	Notes	£	£
<b>Turnover</b>	2	2,029,600	6,156,668
Cost of sales		(1,891,620)	(5,893,725)
<b>Gross profit</b>		137,980	262,943
Administrative expenses		(289,398)	(301,119)
<b>Operating loss</b>	3	(151,418)	(38,176)
Other interest receivable and similar income		366	813
<b>Loss on ordinary activities before taxation</b>		(151,052)	(37,363)
Tax on loss on ordinary activities	6	-	2,292
<b>Loss for the year</b>	12	(151,052)	(35,071)

The notes on pages 7 to 13 form an integral part of these financial statements.

**The Highland Housing Alliance  
Company limited by guarantee**

**Balance sheet  
as at 31 March 2012**

	Notes	2012		2011	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	7		5,094		7,794
Investments	8		1		1
			<u>5,095</u>		<u>7,795</u>
<b>Current assets</b>					
Stocks		10,202,434		16,977,852	
Debtors	9	744,129		503,688	
Cash at bank and in hand		59,918		398,717	
		<u>11,006,481</u>		<u>17,880,257</u>	
<b>Creditors: amounts falling due within one year</b>	10	<u>(1,395,371)</u>		<u>(7,564,714)</u>	
<b>Net current assets</b>			<u>9,611,110</u>		<u>10,315,543</u>
<b>Total assets less current liabilities</b>			9,616,205		10,323,338
<b>Creditors: amounts falling due after more than one year</b>	11		<u>(9,348,843)</u>		<u>(9,904,924)</u>
<b>Net assets</b>			<u>267,362</u>		<u>418,414</u>
<b>Reserves</b>					
Profit and loss account	12		<u>267,362</u>		<u>418,414</u>
<b>Members' funds</b>			<u>267,362</u>		<u>418,414</u>

These financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 and the Financial Reporting Standard for Smaller Entities (effective April 2008) relating to small companies.

The financial statements were approved by the Board on 4 December 2012 and signed on its behalf by

**A MacFarlane-Slack  
Director**

**The notes on pages 7 to 13 form an integral part of these financial statements.**

**The Highland Housing Alliance  
Company limited by guarantee**

**Notes to the financial statements  
for the year ended 31 March 2012**

**1. Accounting policies**

**1.1. Accounting convention**

The financial statements are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

**1.2. Turnover**

Turnover represents the total invoice value, excluding value added tax, of sales made during the year and derives from the provision of goods falling within the company's ordinary activities.

**1.3. Tangible fixed assets and depreciation**

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Fixtures, fittings and equipment	-	20% straight line
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**1.4. Investments**

Fixed asset investments are stated at cost less provision for permanent diminution in value.

**1.5. Stock and work in progress**

Work in progress is valued at the lower of cost and net realisable value.

**1.6. Pensions**

The pension costs charged in the financial statements represent the contribution payable by the company during the year.

**The Highland Housing Alliance  
Company limited by guarantee**

**Notes to the financial statements  
for the year ended 31 March 2012**

..... continued

**1.7. Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**2. Turnover**

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the UK.

**3. Operating loss**

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Operating loss is stated after charging:		
Depreciation and other amounts written off tangible assets	3,600	3,600
Auditors' remuneration (Note 4)	2,700	4,950
	<u>          </u>	<u>          </u>

**4. Auditors' remuneration**

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Auditors' remuneration - audit of the financial statements	<u>2,700</u>	<u>4,950</u>

**The Highland Housing Alliance  
Company limited by guarantee**

**Notes to the financial statements  
for the year ended 31 March 2012**

..... continued

**5. Pension costs**

The company operates a defined contribution pension scheme in respect of the employees. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the company and amounted to £16,610 (2011 - £39,383).

**6. Tax on loss on ordinary activities**

<b>Analysis of charge in period</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Total current tax charge	-	-
<b>Deferred tax</b>		
Timing differences, origination and reversal	-	(2,292)
Tax on loss on ordinary activities	<u>-</u>	<u>(2,292)</u>

**The Highland Housing Alliance  
Company limited by guarantee**

**Notes to the financial statements  
for the year ended 31 March 2012**

..... continued

<b>7. Tangible fixed assets</b>	<b>Fixtures, fittings equipment £</b>	<b>Total £</b>
<b>Cost</b>		
At 1 April 2011	18,497	18,497
Additions	900	900
At 31 March 2012	<u>19,397</u>	<u>19,397</u>
<b>Depreciation</b>		
At 1 April 2011	10,703	10,703
Charge for the year	3,600	3,600
At 31 March 2012	<u>14,303</u>	<u>14,303</u>
<b>Net book values</b>		
At 31 March 2012	<u>5,094</u>	<u>5,094</u>
At 31 March 2011	<u>7,794</u>	<u>7,794</u>

<b>8. Fixed asset investments</b>	<b>Participating interests shares £</b>	<b>Total £</b>
<b>Cost</b>		
Additions	1	1
At 31 March 2012	<u>1</u>	<u>1</u>
<b>Net book values</b>		
At 31 March 2012	<u>1</u>	<u>1</u>



**The Highland Housing Alliance  
Company limited by guarantee**

**Notes to the financial statements  
for the year ended 31 March 2012**

..... continued

<b>9. Debtors</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Amount owed by participating interest	294,412	286,984
Other debtors	447,217	214,204
Prepayments and accrued income	2,500	2,500
	<u>744,129</u>	<u>503,688</u>

Amounts falling due after more than one year and included in debtors are:

Amounts owed by participating interest	294,412	286,984
Other debtors	128,250	49,000
	<u>422,662</u>	<u>335,984</u>

<b>10. Creditors: amounts falling due within one year</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Bank loan	594,815	6,683,078
Other loans	750,000	750,000
Other creditors	14,927	5,650
Accruals and deferred income	35,629	125,986
	<u>1,395,371</u>	<u>7,564,714</u>

**The Highland Housing Alliance  
Company limited by guarantee**

**Notes to the financial statements  
for the year ended 31 March 2012**

..... continued

<b>11. Creditors: amounts falling due after more than one year</b>		<b>2012</b>	<b>2011</b>
		<b>£</b>	<b>£</b>
Other loans		9,348,843	9,904,924
		<u>          </u>	<u>          </u>

Standard security has been given by the company in relation to its borrowing from Highland Council totalling £10,098,843 (2011 - £10,654,924). The loans are secured on land. The loans are interest free and the repayment dates are contingent upon the dates of future disposals of the land to which these loans relate.

<b>12. Reserves</b>		<b>Profit and loss account</b>	<b>Total</b>
		<b>£</b>	<b>£</b>
At 1 April 2011		418,414	418,414
Loss for the year		(151,052)	(151,052)
At 31 March 2012		<u>267,362</u>	<u>267,362</u>

**13. Transactions with directors**

During the year, the company paid £700 (2011 - £560) to Mr A MacFarlane-Slack for travel expenses incurred.

**The Highland Housing Alliance  
Company limited by guarantee**

**Notes to the financial statements  
for the year ended 31 March 2012**

..... continued

**14. Related party transactions**

During the year the company entered into transactions with its member organisations:

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
<b>Grants received from member organisations</b>		
The Highland Council	19,356	581,350

**Loans received from member organisations**

During the year the company repaid loans to The Highland Council amounting to £556,081 (2011 - received loans of £2,127,899). The balance outstanding to The Highland Council at 31 March 2012 was £10,098,843 (2011 - £10,654,924). The loans are interest free and repayment dates are contingent upon the dates of future land disposals.

**Sales to member organisations**

During the year sales were made to Albyn Housing Society of £nil (2011 - £1,039,947) and they were also recharged infrastructure costs of £9,028 (2011 - £nil).

During the year sales were made to Pentland Housing Association Ltd of £nil (2011 - £419,372).

**Joint Venture**

During the year the company loaned £7,428 (2011 : £294,412) to Cornascriebe 2010 Limited and a balance remained outstanding at 31 March 2012 of £294,412 (2011 : £286,984). The company holds 50% of the share capital in Cornascriebe 2010 Limited.

**15. Company limited by guarantee**

The company has no share capital but the liability of the members is limited by guarantee. In the event of the company being wound up the members liability is limited to £1.

**The Highland Housing Alliance  
Company limited by guarantee**

**The following pages do not form part of the statutory accounts.**

**The Highland Housing Alliance  
Company limited by guarantee**

**Detailed trading profit and loss account  
and expenses schedule  
for the year ended 31 March 2012**

	2012		2011	
	£	£	£	£
<b>Sales</b>				
Sales		1,989,751		6,114,992
Rent receivable		26,349		28,919
Commissions receivable		13,500		12,500
Other income		-		257
		<u>2,029,600</u>		<u>6,156,668</u>
<b>Cost of sales</b>				
Opening stock	16,977,852		10,820,595	
Purchases	(4,883,798)		12,050,982	
	<u>12,094,054</u>		<u>22,871,577</u>	
Closing stock	(10,202,434)		(16,977,852)	
		<u>(1,891,620)</u>		<u>(5,893,725)</u>
<b>Gross profit</b>		137,980		262,943
<b>Administrative expenses</b>				
Wages and salaries	188,593		183,538	
Staff money purchase pension costs	16,610		39,383	
Recruitment and training costs	4,641		4,449	
Rent and service charges	30,000		30,000	
Insurance	2,584		425	
Repairs and maintenance	2,800		3,540	
Printing, postage and stationery	4,291		4,344	
Telephone	3,966		3,244	
Travelling expenses	3,063		4,453	
Legal and professional	7,209		1,080	
Accountancy	16,770		11,544	
Audit	2,700		4,950	
Bank charges	422		511	
Irrecoverable VAT	(896)		2,683	
General expenses	675		2,345	
Subscriptions	2,370		1,030	
Depreciation on fixtures & equipment	3,600		3,600	
		<u>289,398</u>		<u>301,119</u>
<b>Operating loss</b>		(151,418)		(38,176)

**The Highland Housing Alliance  
Company limited by guarantee**

**Detailed trading profit and loss account  
and expenses schedule  
for the year ended 31 March 2012**

	2012		2011	
	£	£	£	£
<b>Interest receivable</b>				
Bank deposit interest	366		674	
Other interest	-		139	
	<u>          </u>	366	<u>          </u>	813
<b>Net loss for the year</b>		<u><u>(151,052)</u></u>		<u><u>(37,363)</u></u>