

**Castlehill Housing Association Limited**

**Annual Report**

**for the year ended 31 March 2014**

Registered no: L0968  
Charity no: SC013584

# **CASTLEHILL HOUSING ASSOCIATION LIMITED**

## **Financial Statements for the year ended 31 March 2014**

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# Castlehill Housing Association Limited

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## Members, executive officers and advisers

### Committee of management

Mrs J Lyon (Convener)  
Mr D Millar (Vice Convener)  
Mr D Anderson (resigned 26/08/13)  
Mr G Kyle  
Mrs K Mason  
Mr G Nicol (co-opted 24/02/14)  
Mr J Nicoll  
Mr G Ogston  
Ms S Reith  
Mr I Thomson  
Mr J Tomlinson  
Dr N Williams  
Mrs S Williamson

### Registered Auditors

Anderson Anderson & Brown LLP  
9 Queen's Road  
Aberdeen  
AB15 4YL

### Solicitors

Burness Paull LLP  
Union Plaza  
Union Wynd  
Aberdeen  
AB10 1DQ

### Bankers

Clydesdale Bank plc  
Principal Branch  
Queen's Cross  
Aberdeen  
AB15 4NU

### Executive officers

Mr D Lappin (Chief Executive/Secretary)  
Mr G Helme (Director of Finance and Corporate Services)  
Mrs G Robertson (Director of Housing Services)  
Ms F Murray (Director of Development Services)

### Registered office

4 Carden Place  
Aberdeen  
AB10 1UT

## Report of the management committee for the year ended 31 March 2014

The committee of management presents its report and the audited financial statements for the year ended 31 March 2014.

### Principal activities

The principal activity of the Association continues to be the provision of affordable rented accommodation.

### Review of business and future developments

The results for the year are set out in the income and expenditure account on page 6.

The members of the committee of management are of the opinion that the state of affairs of the Association, as shown on the Balance Sheet on page 7, is satisfactory and are pleased to note the surplus of £578,597 for the year, which will be transferred to reserves.

During 2013/14, Castlehill built eighteen new properties in a general needs development at Ladeside Road, Port Elphinstone near Inverurie. Castlehill sold seven rented properties on the open market during the year to 31<sup>st</sup> March 2014. All the rented properties sold were single tenement flats.

The Association is currently developing a scheme at Cattofield, Aberdeen where there will be 12 units available for rent. A further 4 units will be leased to Castlehill Solutions Ltd for let as mid market rent properties.

Castlehill recognises the difficulty of developing new housing in the current financial climate but wishes to continue to pursue development opportunities that can be delivered without putting at risk the sound financial position of the organisation.

During 2014/15 it is anticipated that the Association will implement mobile working for some members of staff. This will link into the existing QL system and will increase the efficiency of front line staff by reducing the amount of time they need to spend in the office.

Charitable donations totaling £653 were made in the year, £487 to Homeless International, £130 to the Big Issue and a £36 donation to Aberdeen Forward.

## Changes in fixed assets

Details of fixed assets are set out in notes 13 and 14.

## The committee of management and executive officers

The committee of management and officers of the Association are listed on page 1. Each member of the committee of management holds one fully paid share of £1 in the Association. The executive officers of the Association hold no interest in the Association's share capital and although not having the legal status of directors they act as executives within the authority delegated by the committee.

## Provision of information to auditors

As far as the Committee of Management are aware, there is no relevant audit information of which the Association's auditors are unaware and we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.



## Statement of committee's responsibilities

Housing Association legislation requires the committee to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Association and of the income and expenditure of the Association for the year ended on that date. In preparing those financial statements the committee is required to:-

- Select suitable accounting policies and then apply them consistently.
- Make judgments 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 Association will continue in business.

The committee is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Association.

The committee acknowledges its responsibility for ensuring that the Association establishes and maintains a system of internal financial controls appropriate to the environment in which it operates. These controls are designed to give reasonable assurance with respect to the reliability of financial information used by the Association, the maintenance of proper accounting records and the safeguarding of assets against unauthorised use or disposition.

It is recognised that 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 Association's assets.
- experienced and suitably qualified staff take responsibility for important business functions. Staff are appraised annually to maintain standards of performance.
- forecasts and budgets are prepared which allow the committee and management to monitor key business risks and financial objectives. Regular management accounts are prepared promptly, providing relevant, reliable and up to date financial information and significant variances are investigated promptly.
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the relevant sub-committees.
- all policies and procedures are monitored for effectiveness. The Association has established an Internal Management Plan, which identifies any new controls required and controls which require review. This plan is reviewed annually.
- the Association has established an Audit Committee which receives reports from the external auditor and reports on internal control, including compliance testing carried out by the management team. Any weaknesses identified by the reports are then addressed.

The committee has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2014 and until 18 August 2014. No weaknesses were found in the internal controls, which resulted in any material losses, contingencies or uncertainties, which require disclosure in the financial statements or in the auditors' report on the financial statements.

  
Secretary



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
CASTLEHILL HOUSING ASSOCIATION LIMITED**

We have audited the financial statements of Castlehill Housing Association Limited for the year ended 31 March 2014 which comprise the Income and Expenditure account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the committee of management and auditors**

As explained more fully in the Statement of Committee's Responsibilities set out on page 4, the committee of management 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 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 committee of management; and the overall presentation of the financial statements.

In addition, we read all the financial and non financial information in the report of the Committee of Management to identify any information that is apparently incorrect based on, or materially inconsistent with the knowledge acquired during the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2014 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of Co-operative and Community Benefits Societies Act 2014, The Co-operative and Community Benefits and Credit Union Act 2010 (commencement no 2) Order 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements - April 2012.

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

In our opinion the information given in the Committee of Managements' 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 we are required 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.

*John A Black*

John A Black (Senior Statutory Auditor)  
For and on behalf of Anderson Anderson & Brown LLP  
Statutory Auditor  
Aberdeen

18 AUGUST 2014

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

	Notes	2014	2013
		£	£
<b>Turnover</b>	3	<b>8,703,646</b>	8,675,524
Less : Operating Costs	3	<u>(7,722,204)</u>	<u>(7,608,444)</u>
<b>Operating Surplus</b>		<b>981,442</b>	1,067,080
Surplus on Sales of Fixed Assets		<u>271,634</u>	<u>132,111</u>
Surplus on Operating Activities before Interest		<b>1,253,076</b>	1,199,192
Interest Receivable	10	<b>41,208</b>	47,897
Interest Payable	11	<u>(715,686)</u>	<u>(722,900)</u>
Surplus for Period		<u><b>578,597</b></u>	<u>524,188</u>

All of the Association's activities relate to continuing operations.

There is no difference between the surplus for the year stated above and its historical cost equivalent.

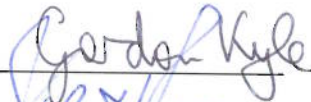




CASTLEHILL HOUSING ASSOCIATION LIMITED

BALANCE SHEET AT 31 MARCH 2014

	Notes	2014 £	2014 £	2013 £
<b>Tangible Fixed Assets</b>				
Housing Property at Cost net of Depreciation	13		91,776,909	91,720,856
less HAG	13		(61,955,701)	(62,734,506)
Other Public Grants	13		(4,963,359)	(4,963,359)
			<u>24,857,849</u>	<u>24,022,991</u>
Investment in subsidiary	14		1,822,050	1,822,050
Other Fixed Assets net of Depreciation	14		1,229,594	1,242,391
			<u>27,909,493</u>	<u>27,087,432</u>
<b>Current Assets</b>				
Property for sale net of grants		-		-
Stocks of maintenance materials		5,574		13,330
Debtors	15	1,280,560		722,729
Cash on term deposit		1,385,487		2,351,001
Cash at bank and in hand		3,143,387		1,881,884
		<u>5,815,008</u>		<u>4,968,944</u>
<b>Creditors</b>				
Amounts falling due within one year	16	(4,083,257)		(4,612,144)
			<u>1,731,751</u>	<u>356,800</u>
<b>Net Current Assets</b>				
			<u>29,641,244</u>	<u>27,444,232</u>
<b>Total Assets less Current Liabilities</b>				
<b>Creditors</b>				
Amounts falling due after more than one year	17		(20,666,848)	(19,048,435)
			<u>8,974,396</u>	<u>8,395,797</u>
<b>Net Assets</b>				
<b>Capital and Reserves</b>				
Share Capital	18		61	59
Capital Reserve	19		115	115
Designated Reserve	20		2,183,163	3,556,355
Revenue Reserve	21		6,791,057	4,839,268
			<u>8,974,396</u>	<u>8,395,797</u>

The financial statements on pages 5 to 28 were approved by the Committee of Management on 18th August 2014 and were signed on its behalf by :

  
 \_\_\_\_\_ Committee member  
  
 \_\_\_\_\_ Committee member  
  
 \_\_\_\_\_ Chief Executive/Secretary

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2014	2014	2013
		£	£	£
<b>Net cash inflow from operating activities</b>	22		<b>1,840,901</b>	2,476,918
<b>Returns on Investment and Servicing of Finance</b>				
Interest Received		41,208		45,721
Interest Paid		<u>(715,686)</u>		<u>(718,001)</u>
<b>Net cash outflow from returns on investment and servicing of finance</b>			<b>(674,479)</b>	(672,280)
<b>Capital Expenditure &amp; Financial Investment</b>				
Payments to acquire and develop housing properties		(1,891,071)		(2,246,369)
Payments to acquire other fixed assets		(77,523)		(5,815)
Grants repaid		(569,857)		(69,793)
Receipts for sales of housing properties				290,260
Receipts for sales of other fixed assets		409,952		50,000
Grants received		<u>102,824</u>		<u>662,127</u>
<b>Net cash outflow from capital expenditure and financial investment</b>			<b>(2,025,675)</b>	(1,319,590)
<b>Management of Liquid Resources</b>				
Purchase of term deposits		-		(1,069,195)
Cash withdrawn from term deposits		<u>965,514</u>		<u>-</u>
<b>Net cash inflow / (outflow) from management of liquid resources</b>			<b>965,514</b>	(1,069,195)
<b>Financing</b>				
Mortgages and other loans received		2,174,298		865,000
Mortgages and other loans repaid		(1,019,058)		(1,184,710)
Share capital issued		<u>2</u>		<u>1</u>
<b>Net cash inflow / (outflow) from financing</b>			<b>1,155,243</b>	(319,709)
<b>Increase / (decrease) in cash</b>	23		<b>1,261,503</b>	<b>(903,856)</b>

Castlehill Housing Association Ltd includes as liquid resources term deposits with UK Banks and Building Societies for periods of less than one year.

## Notes to the financial statements for the year ended 31 March 2014

### 1 Principal accounting policies

The principal accounting policies of the Association, which have been applied consistently, are set out below. The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards and are based on the revised Statement of Recommended Practice for Registered Social Landlords (2010). They comply with the Scottish Housing Regulator's Determination of Accounting Requirements (2012). The layout and format of the financial statements does not conform to the Statement of Recommended Practice for Charities as the existence of the more specialised SORP for Social Landlords makes it more appropriate for the Association to conform with the latter.

#### Turnover

Turnover represents rental and service charge income, income from property sales, fees, other services included at the invoiced value of goods and services supplied in the year and revenue based grants receivable from local authorities and the Scottish Government. All income is recognised on a receivable basis and sales of property are recognised at completion.

#### Tangible fixed assets - housing properties (note 13)

Housing properties are stated at historical cost. This includes:-

- i) Cost of acquiring land and buildings
- ii) Development expenditure
- iii) Interest charges during the development period on the loans raised to finance the scheme
- iv) Overhead costs directly connected to the administration of acquisition and development
- v) Cost of replacing major components, with the old component being written off at the time of replacement.

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.

All other works are charged to the income and expenditure account.

#### Donations of Land

Land donated is included within fixed assets at the market value at the time of donation. The difference between the market value and the transfer price is included as a government grant.

#### Housing Association Grant

Housing Association Grant (HAG) is payable by the Scottish Government to subsidise the capital cost of housing developments. The amount of grant is calculated in accordance with The Scottish Housing Regulator Guidance Notes. HAG is paid either directly to the Association or via the related party, Devanha, referred to on page 12 and in note 27. HAG is reflected in the accounts when due to be received. HAG is allocated in the first instance to the land and structure components of the housing development. If, after allocating the HAG to these elements there is any residual HAG, then it is allocated to the other components on a pro rata basis. HAG allocated to components is amortised over the useful life of that



## Housing Association Grant (continued)

component and is written off when the component is replaced. HAG received in advance of expenditure being incurred is held as HAG repayable within creditors. HAG is repayable under certain circumstances, primarily following the sale of property, but will normally be restricted to net proceeds of sale. Capital costs of developments not funded by HAG are met by raising loan finance from private lenders or by internal subsidy. Loans are on a conventional finance basis and all finance costs are amortised over the life of the loan.

HAG may also be received in respect of revenue expenditure, particularly adaptations for disabilities. This is credited to the Income & Expenditure account in the same period that the expenditure is incurred.

## Other Grants

These include grants from local authorities and other organisations. The capital costs of housing properties are stated net of grants receivable on these properties. Grants in respect of revenue expenditure are credited to the Income and Expenditure account in the same period as the expenditure to which they relate.

## New Supply of Shared Equity

NSSE transactions are grants received from the Scottish Government and passed on to an eligible beneficiary. The Scottish Government has a benefit of a fixed charge on the property entitling it to a share of the proceeds on the sale of the property by the beneficiary.

Work in progress on NSSE properties is classified separately within the accounts as a current asset net of grants.

The Association is considered to be a vehicle for delivering NSSE units and should not make a surplus or incur a deficit. Any deficits are held within other debtors due within one year (Note 15) and any surpluses are held within other creditors payable within one year (Note 16).

## Depreciation

Depreciation has been charged on housing properties, calculated in accordance with the component accounting requirements of SORP 2010. Housing properties are broken down into their main components and each component has its own expected useful life. Depreciation is then charged on each component in accordance with that useful life.

The components and their expected useful lives are as follows:

• Land	No depreciation
• Structure	60 years
• Kitchen General Needs	17 years
• Kitchen Sheltered	20 years
• Bathroom	20 years
• Heating System	20 years
• Boiler	15 years
• Windows and Doors (timber)	50 years
• Windows and Doors (UPVC)	25 years

Any grant relating to a component is amortised over the same time period as the component.

Depreciation is charged on all other assets. The rate of depreciation used is calculated to write down the cost of other fixed assets over their expected useful lives. The expected asset lives used are:

## Depreciation (continued)

Commercial property	50 years
Computer equipment	3 years
IT System	10 years
Vehicles	4 years
Heritable office buildings	30 years
Office alterations	5 years
Office soft furnishings	10 years
Office furniture & equipment	5 years
Photocopiers	4 years

## Sales of housing properties

Income from sales of property developed with the intention of being sold is included in turnover.

Income from other property sales is not included in turnover, as all such sales are classed as disposals of fixed assets. These sales include open market sales and second or subsequent tranche sales of shared ownership properties. Tranches of shared ownership properties bought back by the Association are taken back to fixed assets until resold.

## Stock

Stocks are stated at the lower of cost and net realisable value. Cost includes all direct expenditure involved in bringing stocks to their present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

## Designated reserves

### Planned Maintenance Reserve

This reserve is based on the Association's obligation to maintain its housing properties in a satisfactory state of repair at all times. The costs of repairs of a routine nature are met from revenue in the year in which they are incurred. Repairs and refurbishments of a cyclical or long term nature are carried out in accordance with a planned programme of works based on 30 year life cycle costing predictions. Costs incurred to replace major components of housing developments are capitalised in the year they are incurred. Depreciation of housing components and all non capitalised planned maintenance costs incurred during the year are met from this Planned Maintenance Reserve. Transfers to this reserve are calculated in accordance with the expectations of the life cycle costing of funding required.

### Service Equipment Replacement Reserve

This reserve exists to replace equipment and furnishings not funded through rental income. Examples include lift replacements and furnishings within common areas of sheltered housing schemes. Transfers to this reserve are the contributions paid by tenants during the year and all service item replacement costs incurred during the year were met from this Service Item Replacement reserve.

## Pensions

The Association contributes to a defined benefit pension scheme, The Social Housing Pension Scheme, which is independently managed by The Pensions Trust. The scheme is subject to formal actuarial valuation on a triennial basis using the projected unit method. This is a group



## Pensions (continued)

scheme covering many employers in the social housing sector and the assets and liabilities of any one employer cannot be identified separately. The provisions of FRS 17 allow employers participating in such group schemes to treat their pension disclosures as if the scheme were defined contribution schemes. This is the treatment that has been adopted by Castlehill in these statements, with contributions to the scheme charged to the income and expenditure account, but no asset or liability appearing on the balance sheet (note 29).

## Related Party Transactions

Castlehill is involved in the management of three companies that are classed as related parties.

In May 2006 Castlehill, in conjunction with four other Registered Social Landlords in the Grampian area established Devanha Ltd (a company limited by guarantee; Company number SC302743). The primary rationale for forming Devanha was to support a large scale coordinated procurement approach for affordable housing in the Grampian area. Houses procured through Devanha are in the ownership of Castlehill Housing Association.

Grampian Community Care Charitable Trust Ltd was incorporated on 27 September 1996 as a charitable housing provider. The Trust became a wholly controlled subsidiary of Castlehill on 1 October 2011.

Castlehill Solutions Ltd was incorporated on 20 September 2011 as a mid market housing provider. In addition, the company operates a small repair service which associated with the Care & Repair service operated by Castlehill Housing Association Ltd. Both of these activities are the subject of a Service Level Agreement between Castlehill Solutions Ltd and Castlehill Housing Association Ltd. signed on 4 November 2013.

Details of transactions during the year to 31 March 2014 between Castlehill and these companies are given in note 27.

## Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

## Taxation

The Association has charitable status and is therefore not subject to Corporation Tax on its surpluses arising from charitable activities.

The Association is registered for VAT but because of the nature of its operations is only able to recover part of the VAT incurred. The balance of VAT payable or recoverable at the year end is included as a current liability or asset.



## 2 Going Concern - Basis of accounts preparation

The committee of management, having made due and careful enquiry and review of the annual forecasts prepared, are of the opinion that the Association has adequate working capital and are satisfied that these accounts should be prepared on a going concern basis.

CASTLEHILL HOUSING ASSOCIATION LIMITED

3. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

Notes	Turnover £	Operating Cost £	Operating Surplus/ (Deficit) £	Surplus/ (Deficit) 2013 £	Total 2013 £
4	7,579,077	(6,487,821)	1,091,256	1,088,022	5,638,452
5	1,124,569	(1,234,383)	(109,814)	(20,942)	1,277,338
Total	<b>8,703,646</b>	<b>(7,722,204)</b>	<b>981,442</b>	<b>1,067,080</b>	<b>6,915,790</b>
Totals for 2013	<b>8,675,524</b>	<b>(7,608,444)</b>	<b>1,067,080</b>		<b>(106,723)</b>

4. PARTICULARS OF TURNOVER, OPERATING COST AND OPERATING SURPLUS FROM SOCIAL LETTING ACTIVITIES

	General Needs £	Sheltered Housing £	Supported Housing £	Shared Ownership £	Total Housing £	Total 2013 £
Rent receivable net of identifiable service charges	3,835,843	1,760,669	47,252	202,923	5,846,687	5,638,452
Service Charges	361,733	910,718	14,274	139,533	1,426,257	1,277,338
Gross rents receivable	4,197,576	2,671,387	61,526	342,456	7,272,945	6,915,790
less : Rent losses from voids	(20,768)	(76,233)	-	(83)	(97,084)	(106,723)
Net income from rents and service charges	4,176,808	2,595,154	61,526	342,373	7,175,861	6,809,067
Grants from Scottish Ministers	13,051	12,502	-	-	25,554	63,477
Other revenue grants	1,081	376,581	-	-	377,662	461,385
Total turnover from social letting activities	<b>4,190,940</b>	<b>2,984,238</b>	<b>61,526</b>	<b>342,373</b>	<b>7,579,077</b>	<b>7,333,929</b>
Management and maintenance administration costs	1,122,254	557,867	11,076	54,060	1,745,257	1,811,226
Service Costs	199,787	1,287,299	14,274	99,404	1,600,764	1,674,287
Planned and cyclical maintenance	406,918	245,454	-	-	652,373	431,429
Reactive Maintenance Costs	774,391	585,995	24,383	-	1,384,769	1,274,281
Bad Debts	64,978	4,032	-	-	69,010	34,128
Depreciation of housing properties	770,876	263,540	1,233	-	1,035,648	1,020,556
Operating costs for social letting activities	<b>3,339,204</b>	<b>2,944,187</b>	<b>50,966</b>	<b>153,464</b>	<b>6,487,821</b>	<b>6,245,907</b>
<b>Operating surplus/(deficit) on social lettings</b>	<b>851,736</b>	<b>40,050</b>	<b>10,560</b>	<b>188,909</b>	<b>1,091,256</b>	<b>1,088,022</b>
Operating surplus/(deficit) for 2013	<b>880,883</b>	<b>81,666</b>	<b>5,704</b>	<b>119,769</b>	<b>1,088,022</b>	

**CASTLEHILL HOUSING ASSOCIATION LIMITED**

**5. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM OTHER ACTIVITIES**

	Grants from Scottish Ministers	Other revenue grants	Supporting People income	Other income	Total Turnover	Operating Costs - bad debts	Other operating costs	Operating surplus (deficit)	Operating surplus (deficit) for 2013
	£	£	£	£	£	£	£	£	£
Care and Repair	-	659,615	-	2,900	662,515	-	(662,515)	-	-
Adaptations Service	-	-	-	94,583	94,583	-	(104,673)	(10,091)	256
Property Developed for Sale	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	-	-	-	-	-	-
Development Activities	-	-	-	500	500	-	(93,442)	(92,942)	(60,121)
Support Activities	-	-	74,340	-	74,340	-	(89,611)	(15,271)	(9,283)
Management services - Grampian	-	-	-	125,755	125,755	-	(130,955)	(5,200)	35,270
Community Care Charitable Trust	-	-	-	95,479	95,479	-	(102,090)	(6,612)	-
Castlehill Solutions Ltd	-	-	-	71,398	71,398	-	(41,679)	29,719	20,736
Commercial Letting	-	-	-	-	-	-	-	-	-
Acquisition of subsidiary co	-	-	-	-	-	-	(9,417)	(9,417)	(7,799)
Other	-	-	-	-	-	-	-	-	-
<b>Total from other activities</b>	<b>-</b>	<b>659,615</b>	<b>74,340</b>	<b>390,615</b>	<b>1,124,569</b>	<b>-</b>	<b>(1,234,383)</b>	<b>(109,814)</b>	<b>(20,942)</b>
<b>Total from other activities for 2013</b>	<b>4,067</b>	<b>796,526</b>	<b>72,425</b>	<b>468,578</b>	<b>1,341,596</b>	<b>-</b>	<b>(1,362,537)</b>	<b>(20,942)</b>	<b>-</b>

**6. ACCOMMODATION IN MANAGEMENT**

	General Needs	Sheltered Housing	Supported Housing	Shared Ownership	Managed Property	Total Units
Number of units at start of period	1,060	557	10	120	16	1,763
Added in year	12	-	-	-	-	12
Disposals in year	(7)	-	-	-	-	(7)
<b>Number of units at end of period</b>	<b>1,065</b>	<b>557</b>	<b>10</b>	<b>120</b>	<b>16</b>	<b>1,768</b>



**7. DIRECTORS' EMOLUMENTS**

The remuneration paid to directors (defined as the Committee of Management and the Chief Executive/Secretary) of Castlehill Housing Association Limited was :

	2014 £	2013 £
Total emoluments (including pension contributions and benefits in kind)	<u>80,515</u>	<u>79,350</u>
Emoluments (excluding pension contributions) of the highest paid director amounted to	<u>74,698</u>	<u>72,808</u>

No emoluments were paid to the Convener or to any committee member other than the Chief Executive/Secretary. Only one director received emoluments in excess of £60,000, this being the Chief Executive/Secretary whose emoluments excluding pension contributions fell in the band greater than £70,000 but less than £80,000.

No compensation was payable to any director or former director in respect of loss of office.

There are no pensions payable in respect of any director or former director other than to the Chief Executive/Secretary who has the normal entitlement arising from membership of the employee pension scheme. Pension payments by the Association in respect of the Chief Executive/Secretary amounted to £5,817 in the year (2013 : £6,542). No loans have been advanced to any director or person connected with a director.

	2014 £	2013 £
Total expenses reimbursed to the Chief Executive/Secretary and members of the Committee of Management in so far as not chargeable to United Kingdom Income Tax	<u>1,111</u>	<u>1,749</u>

**8. EMPLOYEE INFORMATION**

The average weekly number of persons employed during the year, stated as full time equivalents, was :

	2014	2013
Office Staff	51	50
Direct labour, scheme based staff & others	<u>41</u>	<u>42</u>
	<u>92</u>	<u>92</u>

	2014 £	2013 £
Staff Costs (including director's emoluments)		
Wages and salaries	2,227,416	2,234,272
Social security costs	138,014	135,806
Pension costs (note 27)	<u>304,836</u>	<u>243,150</u>
	<u>2,670,266</u>	<u>2,613,228</u>

**9. AUDITORS' REMUNERATION**

	2014 £	2013 £
Operating surplus is stated after charging :		
Auditors' remuneration		
- in their capacity as auditors of the Association	14,700	13,800
- for other services	<u>-</u>	<u>4,200</u>
	<u>14,700</u>	<u>18,000</u>

**10. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2014 £	2013 £
Interest receivable	<u>41,208</u>	<u>47,897</u>

**11. INTEREST PAYABLE AND SIMILAR CHARGES**

	2014 £	2013 £
Interest payable wholly or partly in more than 5 years :		
On loans from The Scottish Government	91	206
Interest payable to other lenders	<u>715,596</u>	<u>722,694</u>
	<u><b>715,686</b></u>	<u><b>722,900</b></u>

**12. TAXATION**

The Association has charitable status for tax purposes.

**13. TANGIBLE FIXED ASSETS**

	Completed Houses held for Letting	Houses for Letting under Construction	Completed Shared Ownership Housing	Total
	£	£	£	£
<b>Housing Properties</b>				
<b>Cost</b>				
Opening balance	103,916,510	4,942,776	4,650,464	113,509,749
Schemes completed	2,165,553	(2,165,553)	-	-
Additions	1,369,249	752,697	-	2,121,946
Disposals	<u>(461,067)</u>	<u>-</u>	<u>-</u>	<u>(461,067)</u>
Closing balance	<u><b>106,990,244</b></u>	<u><b>3,529,920</b></u>	<u><b>4,650,464</b></u>	<u><b>115,170,628</b></u>
<b>Depreciation</b>				
Opening balance	21,788,893	-	-	21,788,893
Additions	1,972,990	-	-	1,972,990
Disposals	<u>(368,165)</u>	<u>-</u>	<u>-</u>	<u>(368,165)</u>
Closing balance	<u><b>23,393,718</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>23,393,718</b></u>
<b>Net book value at 31 March 2014</b>	<u><b>83,596,525</b></u>	<u><b>3,529,920</b></u>	<u><b>4,650,464</b></u>	<u><b>91,776,909</b></u>
Net book value at 31 March 2013	<u><b>82,127,616</b></u>	<u><b>4,942,776</b></u>	<u><b>4,650,464</b></u>	<u><b>91,720,856</b></u>
<b>Grants</b>				
<b>Housing Assoc Grant</b>				
Opening balance	68,721,544	3,790,853	3,527,117	76,039,514
Schemes completed	732,960	(732,960)	-	-
Additions	-	430,253	-	430,253
Disposals	(180,934)	-	-	(180,934)
Devanha Grant Adjustments	<u>(225,861)</u>	<u>-</u>	<u>-</u>	<u>(225,861)</u>
Closing balance	<u><b>69,047,709</b></u>	<u><b>3,488,146</b></u>	<u><b>3,527,117</b></u>	<u><b>76,062,972</b></u>
<b>Amortisation</b>				
Opening balance	13,305,008	-	-	13,305,008
Additions	937,342	-	-	937,342
Disposals	(135,079)	-	-	(135,079)
Devanha Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Closing Balance	<u><b>14,107,271</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>14,107,271</b></u>
<b>Other Grants</b>				
Opening balance	4,853,019	102,000	8,340	4,963,359
Schemes completed	102,000	(102,000)	-	-
Additions	-	-	-	-
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Closing balance	<u><b>4,955,019</b></u>	<u><b>-</b></u>	<u><b>8,340</b></u>	<u><b>4,963,359</b></u>
<b>Total Grants</b>	<u><b>59,895,458</b></u>	<u><b>3,488,146</b></u>	<u><b>3,535,457</b></u>	<u><b>66,919,061</b></u>

A surplus of £271,634 (2013 : £132,111) was realised on disposals of housing property.  
Interest capitalised during the year amounted to £0 (2013 : £0)

All the above properties are heritable properties and are owned by the Association.

## 14. TANGIBLE FIXED ASSETS

## Other Fixed Assets

	Subsidiary Company	Total
	£	£
Opening Balance	1,822,050	1,822,050
Additions	-	-
Disposals	-	-
<b>Net Book Value at 31 March 2014</b>	<b>1,822,050</b>	<b>1,822,050</b>

	Commercial Property	Office Buildings	Vehicles Furniture & Equipment	Total
	£	£	£	£
<b>Cost</b>				
Opening balance	1,008,896	632,700	517,175	2,158,771
Additions	-	-	77,523	77,523
Disposals	-	-	-	-
Closing balance	<u>1,008,896</u>	<u>632,700</u>	<u>594,698</u>	<u>2,236,294</u>
<b>Depreciation</b>				
Opening balance	117,445	529,888	269,046	916,379
Charge for year	16,778	22,057	51,485	90,320
Eliminated on disposals	-	-	-	-
Closing balance	<u>134,223</u>	<u>551,945</u>	<u>320,531</u>	<u>1,006,700</u>
<b>Net book value at 31 March 2014</b>	<b>874,673</b>	<b>80,755</b>	<b>274,167</b>	<b>1,229,594</b>
Net book value at 31 March 2013	<u>891,451</u>	<u>102,812</u>	<u>248,129</u>	<u>1,242,391</u>

The commercial property and the office building are heritable properties.

## 15. DEBTORS

	2014 £	2013 £
Amounts falling due within one year :		
Rental debtors	222,857	205,532
less provision for bad and doubtful debts	(79,184)	(71,005)
Net rental debtors	143,673	134,527
Other debtors	901,113	482,912
Amount due from related parties	152,159	-
Prepayments and accrued income	79,948	95,905
	<u>1,276,893</u>	<u>713,344</u>
Amounts falling due in 2-5 years :		
Loans to employees	3,667	9,384
	<u>1,280,560</u>	<u>722,729</u>

Loans are available to employees for the purchase of cars for business use.  
Loans at 31/03/14 are to 5 employees, all for a period of up to 5 years at an interest rate of 3.75 %.

## 16. CREDITORS DUE WITHIN ONE YEAR

	2014 £	2013 £
Loans (see note 17)	975,451	1,438,623
Tax and social security	13,162	64,663
Accruals and deferred income	1,527,660	1,215,367
Rent in advance	95,456	80,846
Trade creditors	711,802	797,698
Other creditors	759,727	1,014,946
	<u>4,083,257</u>	<u>4,612,144</u>



## 17. CREDITORS DUE AFTER MORE THAN ONE YEAR

	2014 £	2013 £
<b>Housing Property Finance</b>		
Housing Loans	<u>20,134,933</u>	<u>18,486,655</u>
<b>Commercial Property Finance</b>		
Commercial Loan	<u>531,914</u>	<u>561,779</u>
Loans are secured by specific charges on the Association's properties and are repayable at varying rates of interest in instalments due as follows :		
Within one year	975,451	1,438,623
From one to two years	1,002,524	912,908
Between two and five years	5,638,241	5,397,771
In five years or more	<u>14,026,082</u>	<u>12,737,755</u>
	<u>21,642,298</u>	<u>20,487,058</u>

The Association has mortgage loans totalling £745 with The Scottish Government at fixed rates in the range of 9.25% to 16%. The Association also has fixed and variable rate loans with banks and building societies. Fixed rate loans amounting to £12,653,089 are at rates of 3.81% to 8.865%. Variable rate loans amounting to £8,989,209 are at rates of 0.23% to 1% above base rate (currently 0.5%) or 3 month libor (currently 0.527%). The final repayment date for loans is March 2052.

<b>Total creditors due after more than 1 year</b>	<u>20,666,848</u>	<u>19,048,435</u>
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## 18. CALLED UP SHARE CAPITAL

	2014 £	2013 £
<b>Allotted, issued and fully paid</b>		
Opening balance	59	60
Issued during year	2	1
Transfer to capital reserve	-	(2)
Closing balance	<u>61</u>	<u>59</u>

## 19. CAPITAL RESERVE

	2013 £	2012 £
Opening balance	115	113
Transfer from share capital	-	2
Closing balance	<u>115</u>	<u>115</u>

The capital reserve represents the amount of shares in the Association which have been surrendered.

## 20. DESIGNATED RESERVES

	2014 £	2013 £
<b>Planned Maintenance Reserve</b>		
Opening balance	2,261,717	1,931,494
Additions in year	-	1,782,209
Expenditure in year	-	(1,451,986)
Transfer during the year	<u>(1,443,068)</u>	<u>2,261,717</u>
	<u>818,649</u>	<u>2,261,717</u>
<b>Service Equipment Replacement Reserve</b>		
Opening balance	1,294,638	1,261,939
Additions in year	181,332	262,020
Expenditure in year	<u>(111,456)</u>	<u>(229,321)</u>
	<u>1,364,514</u>	<u>1,294,638</u>
<b>Total designated reserves</b>	<u>2,183,163</u>	<u>3,556,355</u>

## 21. REVENUE RESERVES

	2014 £	2013 £
Opening balance	4,839,268	4,678,003
Surplus for the year	578,597	524,188
Transfer from/(to) designated reserves	<u>1,373,192</u>	<u>(362,922)</u>
<b>Total revenue reserves</b>	<u>6,791,057</u>	<u>4,839,268</u>

**22. RECONCILIATION OF SURPLUS FOR THE YEAR TO NET CASH FLOW FROM OPERATING ACTIVITIES**

	2014 £	2013 £
Operating surplus	981,442	1,067,080
Depreciation	1,125,969	1,109,414
Decrease in Stock	7,756	8,980
(Increase) / decrease in debtors	(230,403)	486,513
Decrease in creditors	<u>(43,864)</u>	<u>(195,069)</u>
Net Cash Inflow from Operating Activities	<u>1,840,901</u>	<u>2,476,918</u>

**23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	2014 £	2013 £
Increase / (decrease) in cash	1,261,504	(903,856)
(Increase) / decrease in debt	(1,155,241)	319,710
Cash flow from management of liquid resources	<u>(965,514)</u>	<u>1,069,195</u>
Movement in net debt in period	(859,251)	485,050
Net debt at 1 April 2013	<u>(16,254,173)</u>	<u>(16,739,223)</u>
Net debt at 31 March 2014	<u>(17,113,424)</u>	<u>(16,254,173)</u>

**ANALYSIS IN CHANGES IN NET DEBT**

	At 1 April 2013 £	Cash Flows £	At 31 March 2014 £
Cash at bank and in hand	1,881,883	1,261,504	3,143,387
Debt due within one year	(1,438,623)	463,172	(975,451)
Debt due after one year	(19,048,434)	(1,618,413)	(20,666,847)
Current asset investments	<u>2,351,000</u>	<u>(965,514)</u>	<u>1,385,487</u>
Net Debt	<u>(16,254,173)</u>	<u>(859,250)</u>	<u>(17,113,424)</u>

**24. CONTRACTED EXPENDITURE COMMITMENTS**

	2014 £	2013 £
Expenditure that has been contracted for but not provided for in the financial statements	<u>1,215,000</u>	<u>287,633</u>
The Association expects its contracted expenditure to be financed as follows:	2014 £	2013 £
Loan finance	665,032	255,629
Grant/own reserves	<u>549,968</u>	<u>32,004</u>
	<u>1,215,000</u>	<u>287,633</u>

**25. REVENUE COMMITMENTS**

The Association is committed to make the following payments within one year under non-cancellable operating leases :

Expiring :	2014 £	2014 £	2013 £	2013 £
	Land & Buildings	Other	Land & Buildings	Other
Within 1 year	-	7,067	-	24,444
Between 1 and 5 years	-	-	-	7,067
After more than 5 years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>7,067</u>	<u>-</u>	<u>31,510</u>

**26. LEGISLATIVE PROVISIONS**

The Association is incorporated under the Industrial and Provident Societies Act 1965, Register No 1670R(S). Castlehill operates according to Charitable Model (Scotland) Rules, which entirely replaced Model H10 1968 (Charitable Rules) with effect from 27 February 1992.

Castlehill was accepted as a Charity for tax purposes with effect from 18 September 1970.

The Association is registered with The Scottish Government under the Housing Association Act 1985, Register No L0968.

**27. RELATED PARTY TRANSACTIONS**

	2014 £	2013 £
Transactions with related parties included in the Association's accounts for the year to 31/03/14		
Devanha Limited Expenditure	-	(5,000)
Grampian Community Care Charitable Trust : Income	<u>144,756</u>	<u>126,769</u>
Castlehill Solutions Limited Income	121,243	-
Purchase	<u>(257)</u>	-

Amount due from Grampian Community Care Charitable Trust of £33,701 (2013 : £29,932) and from Castlehill Solutions Ltd of £118,458 (2013: £0) was outstanding at 31/03/14.

**28. CONTINGENT LIABILITIES**

Housing Association Grants provided by the Scottish Government have been provided for the purpose of funding social housing. In the event of sale of any property to which grant is attached the grant is repayable to the Scottish Government.



Castlehill Housing Association participates in the Social Housing Pension Scheme (the Scheme). The Scheme is funded and is contracted out of the State Pension scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

The Scheme operated a single benefit structure, final salary with 1/60<sup>th</sup> accrual rate until 31<sup>st</sup> March 2007. From April 2007 there are three benefit structures available, namely:

- Final Salary with a 1/60<sup>th</sup> accrual rate
- Final Salary with a 1/70<sup>th</sup> accrual rate
- Career average revalued earnings with a 1/60<sup>th</sup> accrual rate.
- 

From April 2010 a further two defined benefit structures have been available, namely:

- Final salary with a 1/80<sup>th</sup> accrual rate.
- Career average revalued earnings (CARE) with a 1/80<sup>th</sup> accrual rate.

A defined contribution benefit structure was made available from 1 October 2010.

An employer can elect to operate different benefit structures for their active members and their new entrants. An employer can only operate one open defined benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Castlehill Housing Association has operated the final salary with 1/60<sup>th</sup> accrual rate benefit structure both for active members and for new entrants. In addition Castlehill operates the defined contribution benefit structure for employees who choose it rather than the final salary with 1/60<sup>th</sup> accrual structure.

The Trustee commissions an actuarial valuation of the Scheme every 3 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, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution no longer applies.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period Castlehill Housing Association paid contributions at rates of between 16.2% and 18.2% for members who had opted to take advantage of salary sacrifice and contributions of 9.0% for those members who did not. Member contributions varied between 0% (salary sacrifice) and 7.2% to 9.2% (non salary sacrifice).

As at the balance sheet date there were 72 active members of the Scheme employed by the Association. The annual pensionable payroll in respect of these members was £1,693,387. Castlehill Housing Association continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Scheme is a multi employer scheme where the assets are co-mingled for



investment purposes, and benefits are paid out of total scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed at 30<sup>th</sup> September 2011 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £2,062 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035 million, equivalent to a past service funding level of 67.0%.

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 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The market value of the Scheme's assets at the date of the Actuarial Report was £2,718 million. The Actuarial Report revealed a shortfall of assets compared to the value of liabilities of £1,151 million, equivalent to a past service funding level of 70%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

<b>Valuation Discount Rates</b>	<b>% pa</b>
• Pre retirement	7.0
• Non Pensioner Post retirement	4.2
• Pensioner Post retirement	4.2
• Pensionable earnings growth	2.5 p.a. for 3 years, then 4.4
• Price Inflation (RPI)	2.9
<b>Pension Increases</b>	
• Pre 88 GMP	0.0
• Post 88 GMP	2.0
• Excess over GMP	2.4

Expenses for death in service insurance, administration and Pension Protection Fund (PPF) levy are included in the contribution rate.

The valuation was carried out using the following demographic assumptions.

Mortality pre retirement – 41% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI\_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

Mortality post retirement – 97% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI\_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

The long-term joint contribution rates that will apply from April 2013 from employers and members to meet the costs of future benefit accrual were assessed at:

<b>Benefit Structure</b>	<b>Long-term joint contribution rate (% of pensionable salaries)</b>
Final salary with 1/60 <sup>th</sup> accrual rate	19.4

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

## 29. PENSIONS continued

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Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £1,035 million would be dealt with by the payment of deficit contributions as shown in the table below:

From 1 April 2013 to 30 September 2020	A cash amount (*) equivalent to 7.5% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 <sup>st</sup> April)
From 1 October 2020 to 30 September 2023	A cash amount (*) equivalent to 3.1% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 <sup>st</sup> April)
From 1 April 2013 to 30 September 2026	£30,640 per annum (payable monthly and increasing by 3% each 1 <sup>st</sup> April; first increase on 1 <sup>st</sup> April 2014)

(\*) The contributions of 7.5% will be expressed in nominal pound terms (for each Employer), increasing each year in line with the Earnings growth assumption used in the 30 September 2008 valuation (i.e. 4.7% per annum). The contributions of 3.1% will be calculated by proportioning the nominal pound payment at the time of the change. Earnings at 30 September 2008 (for each Employer) will be used as the reference point for calculating these contributions.

These deficit contributions are in addition to the long-term joint contribution rates as set out above.

The next formal valuation of the Scheme will begin later this year and will give an update on the financial position as at 30<sup>th</sup> September 2014. The results of this valuation will be available in Spring 2016.

A copy of the Recovery Plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to The Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or Recovery Plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Scheme liabilities and hence impact on the Recovery Plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the Recovery Plan).

As a result of pension scheme legislation 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 performance, 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.



Castlehill Housing Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from SHPS based on the financial position of the Scheme as at 30 September 2013. As of this date the estimated employer debt for the Association was £10,494,442.

The Association also participates in the Pension's Trust Growth Plan. The Plan is funded and is not contracted out of the state scheme. The Plan is a multi-employer pension plan.

Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from normal retirement date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Plan, or by purchase of an annuity.

The rules of the Plan allow for the declaration of bonuses and/or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses/investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The Trustee commissions an actuarial valuation of the Growth Plan every three years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities, known as Technical Provisions.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

The rules of the Plan state that the proportion of obligatory contributions to be borne by the member and the member's employer shall be determined by agreement between them. Such agreement shall require the employer to pay part of such contributions and may provide that the employer shall pay the whole of them.

The Association offers the Growth Plan as an AVC investment option for members of SHPS. The members pay contributions at a rate of their choice. The Association does not pay any contributions to the Growth Plan. As at the balance sheet date there were 2 active members of the Plan. Castlehill Housing Association continues to offer membership of the Plan to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Plan is a multi-employer scheme, where the assets are co-mingled for investment purposes, and benefits are paid out of the Plan's total assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The valuation results at 30 September 2011 were completed in 2012 and have been formalised. The valuation of the Plan was performed by a professionally qualified Actuary using the Projected Unit Method. The market value of the Plan's assets at the valuation date was £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore, revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a funding level of 84%.



The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

Valuation Discount Rates	% pa
• Rate of return pre retirement	4.9
• Rate of return post retirement:	
➤ Active/Deferred	4.2
➤ Pensioners	4.2
• Bonuses on accrued benefits	0.0
• Inflation: Retail Prices Index (RPI)	2.9
• Inflation: Consumer Prices Index (CPI)	2.4

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into the pre and post retirement investment return assumptions; such that there is a 60% expectation that the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next 10 years.

The Scheme Actuary has prepared a funding position update as at 30 September 2013. The market value of the Plan's assets at that date was £772 million and the Plan's Technical Provisions (i.e. past service liabilities) was £927 million. The update, therefore, revealed a shortfall of assets compared with the value of liabilities of £155 million, equivalent to a funding level of 83%.

If an actuarial valuation reveals a shortfall of assets compared to liabilities, the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

The Pensions Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example, the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Plan liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Plan (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2011 valuation was forwarded to The Pensions Regulator on 2 October 2012, as is required by legislation.

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 Plan and The Pensions Act 2011 has more recently altered the definition of Series 3 of the Growth Plan so that a liability arises to employers from membership of any Series except Series 4. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buy-out 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 Plan. 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 Plan's liability attributable to employment with the leaving employer compared to the total amount of the Plan'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 Plan liabilities, Plan investment performance, 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. Therefore, the amounts of debt can be volatile over time.

## 29. PENSIONS Continued

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When an employer withdraws from a multi-employer defined benefit pension scheme which is in deficit, the employer is required by law to pay its share of the deficit, calculated on a statutory basis (known as the buy-out basis). Due to a change in the definition of money purchase contained in the Pensions Act 2011 the calculation basis that applies to the Growth Plan will be amended to include Series 3 liabilities in the calculation of an employer's debt on withdrawal.

The Pensions Act 2011 also proposed regulations which will make "consequential or transitional provisions to avoid adverse consequences". Should an employer withdraw prior to the regulations coming into force (expected to be at the end of July 2014), they should contact The Pensions Trust to check whether the regulations could affect their debt on withdrawal calculation.

The Growth Plan is a "last man standing" multi-employer scheme. This means that if a withdrawing employer is unable to pay its debt on withdrawal the liability is shared amongst the remaining employers. The participating employers are therefore, jointly and severally liable for the deficit in the Growth Plan. As at 30 September 2013 the total deficit calculated on the buy-out basis was £219.9m.

Castlehill Housing Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2013. As of this date the estimated employer debt for the Association was £67,130 if Series 3 liabilities are included and £90,400 if they are not.



**REPORT OF THE AUDITORS TO CASTLEHILL HOUSING ASSOCIATION LIMITED ON INTERNAL FINANCIAL CONTROL**

**Internal financial controls**

In addition to our audit of the financial statements, we have reviewed the Committee of Management's statement on page 4 on the Association's compliance with the Scottish Federation of Housing Associations good practice guidance in respect of internal financial control ("the Guidance"). The objective of our review is to enable us to conclude on whether the Committee of Management has provided the disclosures required by the Guidance and whether the statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

**Basis of opinion**

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

**Opinion**

With respect to the Committee's statement on internal financial control on page 4, in our opinion the Committee of Management has provided the disclosures required by the Guidance and the statement is not inconsistent with the information of which we are aware from our work on the financial statements.

*Anderson Anderson & Brown LLP*

Anderson Anderson & Brown LLP  
Chartered Accountants  
Registered Auditors  
Aberdeen

*18 AUGUST 2014*