

**LINK GROUP LIMITED**



**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED**

**31 MARCH 2004**

**Company No: 1481R(S)**  
**Charity No: SC001026**  
**Communities Scotland No: HAL 148**

**LINK GROUP LIMITED**

**REPORTS AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004**

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**LINK GROUP LIMITED**

**BOARD OF MANAGEMENT, DIRECTORS AND ADVISERS**

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**BOARD OF MANAGEMENT**

D J A Sievwright (Chairman)	S G Leask
P Stephen-Samuels (Vice-Chairman)	H A Livingstone
T H Clark	C M J Macneill
M E Ewing	D C McKay
P D Foreman	J Quinn (Resigned Oct 2003)
M C Grant	M R Sibbald
J M Hinton (Appointed Oct 2003)	
A Young	

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**CHIEF EXECUTIVE AND DIRECTORS**

Chief Executive	C Sanderson, B Com
Director of Finance and Corporate Services/Secretary	J N Hall, FCCA
Director of Property Services	R C Hamilton, FRICS
Director of Customer Services	M B Middleton
Director of Housing Support Services	E Johnston BSc, Soc, Dip Mgt
Director of Community Regeneration	B Higgins, FCIH, MBA, BA

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**AUDITORS**

Grant Thornton UK LLP

**BANKERS**

Bank of Scotland

**SOLICITORS**

Burness Solicitors

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**FUNDERS**

Royal Bank of Scotland plc

Abbey National Treasury Services plc

Lloyds TSB Scotland plc

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**REGISTERED OFFICE**

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Edinburgh  
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**WEB SITE**

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**E-MAIL**

[linkhousing@linkhousing.co.uk](mailto:linkhousing@linkhousing.co.uk)

## **LINK GROUP LIMITED**

### **REPORT OF THE BOARD OF MANAGEMENT**

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The Board presents its report and the Group accounts for the year ended 31 March 2004.

#### **PRINCIPAL ACTIVITY**

The principal activity of the Group is to provide housing, management and support services to meet a range of housing needs.

#### **REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

##### **Financial and Operating Performance**

Link Group Limited ("Link" or the "Association") achieved a surplus for the year of £1.8M (2003 £1.2M). This increase in the surplus for the year was due to a significantly increased Gain on Disposal of Housing Properties, (mainly relating to the disposal of shared supported accommodation properties) which were no longer required in view of the continuing move toward support being provided for residents in self contained accommodation.

Both Turnover and Operating Costs increased by approximately 6% to £14m and £10.9m, respectively, resulting in an increase in the Operating Surplus from £2.9m to £3.1m. Included in Operating Costs is the expenditure on Planned and Cyclical Maintenance and Major Repairs, which increased from £3m in 2003 to £3.2m in 2004.

The amount invested in Planned and Cyclical Maintenance and Major Repairs is derived from a 30-year investment model designed to ensure all Link's properties are maintained to a specific standard, thereby continuing to extend the useful life of the properties. The investment model takes account of the life cycles of individual components and generates an annual spend profile across all of Link's stock. In any year, as a result of timing differences, Link may spend more or less than the required investment. This creates a transfer to or from the Designated Reserve for Future Maintenance to ensure that the funds are available to carry out the necessary works. In 2003 Link transferred £1.2m to the Designated Reserve and in 2004 a further £0.6m was transferred.

Link's overall retained surplus for the year increased from £7,000 in 2003 to £1.2m in 2004. This is principally as a result of rent increases applied in April 2003 and from a range of savings against budgets which together amount to a £0.6m improvement on the 2003 comparative results. Link also achieved an increase of £0.5m in the Gain on Disposal of Housing Properties in 2004. Despite the Planned Maintenance investment in its stock Link is required by the Statement of Recommended Practice to depreciate its Housing Properties and the Retained Surpluses are calculated after providing for Depreciation of £1.1m in 2004 and £1.2m in 2003.

In the 2003 accounts the impact of demolishing 30 properties was reflected in the Income and Expenditure Account and significantly affected the overall financial position. Link is continuing with its case for recompense against the original contractors and consultants and although it considers the case to be strong, in accordance with the prudence principle of accounting no recoverable amount is included in the 2004 accounts.

Link has a strong balance sheet, which places it in a favourable position to invest in its housing stock. Over the next few years Link will invest approximately £12m in the re-development of housing properties as part of a major regeneration programme.

At 31 March 2004 Link's total reserves amounted to £28.1m, an increase of £1.4m from 2003. In addition to providing funds for re-development these reserves are required to support the planned maintenance investment programme and provide a hedge against risk. Included in the £28.1m of total reserves, the Designated Reserve for Future Maintenance amounted to £16m (2003 £15.3m).

During the year Link invested £9.5m in new properties for rent and sale on a shared ownership basis across the central belt of Scotland. This expenditure was partly financed by Housing Association Grant of £4.9m with the balance funded by loans drawn under the £50m syndicated loan facility.

Link has a continuing, substantial investment programme. In addition to the £12m earmarked for re-development and an average annual spend of £3.5m on planned maintenance, Link will build and refurbish 776

## **LINK GROUP LIMITED**

### **REPORT OF THE BOARD OF MANAGEMENT (Continued)**

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properties over the 5 year business plan period 2004/05 to 2008/09. Included in the 776 properties is the refurbishment of 130 properties in Craigmillar, Edinburgh, which were transferred from the City of Edinburgh Council following a successful ballot of tenants. The planned re-development, new build and refurbishment requires a capital investment of £40m, funded by a mix of grants and loans and from internal resources.

The consolidated results of the group reflect the results of the subsidiary companies and the total retained surplus of the group amounted to £1.5m (2003 £23,000). The positive contribution by the subsidiaries is welcomed by the Board.

#### **Group Structure**

Link Group Ltd is the parent company to eight subsidiaries. The results of the subsidiaries are included in these accounts and reflected in the Consolidated Income and Expenditure account and Consolidated Balance Sheet. The purpose and constitution of the subsidiaries is dealt with in a note to the accounts.

Each member of the group is a wholly owned subsidiary of Link Group Ltd. The Board and Committee Members of subsidiary companies are appointed by Link Group Ltd on the recommendation of the subsidiary company's Board or Committee. The Chairperson of each is a member of the Link Group Ltd Board and some Group Board members are also members of the Boards or Committees of the subsidiary companies, although in no case does the majority membership on these Boards/Committees consist of Link Group Ltd Board Members.

Each subsidiary has entered into an Independence Agreement with Link Group Ltd. This document preserves the independence of the subsidiaries and sets out the respective responsibilities of the subsidiary and the parent. The Independence Agreement confirms the process and procedures each party will conform to and the basis upon which services will be provided between parties.

#### **Board and Directors**

The Board consists of up to 15 members elected at the Annual General Meeting. Board members serve on various committees (as described in the Statement of Corporate Governance) set up to manage the Association. Current membership of the Board is set out on page 1. Board membership at March 2004 stood at thirteen members. Each Board Member holds one fully paid share of £1 in the Association. The Directors of the Association (who are staff members) have no beneficial interest in the Association's share capital and they act within the authority delegated by the Board of Management.

#### **Employee Involvement**

Link group had a staff of 310 (Link Group Ltd 51 staff), at March 31<sup>st</sup> 2004 most of whom are full time and based at offices in Edinburgh, Falkirk, Paisley, Cumbernauld and Kirkcaldy. The Training and Development Plan ensures a high level of continuous training for staff ensuring they have the skills to carry out their jobs in a changing environment.

#### **Auditors**

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. The Board of Management consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

A resolution to re-appoint Grant Thornton UK LLP as Auditors of the association will be proposed at the Annual General Meeting to be held on 24 August 2004.

#### **BY ORDER OF THE BOARD**

J N Hall, FCCA  
Secretary  
3 August 2004

## **LINK GROUP LIMITED**

### **BOARD STATEMENT ON INTERNAL FINANCIAL CONTROLS**

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#### **Internal Financial Control**

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the Board has established with a view to providing effective internal financial control are as follows:-

#### **Management Structure**

The Group, for which the Board has overall responsibility, is governed by a set of Standing Orders, which reserves specific powers to the Board and delegates functions and powers to its Sub-Committees.

#### **Procedures Manuals**

Responsibility levels are set out for the Group in detailed procedures manuals. These procedures manuals and the Central Policy File communicate the general ethos of the Group, delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures. The manuals are updated regularly.

#### **Quality and Integrity of Personnel**

The integrity and competence of personnel is ensured and maintained through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are embodied within the ethos of the Group and in the Staff Code of Conduct.

#### **Identification of Business Risks**

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks. Major business risks and their financial implications are assessed by reference to established criteria.

The financial implications of major business risks are controlled by means of delegated authorities which reserve significant matters to the Board for decision, segregation of duties in appropriate areas and physical controls over assets and access to records.

#### **Management Information Systems**

Management information systems have been developed to provide accurate and timeous data on all aspects of the business. Management accounts comparing actual results against budget are presented to the Board monthly together with a balance sheet and performance against key financial indicators. Reports accompanying the accounts also provide information on Link's borrowing, investment and recoverability of debts due to the Association.

#### **Internal Control Systems**

The Board monitors the operation of the internal financial control system by considering regular reports from management and the external auditors and ensures appropriate corrective action is taken to address any reported weaknesses.

## **LINK GROUP LIMITED**

### **BOARD STATEMENT ON INTERNAL FINANCIAL CONTROLS (Continued)**

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#### **Internal Audit**

Internal Audit services are provided by a firm of experienced chartered accountants. The audit workplan is generated from a detailed Audit Needs Assessment which is based upon a systematic risk assessment of Link's operations and activities. The Internal Auditors report to the Chief Executive and to the Audit Committee.

#### **Risk and Compliance**

Link has a full-time Risk and Compliance Manager whose principal functions are management of risk and to undertake a programme of compliance reviews. These reviews complement, but are in addition to, the work carried out by the Internal Auditors.

#### **Project Risk Assessment Committee**

The Project Risk Assessment Committee has three members and its role is to oversee a detailed risk assessment of Development projects and advise the Board of the risks (short, medium and long-term) associated with proposed projects.

#### **Audit Committee**

The Audit Committee has five members and monitors the controls which are in force and any perceived gaps in the control environment. This is achieved through reports to the Committee from the Internal Auditors and the Risk and Compliance Manager. The Audit Committee also considers and determines relevant action in respect of any control issues raised by the internal or external auditors.

#### **Investment Appraisal**

Capital expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed proposals have to be submitted to the Board. Reviews are carried out during the development period to monitor expenditure and performance.

#### **Remuneration Committee**

The Remuneration Committee has four members and monitors, and sets the salaries of, the Chief Executive and the Directors.

#### **Statement**

The Board has reviewed the effectiveness of the system of internal financial controls which has been operating during the year and beyond. No weaknesses have been found which resulted in material losses, contingencies or uncertainties that require disclosure.

## **LINK GROUP LIMITED**

### **STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT IN RESPECT OF THE GROUP ACCOUNTS**

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Legislation requires the Board of Management to prepare group accounts for each financial year which give a true and fair view of the state of affairs of the Association and the Group and of the income and expenditure of the Association and the Group for that period. In preparing those accounts, the Board is required to:

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

The Board is responsible for ensuring that arrangements are made for keeping proper books of account with respect to the Group's transactions and its assets and liabilities and for maintaining a satisfactory system of control over the Group's books of account and transactions. The Board is also responsible for ensuring that arrangements are made to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **LINK GROUP LIMITED**

### **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LINK GROUP LIMITED A HOUSING ASSOCIATION REGISTERED UNDER SECTION 57 OF THE HOUSING (SCOTLAND) ACT 2001**

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We have audited the financial statements of Link Group Limited, (the Association), and the consolidated financial statements of the Association and its subsidiaries for the period ended 31 March 2004 which comprise the income and expenditure accounts, the balance sheets, cash flow statements and notes 1 to 30. These financial statements have been prepared under the historical cost convention and on the basis of the accounting policies set out therein.

This report is made solely to the association's members, as a body. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an 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 association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Board of Management and Auditors**

The Board of Management is responsible for preparing the Board of Management report and the financial statements in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 1978, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999. We also report to you if, in our opinion, the Board of Management report is not consistent with the financial statements, if the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Board member's remuneration and transactions with the Association is not disclosed.

We read other information contained in the Board of Management report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of Opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Association's affairs and that of the Group as at 31 March 2004 and of the results of the Association and the Group for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 1978, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999.

**LINK GROUP LIMITED**

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LINK GROUP LIMITED  
A HOUSING ASSOCIATION REGISTERED UNDER SECTION 57 OF THE HOUSING (SCOTLAND)  
ACT 2001 (continued)**

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**Corporate Governance Matters**

In addition to our audit of the financial statements, we have reviewed the Board's statement on pages 4 to 5 on the Association's compliance with the guidance given in Raising Standards in Housing published by the Scottish Federation of Housing Associations.

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Association's system of internal financial control or its corporate governance procedures.

**Opinion**

With respect of the Board's statement on internal financial control on pages 4 to 5, in our opinion the Board has provided the disclosures required by Raising Standards in Housing and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS

**EDINBURGH**

3 August 2004

LINK GROUP LIMITED

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED  
31 MARCH 2004

	Notes	2004 £'000	2003 £'000
<b>Turnover</b>	3a		17,651
<b>Less:</b>			
Operating Costs	3a	(14,424)	(13,234)
Cost of Sales	3a	<u>(309)</u>	<u>(1,462)</u>
<b>Operating Surplus</b>	3a		<u>2,955</u>
Interest receivable	3a		369
Interest payable	3a & 7		(2,236)
Gain on Disposal of Housing Properties	3a		<u>89</u>
<b>Surplus for the year before taxation</b>	3a		1,177
Corporation Tax	11		<u>-</u>
<b>Surplus for the year after taxation</b>			1,177
Transfers to designated reserves	21a		<u>(1,154)</u>
<b>Retained surplus for the financial year</b>			23
<b>Revenue reserve brought forward</b>			<u>4,529</u>
<b>Revenue reserve carried forward</b>			<u>4,552</u>

There are no other recognised surpluses or deficits other than those included in the above Income and Expenditure Account. The results for the year relate wholly to continuing activities.

The notes on pages 15 to 39 form part of these accounts.

**LINK GROUP LIMITED****LINK GROUP LIMITED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED  
31 MARCH 2004**

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	<b>Notes</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>Turnover</b>	3b	13,973	13,249
<b>Less: Operating Costs</b>	3b	<u>(10,920)</u>	<u>(10,302)</u>
<b>Operating Surplus</b>	3b	<u>3,053</u>	<u>2,947</u>
Interest receivable	3b	370	361
Interest payable	3b & 7	(2,227)	(2,236)
Gain /(Loss) on Disposal of Housing Properties	3b	<u>634</u>	<u>89</u>
<b>Surplus for the year</b>		1,830	1,161
Transfers to designated reserves	21a	(618)	(1,154)
<b>Retained surplus for the financial year</b>		1,212	7
<b>Revenue reserve brought forward</b>		<u>4,552</u>	<u>4,545</u>
<b>Revenue reserve carried forward</b>		<u><u>5,764</u></u>	<u><u>4,552</u></u>

There are no other recognised surpluses or deficits other than those included in the above Income and Expenditure Account. The results for the year relate wholly to continuing activities.

The notes on pages 15 to 39 form part of these accounts.

LINK GROUP LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2004

	Notes	2004 £'000	2003 £'000
<b>Tangible Fixed Assets</b>			
Housing Properties - Depreciated Cost	13a	207,306	202,539
Less: Social Housing Grants	13a	(147,890)	(145,159)
Other Public Grants	13a	<u>(2,299)</u>	<u>(2,115)</u>
		57,117	55,265
Other Fixed Assets	14a	1,554	1,501
Investments	15	<u>-</u>	<u>-</u>
		<u>58,671</u>	<u>56,766</u>
<b>Current Assets</b>			
Work in Progress	16	914	157
Debtors	17	3,026	2,822
Cash at bank and in hand		<u>10,409</u>	<u>12,364</u>
		14,349	15,343
<b>Creditors: amounts falling due within one year</b>	18	<u>(4,608)</u>	<u>(5,390)</u>
<b>Net Current Assets</b>		<u>9,741</u>	<u>9,953</u>
<b>Total Assets Less Current Liabilities</b>		68,412	66,719
<b>Creditors: amounts falling due after more than one year</b>	19	<u>(40,000)</u>	<u>(40,000)</u>
<b>Net Assets</b>		<u>28,412</u>	<u>26,719</u>
<b>Capital and Reserves</b>			
Share Capital	20	-	-
Designated Reserves	21a	15,960	15,342
Negative Goodwill	22	6,423	6,825
Revenue Reserve		<u>6,029</u>	<u>4,552</u>
		<u>28,412</u>	<u>26,719</u>

Approved by the Board of Management on 3 August 2004 and signed on its behalf by:-

D J A Sievwright, Chairman

P Stephen-Samuels, Vice-Chairman

J N Hall, Secretary

The notes on pages 15 to 39 form part of these accounts.

**LINK GROUP LIMITED**

**LINK GROUP LIMITED BALANCE SHEET AS AT 31 MARCH 2004**

	Notes	2004 £'000	2003 £'000
<b>Tangible Fixed Assets</b>			
Housing Properties - Depreciated Cost	13b	207,306	202,578
Less: Social Housing Grants	13b	(147,890)	(145,159)
Other Public Grants	13b	<u>(2,299)</u>	<u>(2,115)</u>
		57,117	55,304
Other Fixed Assets	14b	1,554	1,501
Investments	15	<u>100</u>	<u>100</u>
		<u>58,771</u>	<u>56,905</u>
<b>Current Assets</b>			
Debtors	17	3,393	2,856
Cash at bank and in hand		<u>9,684</u>	<u>11,428</u>
		13,077	14,284
<b>Creditors: amounts falling due within one year</b>	18	<u>(3,701)</u>	<u>(4,470)</u>
<b>Net Current Assets</b>		<u>9,376</u>	<u>9,814</u>
<b>Total Assets Less Current Liabilities</b>		68,147	66,719
<b>Creditors: amounts falling due after more than one year</b>	19	<u>(40,000)</u>	<u>(40,000)</u>
<b>Net Assets</b>		<u><u>28,147</u></u>	<u><u>26,719</u></u>
<b>Capital and Reserves</b>			
Share Capital	20	-	-
Designated Reserves	21a	15,960	15,342
Negative Goodwill	22	6,423	6,825
Revenue Reserve		<u>5,764</u>	<u>4,552</u>
		<u><u>28,147</u></u>	<u><u>26,719</u></u>

Approved by the Board of Management 3 August 2004 and signed on its behalf by:-

D J A Sievwright, Chairman

P Stephen-Samuels, Vice-Chairman

J N Hall, Secretary

The notes on pages 15 to 39 form part of these accounts

**LINK GROUP LIMITED****CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004**

	<b>Notes</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>Net cash inflow from operating activities</b>	26	3,917	3,354
<b>Returns on investments and servicing of finance</b>	27a	(1,869)	(1,900)
<b>Taxation</b>		(5)	-
<b>Capital expenditure</b>	27b	(3,998)	(1,150)
<b>Transfer of engagements</b>	27c	-	-
		<hr/>	<hr/>
<b>Cash inflow before use of liquid resources and financing</b>		(1,955)	304
<b>Management of Liquid Resources</b>		(1,000)	(5,000)
<b>Financing</b>	27d	-	4,966
<b>(Decrease) / Increase in cash</b>		<u>(2,955)</u>	<u>270</u>

**LINK GROUP LIMITED****LINK GROUP LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004**

	<b>Notes</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>Net cash inflow from operating activities</b>	26	4,165	4,017
<b>Returns on investments and servicing of finance</b>	27a	(1,876)	(1,909)
<b>Taxation</b>		-	-
<b>Capital expenditure</b>	27b	(4,033)	(1,150)
<b>Transfer of engagements</b>	27c	-	-
		<hr/>	<hr/>
<b>Cash inflow before use of liquid resources and financing</b>		(1,744)	958
<b>Management of liquid resources</b>		(1,000)	(5,000)
<b>Financing</b>	27d	-	5,000
<b>(Decrease) / Increase in cash</b>		<u>(2,744)</u>	<u>958</u>

**1. ACCOUNTING POLICIES**

**(a) Introduction and accounting basis**

Link Group Limited is incorporated under the Industrial and Provident Societies Acts and is a housing association registered with Communities Scotland under the Housing (Scotland) Act 2001.

The accounts are prepared under the historical cost convention, in accordance with applicable accounting standards and comply with the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999 and the Statement of Recommended Practice (SORP): Accounting by Registered Housing Associations.

**(b) Basis of Consolidation**

The group financial statements consolidate those of Link Group Limited and of its subsidiary undertakings drawn up to 31 March 2004. Profits or losses on intra-group transaction are eliminated in full.

**(c) Investments**

Investments are included at cost less provision for any permanent diminution in value. The Board is of the opinion that this does not differ materially from the market value.

**(d) Tangible Fixed Assets - housing land and buildings**

Housing properties are stated at cost. Expenditure on schemes which are subsequently aborted is written off in the year in which it is recognised that the schemes will not be developed to completion.

Shared ownership properties are included in housing land and buildings and the proceeds of sale of the initial tranches sold are credited against the carrying amount in respect of shared ownership projects. Subsequent tranche sales are accounted for as disposals through the Income and Expenditure Account.

**(e) Grants**

*Capital Grants*

Housing Association Grant (HAG) is paid by Communities Scotland to Registered Social Landlords and is utilised to reduce the capital costs of an approved scheme to an amount of required loan finance which it is estimated can be serviced by the net annual income of the scheme. The amount of HAG is calculated on qualifying costs of the scheme in accordance with instructions issued from time to time by Communities Scotland. HAG is repayable under certain circumstances, primarily following sale of property, but will normally be restricted to net proceeds of sale.

Other capital grants are shown, as is HAG, on the face of the balance sheet as the cumulative gross amount received and as a deduction from the fixed assets to which they relate.

*Revenue Grants*

Grants received for development for sale projects are credited against stocks or work in progress and therefore cost of sales is stated net of grants received. Other revenue grants are credited to the Income and Expenditure Account in the period when the costs to which they relate are incurred.

**(f) Mortgages**

Mortgage loans are advanced by banks under the terms of loan facility agreements in respect of the Association's housing properties.

**1. ACCOUNTING POLICIES (continued)**

**(g) Depreciation**

*Housing land and buildings*

Depreciation is provided on all of the Group's properties and has been calculated on a straight line basis over the expected useful life of the properties, which the Association has assessed as an average of 50 years. The amount to be depreciated is the historical cost of construction or acquisition, net of any grants and net of the residual value, which is deemed to be the historical cost of the land, net of attributable grants.

*Other fixed assets*

Expenditure incurred on the Group's offices is written off over 50 years. Improvements to offices leased by the Association are capitalised and depreciated over the term of lease. Furniture, fittings and equipment are depreciated at 15% per annum on cost. Motor vehicles are depreciated at 25% per annum of net book value. Computer equipment is depreciated at 33.3% per annum on cost.

**(h) Work In Progress**

Costs incurred on construction of property for sale are included at cost within work in progress. Interest on related loans is also included in work in progress, where applicable.

**(i) Designated Reserves**

*Future Maintenance Reserve*

The reserve exists to fund future planned and cyclical maintenance and major repairs to the Group's housing stock, the cost of which will not be funded by grant. The Group has a policy of maintaining its housing stock to a high standard and the transfer to the reserve has been determined in accordance with a comprehensive planned maintenance programme. Actual costs incurred are charged in the Income and Expenditure Account. Transfers from the reserve to the Income and Expenditure Account are made to cover the annual expenditure incurred.

*Disposal Proceeds Fund*

The Disposal Proceeds Fund is made up of the net proceeds from Tenant Ownership Purchase Scheme (TOPS) sales and expenditure on replacement properties. The net proceeds are defined as being the sales proceeds received from the tenant less the attributable loan debt, together with the TOPS Grant received from Communities Scotland.

**(j) Negative Goodwill**

Negative goodwill arising on any transfer of engagements represents the excess of the fair value of assets and liabilities acquired over the consideration paid.

In accordance with the SORP and FRS 10, the negative goodwill is amortised to the Income and Expenditure account over 20 years from the date of acquisition.

**1. ACCOUNTING POLICIES (continued)**

**(k) Apportionment of Management Expenses**

Direct employee, administration and operating costs have been apportioned to the relevant operational functions undertaken by the Group, primarily on the basis of costs of the staff engaged in the operations dealt with in these accounts and additionally by reference to the costs of the overhead expenditure consumed.

**(l) Pension Costs**

The Association participates in two pension schemes, a defined benefits benefit scheme and a group personal pension scheme. The Association's contributions for 2003/2004 under the schemes have been fully charged to the Income and Expenditure Account.

*Defined Contribution Schemes*

The pension costs charged to the Income and Expenditure Account represent the amount of the contributions payable to the scheme in respect of the accounting period.

*Defined Benefit Scheme*

The pension costs charged to the Income and Expenditure Account are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme, so as to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll.

**(m) VAT**

The Group has Group registration for VAT purposes. A large proportion of the Group's income, rents, is exempt for VAT purposes and therefore gives rise to a partial exemption calculation. For 2003/2004, only a small proportion of VAT paid was recoverable. Expenditure is therefore shown inclusive of VAT and any input VAT recovered is included in other income.

**(n) Lease Obligations**

Rentals paid under operating leases are charged to the Income and Expenditure Account on a straight line basis over the lease term.

**2. TURNOVER**

Turnover, which is stated net of value added tax, represents income receivable from lettings and property management, revenue grants, fees from managed associations and other income. In respect of the Consolidated Income and Expenditure Account, turnover also includes income from providing support and personal care services, housing for sale projects and property management and factoring income.