

Registered number: L0968

Charity number: SC013584

CASTLEHILL HOUSING ASSOCIATION LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2019

CASTLEHILL HOUSING ASSOCIATION LIMITED

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CASTLEHILL HOUSING ASSOCIATION LIMITED

MEMBERS, EXECUTIVE OFFICERS AND ADVISORS

| | |
|--------------------------------|---|
| Committee of Management | Mr D Millar (Convener) Mrs J Lyon (Vice Convener) Mr G Kyle Mr J Nicoll (resigned 27 August 2018) Mr G Ogston Mr I Thomson (resigned 12 June 2019) Mr J Tomlinson Mrs S Williamson (resigned 27 August 2018) Mr P King Mr C Stewart (resigned 31 March 2019) Mr K Willox (appointed 27 August 2018) Mr A Pilkington (co-opted 27 May 2019) |
| Registered Auditors | Anderson Anderson & Brown Audit LLP Kingshill View Kingswells Aberdeen AB15 8PU |
| Solicitors | Burness Paul LLP Union Plaza Union Wynd Aberdeen AB10 1SL |
| Bankers | Clydesdale Bank plc Principal Branch Queen's Cross Aberdeen AB15 4XU |
| Executive Officers | Mr D Lappin (Chief Executive/Secretary) Mrs J Ramsay (Director of Finance & Corporate Services) Mrs G Robertson (Director of Housing & Property Services) |
| Registered Office | 4 Carden Place Aberdeen AB10 1UT |

CASTLEHILL HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

The committee of management presents its report and the audited financial statements for the year ended 31 March 2019.

Legal Status

Castlehill Housing Association is a registered non-profit making organisation under the Co-operative and Community Benefit Societies Act 2014. It is also a registered Scottish Charity with charity number SCO13584.

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 Statement of Comprehensive Income on page 8. The members of the Management Committee are of the opinion that the state of affairs of the Association, as shown on the Statement of Financial Position on page 9, is satisfactory and recommend that the surplus for the year of £954,377 (2018: £782,767) be transferred to reserves.

2018-19 was another busy year for development with a number of schemes completed. 38 properties were completed and handed over at Mugiemoor, Aberdeen comprising 32 properties for general rent and 6 for mid market rent. These mid market rental properties are leased to our subsidiary, Castlehill Solutions Ltd, and brings their total stock to 28 units as at 31 March 2019. We also completed 12 flats at Portstown, Inverurie and both of these developments were handed over in April/May 2018.

In the first quarter of the year we handed over the final 8 units on Phase II of our development at Westgate, Inverurie and we are currently building Phase III of 8 additional properties on this site.

During the year we have substantially completed our development of 36 2 & 3 bedroom houses at Maidencraig, Aberdeen with handover of these properties taking place in the first quarter of 2019-20. This will provide much needed affordable homes within the city. In addition, the second phase of development at Portstown, Inverurie has commenced and these 24 properties comprising 12 flats and 12 houses are due to complete in the second half of 2019.

Looking forward to 2019-20 we will begin development on 3 new sites as follows:

- i) Mix of 29 flats and houses in Golden Knowes, Banff
- ii) 24 units in Forest Road, Kintore
- iii) 8 units in South Road, Inch

Outline planning permission has been granted by Aberdeenshire Council to build a mixture of houses to the south of Balmedie and Chapelwell. Detailed planning proposals will now be put to the Planning Committee in September with the expectation that planning permission in principal will be received by early 2020. The decision was taken during the year not to move forward with the development of homes at our site in Mintlaw. This land will now transfer back to Aberdeenshire Council.

Provision of Housing Management and Property Maintenance services remains a core activity for the Association. During the year both of these departments underwent a reorganisation and our property services team is now under the direction of our newly appointed Property Services Manager. The reorganisation will enable us to deliver an improved service to our tenants.

CASTLEHILL HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019 (continued)

Review of business and future developments (continued)

Our commitment to quality services is reflected in the results of our 2017 Tenants Survey that gave an overall satisfaction rating with the services Castlehill provides of 90%. The full Tenants Survey is due to be repeated in the early part of 2020. Castlehill remains a significant provider of Housing Support services both in our Sheltered Housing and through our Key Project, which supports the most vulnerable tenants to sustain their tenancy.

The Group continues to invest in maintaining the existing housing stock through its ongoing component replacement programme. During the year we spent a total of £1.3M on planned maintenance of which £920k was capitalised and represents replacement kitchens, bathrooms and heating systems.

Castlehill is committed to improving our housing using renewable technologies and addressing fuel costs in areas without mains gas. Our programme of renewable heating installation continues to grow with the most recent being a ground source system in Braemar.

Following a tendering exercise by Aberdeen City Council in 2018, Castlehill was awarded the contract to run Care & Repair services in the city, initially on a three-year term until 2021, with an additional extension of up to two years to be negotiated as part of the contract.

Changes in fixed assets

Details of fixed assets are set out in notes 13 and 15.

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 Association'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 surplus or deficit 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.

CASTLEHILL HOUSING ASSOCIATION LIMITED

**REPORT OF THE MANAGEMENT COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2019 (continued)**

Statement of committee's responsibilities (continued)

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 2019. 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 - D Lappin

29 July 2019

Date

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

Opinion

We have audited the financial statements of Castlehill Housing Association Limited for the year ended 31 March 2019, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in reserves and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2019 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006; and
- have been properly 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 2015.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Association's in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Committee of Managements' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Committee of Management have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Other information

The Committee of Management are responsible for the other information. The other information comprises the information included in the Committee of Managements' report, other than the financial statements and our Auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the report of the Committee of Management' for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the report of the Committee of Management has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Committee of Managements' report.

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.

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

Responsibilities of the Committee of Management

As explained more fully in the Statement of responsibilities of the Committee of Management on pages 3 and 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, and for such internal control as the determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Committee of Management are responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' report.



John Black (Senior Statutory Auditor)
For and on behalf of Anderson Anderson & Brown Audit LLP
Statutory Auditor
Kingshill View
Prime Four Business Park
Aberdeen
AB15 8PU

29 July 2019

CASTLEHILL HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Notes | 2019 £ | 2018 £ |
|--|-------|------------------|------------------|
| Turnover | 3 | 11,724,319 | 11,055,971 |
| Less: Operating costs | 3 | (9,894,033) | (9,472,399) |
| Operating Surplus | | 1,830,286 | 1,583,572 |
| Gain/(deficit) on sale of fixed assets | | 15,726 | (70,194) |
| Surplus on operating activities before Interest | | 1,846,012 | 1,513,378 |
| Interest receivable | 10 | 16,632 | 15,197 |
| Interest payable | 11 | (908,267) | (745,808) |
| Surplus for the year | | 954,377 | 782,767 |

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

The notes on pages 11 to 35 form part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Notes | 2019 £ | 2018 £ |
|--|-------|--------------------|----------------|
| Surplus for the year | | 954,377 | 782,767 |
| Other comprehensive income/(expense): | | | |
| Adoption of defined benefit accounting | 1.2 | (1,634,000) | - |
| Remeasurement of net defined benefit obligation | | (922,437) | 32,471 |
| Total comprehensive income/(expense) for the year | | (1,602,060) | 815,238 |

CASTLEHILL HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2019

| | Notes | 2019 £ | 2019 £ | 2018 £ |
|--|-------|------------------|--------------------|--------------------|
| Tangible fixed assets | | | | |
| Social housing properties | 13 | | 111,876,107 | 106,451,367 |
| Investment in subsidiary | 14 | | 1,822,051 | 1,822,051 |
| Other fixed assets | 15 | | 944,435 | 999,510 |
| | | | <u>114,642,593</u> | <u>109,272,928</u> |
| Current assets | | | | |
| Stocks | | 11,003 | | 12,094 |
| Debtors | 16 | 826,670 | | 775,274 |
| Cash on term deposit | | 1,386,373 | | 1,378,767 |
| Cash at bank and in hand | | 2,803,622 | | 3,694,389 |
| | | <u>5,027,668</u> | | <u>5,860,524</u> |
| Creditors | | | | |
| Amounts falling due within one year | 17 | (5,121,867) | | (5,433,085) |
| Net current (liabilities)/assets | | | <u>(94,199)</u> | <u>427,439</u> |
| Total assets less current liabilities | | | <u>114,548,394</u> | <u>109,700,367</u> |
| Creditors | | | | |
| Amounts falling due after more than one year | 18 | | (92,302,962) | (88,247,552) |
| Provision for liabilities | | | | |
| Pension liability | 27 | | (4,716,562) | (2,321,887) |
| Net assets | | | <u>17,528,870</u> | <u>19,130,928</u> |
| Capital and Reserves | | | | |
| Share Capital | 19 | | 63 | 67 |
| Capital Reserve | 20 | | 126 | 120 |
| Revenue Reserve | | | 17,528,681 | 19,130,741 |
| | | | <u>17,528,870</u> | <u>19,130,928</u> |

The notes on pages 11 to 35 were approved by the Committee of Management on 29 July 2019 and were signed on its behalf by:


Committee Member DAVID MILLAR


Committee Member JANICE LYON


Chief Executive/Secretary: D Lappin

CASTLEHILL HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

| | Notes | 2019 £ | 2019 £ | 2018 £ |
|---|-------|-------------|-------------|--------------|
| Net cash inflow from operating activities | 21 | | 2,448,008 | 2,701,812 |
| Cash flow from investing activities | | | | |
| Improvement and construction of properties | | (8,308,446) | | (11,125,465) |
| Purchase of other fixed assets | | (22,122) | | (16,461) |
| Receipts from the sale of tangible fixed assets | | 292,532 | | 200,938 |
| Interest Received | | 16,632 | | 15,197 |
| Net cash outflow from investing activities | | | (8,021,404) | (10,925,791) |
| Cash flow from financing activities | | | | |
| Interest paid | | (811,485) | | (712,125) |
| Grant received | | 4,151,345 | | 4,978,724 |
| Issue of share capital | | 2 | | 9 |
| Repayment of bank loans | | (1,149,627) | | (1,097,542) |
| Receipts of mortgages and other loans | | 2,500,000 | | 6,600,000 |
| Net cash inflow from financing activities | | | 4,690,235 | 9,769,066 |
| Net change in cash and cash equivalents | | | (883,161) | 1,545,087 |
| Cash and cash equivalents at 1 April | | | 5,073,156 | 3,528,069 |
| Cash and cash equivalents at 31 March | | | 4,189,995 | 5,073,156 |
| Cash and cash equivalents at 31 March | | | | |
| Cash at bank and in hand | | | 2,803,622 | 3,694,389 |
| Cash on term deposit | | | 1,386,373 | 1,378,767 |
| Bank overdraft | | | - | - |
| | | | 4,189,995 | 5,073,156 |

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

The notes on pages 11 to 35 form part of these financial statements.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies

With the exception of the pension accounting policy (see 1.2 below), the principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

1.1 *Basis of accounting*

The financial statements of the Association are prepared in accordance with the Companies Act 2006, applicable accounting standards, the accounting requirements included within the Determination of Accounting Requirements 2012, and under the historical cost accounting basis. The financial statements have also been prepared in accordance with the Statement of Recommended Practice for registered social housing providers 2014 ("SORP 2014"), issued by the National Housing Federation and under FRS 102.

Castlehill Housing Association Limited is a public benefit entity.

1.2 *Pensions*

Castlehill Housing Association Limited participates in a defined benefit pension scheme, The Social Housing Pension Scheme, which is independently managed by The Pensions Trust ("the Trust"). The Trust provides benefits based on final pensionable pay, which is contracted out of the State Second Pension. The assets and liabilities of the Scheme are held separately from those of the Association.

In prior years, where the scheme was in deficit and where the Association had agreed to a deficit funding arrangement, the association recognised a liability for this obligation. The amount recognised was the net present value of the deficit reduction contributions payable under the agreement that related to the deficit. The present value calculated at 31 March 2018 was £2,321,887. This policy was adopted as historically the Trust were unable to provide sufficient information on each social landlord's share of liabilities on the scheme to allow defined benefit accounting to be applied.

For the year ended 31 March 2019, the Trust are now in a position to provide the share of scheme assets and liabilities allocated to each social landlord and thus defined benefit accounting has been adopted with effect from 1 April 2018. This has resulted in a prior year adjustment to opening reserves of £1,634,000 and has been recognised in the Statement of Other Comprehensive Income.

The liability recognised in the balance sheet in respect of the scheme is the present value of the defined benefit obligation at the year end less the fair value of the plan assets at the year end. The defined benefit obligation is calculated using the projected unit credit method and information on the value of the scheme assets and liabilities is provided by the Trust.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as remeasurement of net defined benefit liability.

The cost of the defined benefit plan is recognised in the Statement of Comprehensive Income as employee costs and includes the increase in pension benefit liability arising from employee service during the year. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised as an interest expense.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Accounting policies (continued)

1.3 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.

1.4 Grant income

Where a grant is paid as a contribution towards revenue expenditure, it is included in turnover. Where a grant is received from government and other bodies as a contribution towards the capital cost of housing schemes, it is recognised as income using the performance model in accordance with the SORP 2014. Prior to satisfying the performance conditions (e.g. on completion of new build properties), such grants are held as deferred income on the statement of financial position. Once the conditions are satisfied the grant is recognised as income on a systematic basis over the expected useful life of the components. If a property component is replaced before the end of its useful life and there is no obligation to repay the grant, any unamortised grant remaining within deferred income in the Statement of financial position related to this asset is recognised as revenue in the Statement of comprehensive income.

1.5 Related party transactions

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

Castlehill Housing Trust (formerly 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 Limited was incorporated on 20 September 2011 as a mid-market housing provider.

Details of transactions during the year to 31 March 2019 between Castlehill and these companies are given in note 26.

1.6 Bad and doubtful debts

Provision is made against rent arrears of current and former tenants as well as other miscellaneous debts to the extent that they are considered potentially irrecoverable. Debts are classed as uncollectable after an assessment of the legislative options available to recover and consideration of specific circumstances.

1.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Accounting policies (continued)

1.8 Creditors

Short term creditors are measured at transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

1.9 Cash and cash equivalents

Cash comprises cash in hand and deposits repayable on demand. Liquid resources are current asset investments that are disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at or close to their carrying values.

1.10 Fixed assets - social housing properties

In accordance with SORP 2014, the Association operates a full component accounting policy in relation to the capitalisation and depreciation of its completed housing stock.

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 Statement of Comprehensive Income.

1.11 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.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Accounting policies (continued)

1.12 Depreciation and impairment

Depreciation has been charged on housing properties, calculated in accordance with the component accounting requirements of SORP 2014.

Housing properties are split between land, structure and major components which require periodic replacement. Replacement or refurbishment of such major components is capitalised and depreciated over the estimated useful life which has been set taking into account professional advice, the Association's asset management strategy and the requirement of the Scottish Housing Quality Standard. In determining the remaining useful lives for the housing stock, the Association has taken account of views provided by both internal and external professional resources. Freehold land is not subject to depreciation.

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 - 20 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.

1.13 Other tangible fixed assets

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:

| | |
|--------------------------------|----------|
| • 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 |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Accounting policies (continued)

1.14 *Investment properties*

Commercial properties are held as investment properties and not subject to depreciation; they are held at existing use value and are subject to revaluation by an independent professional advisor qualified by the Royal Institute of Chartered Surveyors to undertake valuation. Commercial properties are re-valued at least every five years.

Changes in the valuation of investment properties are reported in the Statement of Comprehensive Income.

1.15 *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.

1.16 *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.

1.17 *Interest income*

Interest income is recognised in the statement of comprehensive income.

1.18 *Borrowing costs*

All borrowing costs are recognised in the statement of comprehensive income.

1.19 *Provisions*

The Association only provides for liabilities at the year end where there is a legal or constructive obligation incurred which will likely result in the outflow of resources.

1.20 *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.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Accounting policies (continued)

1.21 *Financial instruments*

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Income statement.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.22 *Housing Association Grant and other capital grants*

Housing Association Grant ("HAG") is received from central government and local authorities and is utilised to subsidise the costs of housing properties. HAG received is held as deferred income until the performance conditions are satisfied, at which point it is recognised as income in the statement of comprehensive income over the expected useful life of the asset as noted in Note 1 - grant income.

Properties are disposed of under the provisions contained in the Housing (Scotland) Act 2010. Any grant that is repayable is accounted for as a liability on disposal of the property. Grant which is repayable but cannot be repaid from the proceeds of sale is accounted for as a liability. Where a disposal is deemed to have taken place for accounting purposes, but the repayment conditions have not been met in relation to the grant funding, the potential future obligation to repay is disclosed as a contingent liability.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Accounting policies (continued)

1.23 Taxation

As a charity, Castlehill Housing Association Limited is exempt from corporation tax on its activities by virtue of Section 505 (1) Income & Corporation Taxes Act 1988 and from capital gains tax by virtue of Section 145 Capital Gains Tax Act 1979.

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.

1.24 Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of financial position date and the amounts reported during the year for revenue and costs. However, the nature of estimation means that actual outcomes could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgements and estimates have had the most significant impact on amounts recognised in the financial statements.

- **Operating lease commitments**
The Association has entered into commercial property leases and as a lessee it obtains use of property, plant and equipment. The classification of such leases as operating for finance lease requires the Association to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.
- **Defined benefit obligations**
In determining the value of the Association's share of defined benefit pension scheme assets and obligations, the valuation prepared by the Scheme actuary includes estimates of life expectancy, salary growth, inflation and the discount rate on corporate bonds.
- **Bad and doubtful debts**
The Association makes an assessment of the recoverable value of trade and other debtors. Provision is made again rent arrears of current and former tenants over 16 weeks as well as considering various factors such as the payment profile of debtors and historical experience.
- **Depreciation and grant amortisation**
The annual depreciation charge for tangible fixed assets is sensitive to changes in useful economic lives. They are assessed where necessary to reflect current estimates for each component as noted in the depreciation accounting policy. Any grant relating to properties is also based on the Association's estimate of each components useful life.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

3. Particulars of turnover, operating costs and operating surplus

| | Notes | Turnover £ | Operating cost £ | Operating surplus 2019 £ | Operating Surplus 2018 £ |
|---|-------|-------------------|------------------------|-----------------------------------|-----------------------------------|
| Social lettings | 4 | 10,280,186 | (8,695,798) | 1,584,388 | 1,531,147 |
| Other activities | 5 | 1,444,133 | (1,198,235) | 245,898 | 52,425 |
| Total | | 11,724,319 | (9,894,033) | 1,830,286 | 1,583,572 |
| Totals for previous reporting period | | 11,055,971 | (9,472,399) | 1,583,572 | |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

4. Particulars of turnover, operating costs and operating surplus from social activities

| | General Needs £ | Sheltered Housing £ | Supported Housing £ | Shared Ownership £ | Total Housing £ | Total 2018 £ |
|---|-----------------------|---------------------------|---------------------------|--------------------------|-----------------------|--------------------|
| Rent receivable net of identifiable service charges | 5,159,782 | 2,117,090 | 55,410 | 217,280 | 7,549,562 | 6,967,448 |
| Service Charges | 406,059 | 780,796 | 12,519 | 141,857 | 1,341,231 | 1,369,408 |
| Gross rents receivable | 5,565,841 | 2,897,886 | 67,929 | 359,137 | 8,890,793 | 8,336,856 |
| Less : Rent losses from voids | (34,534) | (110,699) | - | - | (145,233) | (111,728) |
| Net income from rents and service charges | 5,531,307 | 2,787,187 | 67,929 | 359,137 | 8,745,560 | 8,225,128 |
| Grant released from deferred income | 1,285,661 | - | - | - | 1,285,661 | 1,307,603 |
| Other revenue grants | - | 248,965 | - | - | 248,965 | 372,338 |
| Total turnover from social letting activities | 6,816,968 | 3,036,152 | 67,929 | 359,137 | 10,280,186 | 9,905,069 |
| Management and maintenance | | | | | | |
| administration costs | 1,857,538 | 783,068 | 14,973 | 31,538 | 2,687,117 | 2,214,635 |
| Service Costs | 205,305 | 1,056,230 | 10,222 | 90,808 | 1,362,565 | 1,500,600 |
| Planned and cyclical maintenance | 101,080 | 237,689 | 40,825 | - | 379,594 | 606,081 |
| Reactive Maintenance Costs | 858,391 | 642,805 | 27,618 | - | 1,528,814 | 1,511,711 |
| Bad Debts | 122,529 | 8,279 | - | - | 130,808 | 66,237 |
| Depreciation of housing properties | 1,960,723 | 639,177 | 7,000 | - | 2,606,900 | 2,474,658 |
| Operating costs for social letting activities | 5,105,566 | 3,367,248 | 100,638 | 122,346 | 8,695,798 | 8,373,922 |
| Operating surplus/(deficit) on social lettings | 1,711,402 | (331,096) | (32,709) | 236,791 | 1,584,388 | 1,531,147 |
| Operating surplus/(deficit) for previous reporting period | 1,575,125 | (194,454) | (7,633) | 158,109 | 1,531,147 | |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

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) 2019 £ | Operating surplus/ (deficit) 2018 £ |
|--|-------------------------------------|---------------------------|-------------------------------|-------------------|---------------------|--------------------------------|----------------------------|--|--|
| Care and repair | - | 787,947 | - | - | 787,947 | - | (803,440) | (15,493) | 5,173 |
| Adaptations service | 49,567 | - | - | - | 49,567 | - | (56,762) | (7,195) | (672) |
| Development activities | - | - | - | 61,988 | 61,988 | - | - | 61,988 | 8,698 |
| Support activities | - | - | 72,225 | - | 72,225 | - | (88,526) | (16,301) | (24,842) |
| Castlehill Housing Trust | - | - | - | 146,307 | 146,307 | - | (142,520) | 3,787 | 5,835 |
| Investment properties | - | - | - | 110,834 | 110,834 | - | (30,541) | 80,293 | 50,529 |
| Other | - | - | - | 215,265 | 215,265 | - | (76,446) | 138,819 | 7,704 |
| Total from other activities | 49,567 | 787,947 | 72,225 | 534,394 | 1,444,133 | - | (1,198,235) | 245,898 | 52,425 |
| Total from other activities for the previous reporting period | 74,016 | 690,360 | 72,225 | 314,301 | 1,150,902 | - | (1,098,477) | 52,425 | |

6. Accommodation in management

| | General Needs | Sheltered Housing | Supported Housing | Shared Ownership | Managed Property | Total Units |
|---|---------------|-------------------|-------------------|------------------|------------------|--------------|
| Number of units at start of period | 1,222 | 523 | 10 | 113 | 23 | 1,891 |
| Added in year | 58 | - | - | - | 3 | 61 |
| Disposals in year | - | - | - | (3) | - | (3) |
| Number of units at end of period | 1,280 | 523 | 10 | 110 | 26 | 1,949 |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

7. Director's emoluments

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

| | 2019 £ | 2018 £ |
|---|---------------|---------------|
| Total emoluments (including pension contributions and benefits in kind) | <u>86,585</u> | <u>84,353</u> |
| Emoluments (excluding pension contributions) of the highest paid director amounted to | <u>81,768</u> | <u>79,660</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 £80,000 but less than £90,000.

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 £4,817 in the year (2018: £4,693).

No loans have been advanced to any director or person connected with a director.

| | 2019 £ | 2018 £ |
|--|------------|------------|
| 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>823</u> | <u>886</u> |

CASTLEHILL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)**

8. Employee information

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

| | 2019 | 2018 |
|--|------------------|------------------|
| Other Staff | 56 | 51 |
| Direct labour, scheme based staff & others | 26 | 32 |
| | <u>82</u> | <u>83</u> |
| | 2019 | 2018 |
| | £ | £ |
| Staff Costs (including director's emoluments): | | |
| Wages and salaries | 2,162,631 | 2,183,322 |
| Social security costs | 167,940 | 175,006 |
| Pension costs | 312,324 | 309,748 |
| | <u>2,642,895</u> | <u>2,668,076</u> |

9. Operating surplus

| | 2019 | 2018 |
|--|---------------|---------------|
| | £ | £ |
| Operating surplus is stated after charging: | | |
| Auditors' remuneration: | | |
| In their capacity as auditors of the Association | 15,000 | 22,280 |
| For other services | - | 7,910 |
| | <u>15,000</u> | <u>30,190</u> |

10. Interest receivable and similar income

| | 2019 | 2018 |
|---------------------|---------------|---------------|
| | £ | £ |
| Interest receivable | <u>16,632</u> | <u>15,197</u> |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

11. Interest payable and similar charges

| | 2019 £ | 2018 £ |
|---|----------------|----------------|
| Interest payable wholly or partly in more than 5 years: | | |
| Interest payable to lenders | 811,485 | 712,125 |
| Interest on net pension liability (note 27) | 96,782 | 33,683 |
| | <u>908,267</u> | <u>745,808</u> |

12. Taxation

The Association has charitable status for tax purposes.

13. Tangible fixed assets - social housing properties

| | Completed houses held for letting £ | Houses for letting under construction £ | Completed shared ownership housing £ | Total £ |
|-----------------------------|--|--|--|--------------------|
| Cost | | | | |
| Opening balance | 117,235,510 | 15,634,519 | 4,425,222 | 137,295,251 |
| Schemes completed | 6,626,818 | (6,626,818) | - | - |
| Additions | 919,675 | 7,388,771 | - | 8,308,446 |
| Disposals | (625,925) | - | (111,620) | (737,545) |
| Closing balance | <u>124,156,078</u> | <u>16,396,472</u> | <u>4,313,602</u> | <u>144,866,152</u> |
| Depreciation | | | | |
| Opening balance | 30,843,884 | - | - | 30,843,884 |
| Additions | 2,606,900 | - | - | 2,606,900 |
| Disposals | (460,739) | - | - | (460,739) |
| Closing balance | <u>32,990,045</u> | <u>-</u> | <u>-</u> | <u>32,990,045</u> |
| Net book value as at | | | | |
| 31 March 2019 | <u>91,166,033</u> | <u>16,396,472</u> | <u>4,313,602</u> | <u>111,876,107</u> |
| 31 March 2018 | <u>84,907,964</u> | <u>17,118,181</u> | <u>4,425,222</u> | <u>106,451,367</u> |

A surplus of £15,726 (2018 deficit: £70,194) was realised on disposals of housing property and % share change in shared ownership. Interest capitalised during the year amounted to £nil (2018: £nil).

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

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

14. Tangible fixed assets - investment in subsidiary

| | Subsidiary company £ |
|--|----------------------------|
| Net book value as at 31 March 2019 and 31 March 2018 | <u>1,822,051</u> |

This investment relates to Castlehill Housing Trust (Formerly Grampian Community Care Charitable Trust) £1,822,050 and Castlehill Solutions Ltd £1. The financial statements of Castlehill Housing Trust disclose a surplus for the year ended 31 March 2019 of £143,033 (2018: £185,895). The total funds at 31 March 2019 were £3,569,094 (2018: £3,426,061).

The financial statements of Castlehill Solutions Limited disclose a surplus for the year ended 31 March 2019 of £29,802 (2018: £8,416). The net liabilities at 31 March 2019 were - £37,876 (2018: net liabilities £67,678).

15. Tangible fixed assets - other fixed assets

| | Investment property £ | Office Buildings £ | Vehicles, furniture and equipment £ | Total £ |
|-----------------------------|-----------------------------|--------------------------|--|------------------|
| Cost | | | | |
| Opening balance | 857,895 | 632,700 | 672,738 | 2,163,333 |
| Additions | - | - | 22,122 | 22,122 |
| Closing balance | <u>857,895</u> | <u>632,700</u> | <u>694,860</u> | <u>2,185,455</u> |
| Depreciation | | | | |
| Opening balance | - | 616,549 | 547,274 | 1,163,823 |
| Charge for year | - | 16,151 | 61,046 | 77,197 |
| Closing balance | <u>-</u> | <u>632,700</u> | <u>608,320</u> | <u>1,241,020</u> |
| Net book value as at | | | | |
| 31 March 2019 | <u>857,895</u> | <u>-</u> | <u>86,540</u> | <u>944,435</u> |
| 31 March 2018 | <u>857,895</u> | <u>16,151</u> | <u>125,464</u> | <u>999,510</u> |

The commercial property and the office building are heritable properties.

Investment property was valued by an independent professional advisor J & E Shepherd on 31 March 2015 in accordance with the appraisal and valuation manual of the RICS. Commercial property is subject to valuation at least every five years. In determining the valuation of investment property, it is assumed that there are no restrictions on the ability to realise the investment property of the remittance of income and proceeds of disposal. There are no contractual obligations to purchase, construct or development investment property or for repairs, maintenance or enhancements.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

16. Debtors

| | 2019 £ | 2018 £ |
|---------------------------------------|----------------|----------------|
| Amounts falling due within one year: | | |
| Rental debtors | 288,211 | 248,483 |
| Less provision for bad doubtful debts | (60,305) | (29,797) |
| Net rental debtors | <u>227,906</u> | <u>218,686</u> |
| Other debtors | 383,343 | 310,256 |
| Amount due from related parties | 38,225 | 12,147 |
| Prepayments and accrued income | 133,336 | 168,158 |
| | <u>782,810</u> | <u>709,247</u> |
| Amounts falling due in 2-5 years: | | |
| Loans to employees | 3,333 | 5,500 |
| Amount due from related parties | 40,527 | 60,527 |
| | <u>826,670</u> | <u>775,274</u> |

Loans are available to employees for the purchase of cars for business use.

Loans at 31 March 2019 are to 2 employees: one for a period of up to 5 years at an interest rate of 3.75% and the other interest free, repaid within 6 months.

17. Creditors due within one year

| | 2019 £ | 2018 £ |
|------------------------------|------------------|------------------|
| Commercial loans | 31,836 | 30,819 |
| Housing loans | 1,213,789 | 1,032,217 |
| Tax and social security | 49,854 | 56,422 |
| Accruals and deferred income | 912,457 | 975,177 |
| Deferred grant income | 1,285,661 | 1,307,603 |
| Rent in advance | 107,499 | 85,955 |
| Trade creditors | 313,609 | 728,018 |
| Amounts due to related party | 1,095 | - |
| Other creditors | 1,206,067 | 1,216,874 |
| | <u>5,121,867</u> | <u>5,433,085</u> |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

18. Creditors due after more than one year

| | 2019 £ | 2018 £ |
|-----------------------|-------------------|-------------------|
| Housing loans | 26,068,877 | 24,869,332 |
| Commercial loan | 376,488 | 408,249 |
| Deferred grant income | 65,857,597 | 62,969,971 |
| | <u>92,302,962</u> | <u>88,247,552</u> |

Loans are secured by specific charges on the Association's properties. The Association also has fixed and variable rate loans with banks and building societies. Fixed rate loans amounting to £8,423,170 are at rates of 3.81% to 8.625%. Variable rate loans amounting to £19,267,820 are at rates of 0.30% to 1.05% above base rate or 3 month libor. The Association has 4 fixed loans with the Energy Savings Trust over 10 years. On the 18 June 2018 the Association finalised a £3.5m loan with Unity Bank for the purposes of new development. The final repayment date for loans is March 2041. Borrowings are repayable as follows:

| | 2019 £ | 2018 £ |
|----------------------------|-------------------|-------------------|
| Within one year | 1,245,625 | 1,063,036 |
| From one to two years | 1,276,870 | 1,096,883 |
| Between two and five years | 6,124,483 | 13,674,918 |
| In five years or more | 19,044,012 | 10,505,780 |
| | <u>27,690,990</u> | <u>26,340,617</u> |

The deferred income balance is made up as follows:

| | Housing Association Grant £ | Total Deferred Income £ |
|---|--------------------------------------|----------------------------------|
| Deferred income as at 1 April 2018 | 64,277,574 | 64,277,574 |
| Additional income received | 4,151,345 | 4,151,345 |
| Released to the Statement of Comprehensive Income | (1,285,661) | (1,285,661) |
| Deferred income as at 31 March 2019 | <u>67,143,258</u> | <u>67,143,258</u> |

Included in creditors as follows:

| | |
|--------------------------------------|--------------------------|
| Amounts due within one year | 1,285,661 |
| Amounts due after more than one year | 65,857,597 |
| | <u>67,143,258</u> |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

19. Called up share capital

| | 2019 £ | 2018 £ |
|---|-----------|-----------|
| Allotted, issued and fully paid: | | |
| Opening balance | 67 | 63 |
| Issued during year | 2 | 9 |
| Transfer to capital reserve | (6) | (5) |
| Closing balance | <u>63</u> | <u>67</u> |

20. Capital reserve

| | 2019 £ | 2018 £ |
|-----------------------------|------------|------------|
| Opening balance | 120 | 115 |
| Transfer from share capital | 6 | 5 |
| Closing balance | <u>126</u> | <u>120</u> |

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

21. Reconciliation of surplus for the year to net cash flow from operating activities

| | 2019 £ | 2018 £ |
|---|------------------|------------------|
| Surplus for the year | 954,377 | 782,767 |
| Depreciation | 2,684,097 | 2,544,348 |
| Amortisation of grant | (1,285,661) | (1,307,603) |
| Movement in pension fund | (258,544) | - |
| Decrease /(increase) in stock | 1,091 | 1,318 |
| Decrease /(increase in debtors | (51,396) | 50,508 |
| (Decrease) / Increase in creditors | (471,865) | (170,331) |
| (Surplus)/Loss on sale of fixed asset | (15,726) | 70,194 |
| Interest payable | 908,267 | 745,808 |
| Interest receivable | (16,632) | (15,197) |
| Net Cash Inflow from Operating Activities | <u>2,448,008</u> | <u>2,701,812</u> |

CASTLEHILL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)**

22. Operating lease commitments

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

| | 2019 Other £ | 2018 Other £ |
|----------------------------|--------------------|--------------------|
| Expiring: | | |
| Within one year | 19,306 | 15,810 |
| Between one and five years | 14,751 | 14,122 |
| | <u>34,057</u> | <u>29,932</u> |

23. 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.

24. Contracted expenditure commitments

| | 2019 £ | 2018 £ |
|---|-----------|-----------|
| Expenditure that has been contracted for but not provided for in the financial statements | 5,845,787 | 7,635,278 |

The Association expects its contracted expenditure to be financed as follows:

| | 2019 £ | 2018 £ |
|--------------|------------------|------------------|
| Loan finance | 3,414,461 | 5,400,000 |
| Grant | 2,431,326 | 2,235,278 |
| | <u>5,845,787</u> | <u>7,635,278</u> |

25. 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.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

26. Related party transactions

Throughout the year the company had two subsidiary companies, Castlehill Solutions Limited and Castlehill Housing Trust. Transactions with related parties included in the Association's accounts for the year to 31 March 2019 are as follows.

| Related party and transactions | 2019 £ | 2018 £ |
|---|-----------|-----------|
| <i>Castlehill Housing Trust:</i> | | |
| Management charges including repair and development charges | 220,157 | 207,319 |
| <i>Castlehill Solutions Limited:</i> | | |
| Sales | 1,356 | 2,605 |
| Lease income | 110,224 | 53,643 |
| Purchases | 6,953 | 5,038 |
| Loan interest | 3,181 | 3,632 |
| Loan (repaid)/drawn down | (20,000) | - |

Amount due from Castlehill Housing Trust of £38,225 (2018: £8,163) and from Castlehill Solutions Limited of £39,432 (2018: £64,511).

27. Pension

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Social housing pension scheme (SHPS) (note 27 (a)) | 4,680 | 2,273 |
| Growth plan (note 27 (b)) | 37 | 49 |
| Total provision | <u>4,717</u> | <u>2,322</u> |

Defined benefit costs recognised in the Statement of Comprehensive Income (SOCl) is as follows:

| | 2019 £'000 |
|--|---------------|
| Current service cost | 311 |
| Scheme expenses | 14 |
| Net interest expense - SHPS | 96 |
| - Growth Plan | 1 |
| Defined benefit costs recognised in SOCl | <u>422</u> |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

27. Pension (continued)

Defined benefit costs recognised in Other Comprehensive Income (OCI) is as follows:

| | 2019 £'000 |
|--|---------------|
| Experience on plan assets less interest income | 540 |
| Effects of changes in assumptions on present value of defined benefit obligation | (1,469) |
| | <u>(929)</u> |
| Remeasurement arising on Growth Plan | 7 |
| Defined benefit costs recognised in OCI | <u>(922)</u> |

(a) Social Housing Pension Scheme

Castlehill Housing Association Limited participates in the Social Housing Pension Scheme (the Scheme). The provision as at 31 March 2018 was the present value of the deficit reduction contributions payable. As explained in the accounting policies note, full defined benefit accounting has been adopted with effect from 1 April 2018 and the provision at 31 March 2019 represents the net liability position on the SHPS scheme.

This is a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore, the association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2017. This actuarial valuation showed assets of £4,553m, liabilities of £6,075m and a deficit of £1,522m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

| | |
|---|---|
| Tier 1 | |
| From 1 April 2016 to 30 September 2020: | £45.7m per annum (payable monthly and increasing by 4.7% each year on 1 st April) |
| Tier 2 | |
| From 1 April 2016 to 30 September 2023: | £32.1m per annum (payable monthly and increasing by 4.7% each year on 1 st April) |
| Tier 3 | |
| From 1 April 2016 to 30 September 2026: | £35.2m per annum (payable monthly and increasing by 3.0% each year on 1 st April) |
| Tier 4 | |
| From 1 April 2016 to 30 September 2026: | £34.0m per annum (payable monthly and increasing by 3.0% each year on 1 st April) |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

27. Pension (continued)

Present values of defined benefit obligation, fair value of assets and defined benefit asset/(liability)

| | 31 March 2019 £'000 |
|---|------------------------|
| Fair value of plan assets | 13,721 |
| Present value of defined benefit obligation | (18,401) |
| Surplus (deficit) in plan | <u>(4,680)</u> |

Reconciliation of scheme assets and liabilities:

| | Assets £M | Liabilities £'000 | Total £'000 |
|---|---------------|----------------------|----------------|
| At 1 April 2018 | 12,925 | (16,832) | (3,907) |
| Benefits paid | (655) | 655 | - |
| Employer contributions | 577 | - | 577 |
| Contributions by plan participants | 4 | (4) | - |
| Current service cost | - | (311) | (311) |
| Interest income/(expense) | 330 | (426) | (96) |
| Expenses | - | (14) | (14) |
| Remeasurement gains/(losses): | | | |
| Actuarial losses | - | (1,469) | (1,469) |
| Return on plan assets excluding interest income | 540 | - | 540 |
| | <u>13,721</u> | <u>(18,401)</u> | <u>(4,680)</u> |

Key Assumptions

| | 31 March 2019 % per annum |
|---|------------------------------------|
| Discount rate | 2.30 |
| Inflation (RPI) | 3.30 |
| Inflation (CPI) | 2.30 |
| Salary Growth | 3.30 |
| Allowance for commutation of pension for cash at Retirement | <u>1 maximum allowance</u> |

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

27. Pension (continued)

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

| | Life expectancy at age 65 (Years) |
|-------------------------|--------------------------------------|
| Male retiring in 2019 | 21.8 |
| Female retiring in 2019 | 23.5 |
| Male retiring in 2039 | 23.2 |
| Female retiring in 2039 | 24.7 |

The fair value of the scheme assets was:

| | 2019 £ |
|-----------------------------|---------------|
| Global equity | 2,309 |
| Absolute return | 1,187 |
| Distressed opportunities | 249 |
| Credit relative value | 251 |
| Alternative risk premia | 791 |
| Fund of hedge funds | 62 |
| Emerging markets debt | 473 |
| Risk sharing | 414 |
| Insurance-linked securities | 394 |
| Property | 309 |
| Infrastructure | 720 |
| Private debt | 184 |
| Corporate bond fund | 640 |
| Long lease property | 202 |
| Secured income | 491 |
| Liability driven investment | 5,019 |
| Net current assets | 26 |
| Total scheme assets | 13,721 |

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

27. Pension (continued)

(b) Growth Plan

The Association offers the Growth Plan as an AVC investment option for members of SHPS. The provision as at 31 March 2019 is the present value of the deficit reduction contributions payable.

The company participates in the scheme, a multi-employer scheme which provides benefits to some 950 non-associated participating employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK. The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out at 30 September 2017. This valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions:

| | | |
|---------------------------------------|-----------------------|--|
| From 1 April 2019 to 31 January 2025: | £11,243,000 per annum | (payable monthly and increasing by 3% each on 1st April) |
|---------------------------------------|-----------------------|--|

Unless a concession has been agreed with the Trustee the term to 31 January 2025 applies.

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2014. This valuation showed assets of £793.4m, liabilities of £969.9m and a deficit of £176.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

| | | |
|---|-----------------------|--|
| From 1 April 2016 to 30 September 2025: | £12,945,440 per annum | (payable monthly and increasing by 3% each on 1st April) |
| From 1 April 2016 to 30 September 2028: | £54,560 per annum | (payable monthly and increasing by 3% each on 1st April) |

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities. Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

27. Pension (continued)

Present values of provision

| | 2019 £'000 | 2018 £'000 | 2017 £'000 |
|----------------------------|---------------|---------------|---------------|
| Present value of provision | <u>37</u> | <u>49</u> | <u>55</u> |

Reconciliation of opening and closing provision

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Provision at start of period | 49 | 55 |
| Unwinding of the discount factor (interest expense) | 1 | 1 |
| Deficit contribution paid | (6) | (6) |
| Remeasurements - impact of any change in assumptions | - | (1) |
| Remeasurements - amendments to the contribution schedule | <u>(7)</u> | - |
| Provision at end of period | 37 | 49 |

Assumptions

| | 2019 % per annum | 2018 % per annum | 2017 % per annum |
|------------------|---------------------|---------------------|---------------------|
| Rate of discount | 1.39 | 1.71 | 1.32 |

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

The following schedule details the deficit contributions agreed between the association and the scheme at each year end period:

CASTLEHILL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019 (continued)

27. Pension (continued)

Deficit contributions schedule

| Year ending | 2019 £'000 | 2018 £'000 | 2017 £'000 |
|-------------|---------------|---------------|---------------|
| Year 1 | 6 | 6 | 6 |
| Year 2 | 6 | 6 | 6 |
| Year 3 | 6 | 7 | 6 |
| Year 4 | 7 | 7 | 7 |
| Year 5 | 7 | 7 | 7 |
| Year 6 | 6 | 7 | 7 |
| Year 7 | - | 8 | 7 |
| Year 8 | - | 4 | 8 |
| Year 9 | - | - | 4 |
| | 38 | 52 | 58 |

The association must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises. It is these contributions that have been used to derive the association's balance sheet liability.

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 Audit LLP
Chartered Accountants
Registered Auditors
Aberdeen

29 July 2019