

MUIRHOUSE HOUSING ASSOCIATION LIMITED

REPORT and FINANCIAL STATEMENTS

For the year ended 31 March 2018

MUIRHOUSE HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2018

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MUIRHOUSE HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT, EXECUTIVES and ADVISERS

Year ended 31 March 2018

Board of Management

Robert McDougall (Chair)
Karen Allum (Appointed 15 September 2017)
Helen Armour
Alison Blezard (Deceased 22 June 2017)
Laura Calder (Vice Chair)
Eileen Carr (Resigned 25 June 2018)
Thomas Diamond
James Roy Douglas (Chair of Muirhouse Homes Limited)
Alasdair Fraser (Appointed 15 September 2017)
William Grieve (Casual Vacancy from 2 October 2017)
Ann McDonald
Kacper Momola (Resigned 15 September 2017)
Steven Prevost (Chair of Audit & Risk Committee)
Vicki Redpath (Resigned 13 April 2017)
Julie Smith
Iain Strachan (Appointed 15 September 2017)
Martin Thoronka

Executive Officers

Stephen McAvoy (Chief Executive)

Registered Office

11 Muirhouse Medway
Edinburgh
EH4 4RW

Auditors

RSM UK Audit LLP
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG

Internal Auditors

Wylie + Bisset LLP
168 Bath Street
Glasgow
G2 4TP

Bankers

The Royal Bank of Scotland
239 St John's Road
Edinburgh
EH12 7XA

Solicitors

T C Young
69a George Street
Edinburgh
EH2 2JG

MUIRHOUSE HOUSING ASSOCIATION LIMITED

REPORT of the BOARD OF MANAGEMENT

For the year ended 31 March 2018

The Board of Management presents its report and the Financial Statements for the year ended 31 March 2018.

Legal Status

The Association is a registered non-profit making organisation under the Co-operative and Community Benefits Societies Act 2014 No. 2414R(S). The Association is constituted under its Rule Book. The Association is a registered Scottish Charity with the charity number SC040979.

Principal Activities

The principal activities of the Association are the provision and management of affordable rented accommodation.

Review of Business and Future Developments

The Association continues to review performance to meet the regulatory requirements and participates in benchmarking and good practice events. The Association performs in the top quartile with regard to KPIs reported in the Annual Return of the Charter compared to other RSLs. In 2017/18 the Association achieved several improvements in operational performance, and continued to perform well with regard to rent control and void management compared to peers. Membership continues of the Scottish Federation of Housing Associations, Chartered Institute of Housing, Scottish Housing Best Value Network, Housemark, Share etc. Board members, and staff, are encouraged to attend events and conferences organised by similar organisations and utilise online training. The Association continues to develop an annual appraisal process for all Board members and holds an annual Board and Staff strategy day to consider and agree upon values, objectives and the future direction of the Association. A new three- year business plan for 2019 to 2021 was approved by the Board, and externally validated, during the year.

The Association strives for continuous improvement and is working with staff on improving customer service excellence and the culture and gained IIP accreditation in September 2017. The Association is looking to gain Customer Service Excellence Accreditation in the next financial year.

Following an enhanced stock condition survey carried out in the year, the Association is 93.3% compliant with SHQS requirements. Window and bathroom replacement works have been included in the 2018/19 investment programme to ensure all properties are fully compliant with SHQS by December 2018. The Association is currently 96.6% compliant with EESSH, works are programmed into the 2018/19 investment programme to be fully compliant with EESSH by March 2019, a full year ahead of the deadline for compliance. Significant investments in bathroom, kitchen and boiler replacements have been made during the year throughout 2017/18 to improve the quality of our housing stock. Further investments in these works will continue in 2018/19 as well as in window replacements, external paintwork and cavity wall insulation.

The Association continues to work in partnership with the local authority to prioritise the completion of the regeneration of the community, and is committed as part of the Association's business plan to be a community anchor, support social enterprise and financial & social inclusion. The Association entered into a partnership with Castle Rock Edinvar for the provision of financial, welfare and fuel energy advice which commenced in May 2017.

As part of the Association's community work, and in conjunction with Muirhouse Homes Limited, a Community Chest Fund was launched during the year. So far two projects have been successful in meeting the criteria and receiving funds of £9,940 (2017: £nil). Staff are actively encouraging projects and groups to apply for funding and the Association is optimistic that this will increase during the next few years. In 2018, the Association made charitable donations of £12,888 (2017: £2,600), as part of the agreed strategy of, Board and staff, to invest in Muirhouse as a community and provide learning, activities and experiences for tenants.

REPORT of the BOARD OF MANAGEMENT (Continued)

For the year ended 31 March 2018

Key Performance Indicators

The Association reports on its performance against a series of indicators laid out in the Scottish Social Housing Charter. Our performance continues to show strong results, with all of the indicators at top quartile levels.

The tri-annual tenant satisfaction survey, completed in January 2017, reported that 91% of tenants are satisfied with the overall service they receive. In addition, 94% are satisfied with the quality of their home, 89% are satisfied with the standard of home on moving in, 88% are satisfied with the management of the neighbourhood they live in and 86% feel that the rent for their property represents good value for money.

As part of our interaction with tenants, the Association has developed a tenant's scrutiny panel during the year and ensures that the customer is at the heart of what we do.

Principal Risks & Uncertainties

The Association recognises the importance of effective identification, evaluation and management of all key strategic and operational risks, and this is a requirement set out by the Scottish Housing Regulator's Regulatory Standards.

Risk Management covers the whole spectrum of risks and not just those associated with finance, health and safety, business continuity and insurance. It also includes risks associated with service provision, effectiveness and continuity, public image (reputation), compliance with legislation and regulation and environment.

The principal risks facing the Association are:

- Government policy – National and local
- Risk to income including welfare reform
- Business continuity and disaster recovery
- Development and growth
- Financial risk management and governance
- Impact of Brexit
- UK economy and risk of recession

Risk Management comes under the remit of the Association's Audit & Risk Committee. The risk register, developed and maintained by staff, is reviewed by the Committee on a quarterly basis and significant changes/developments are highlighted to the Board of Management. Risk is assessed by considering how likely it is that an event will occur and what the impact of this would be. The likelihood and severity of each event are multiplied together to identify a rating for each risk. Risks with a score of 17 and above (maximum of 25) are highlighted in Red. A red risk is defined as an unacceptable level of risk exposure which requires constant monitoring and measures to be put in place to reduce exposure. The Association mitigates the risk by having current controls and measures in place as well as identifying planned controls (i.e. staff training, informing tenants, reviewing policies, investing in technology, internal audit programmes etc.) and timescales for implementation to reduce exposure.

Board of Management and Executive Officers

The members of the Board of Management and the Executive Officers are listed on page 1.

Each member of the Board of Management holds one fully paid share of £1 in the Association. The Executive Officers 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 Board of Management.

The members of the Board of Management are also Trustees of the Charity. Members of the Board of Management are appointed by the members at the Association's Annual General Meeting.

REPORT of the BOARD OF MANAGEMENT (Continued)

For the year ended 31 March 2018

Statement of Board of Management's Responsibilities

The Co-operative and Community Benefit Societies Act 2014 requires the Board of Management 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 that period. In preparing those Financial Statements, the Board of Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 the going concern basis unless it is inappropriate to presume that the Association will continue in business; and
- prepare a statement on Internal Financial Control.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. It is also responsible for ensuring the Association's suppliers are paid promptly.

The Board of Management must, in determining how amounts are presented within items in the Statement of Comprehensive Income and the Statement of Financial Position, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting practices.

In so far as the Members of the Board of Management are aware:

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

REPORT of the BOARD OF MANAGEMENT (Continued)

For the year ended 31 March 2018

Statement on Internal Financial Control

The Board of Management acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate for the business environment in which it operates. These controls are designed to give reasonable assurance with respect to:

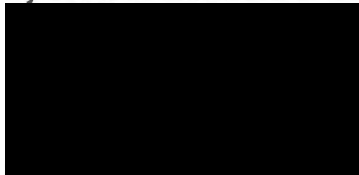
- the reliability of financial information used within the Association, or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposition.

It is the Board of Management's responsibility to establish and maintain systems of Internal Financial Control. Such systems can only provide reasonable and not absolute assurance against material financial mis-statement or loss. Key elements of the Association's systems include ensuring that:

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of controls and restrict the unauthorised use of Association's assets;
- experienced and suitably qualified staff take responsibility for important business functions and annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the management team and the Board of Management to monitor key business risks, financial objectives and the progress being made towards achieving the financial plans set for the year and for the medium term;
- quarterly financial management reports are prepared promptly, providing relevant, reliable and up to date financial and other information, with significant variances from budget being investigated as appropriate;
- regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the Board of Management;
- the Board of Management receive reports from management and from the external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed and that a general review of the major risks facing the Association is undertaken;
- formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports.

The Board of Management have reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2018. No weaknesses were found in internal financial controls which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditor's report on the financial statements.

By Order of the Board of Management



Secretary

13 August 2018

MUIRHOUSE HOUSING ASSOCIATION LIMITED
REPORT BY THE AUDITORS TO THE MEMBERS OF
MUIRHOUSE HOUSING ASSOCIATION LIMITED
ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the Financial Statements, we have reviewed your statement on Page 5 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council through enquiry of certain members of the Management Committee and Officers of the Association and examination of relevant documents. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on page 5 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.



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Statutory Auditor
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG

 August 2018

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

Opinion

We have audited the financial statements of Muirhouse Housing Association Limited (the 'Association') for the year ended 31 March 2018 which comprise the statement of comprehensive income, statement of financial position, statement of changes in reserves, statement of cash flows and notes to the financial statements, 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 including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2018 and of its income and expenditure 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 Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – December 2014.

Basis for 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 Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC'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.

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 Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

MUIRHOUSE HOUSING ASSOCIATION LIMITED (continued)

Responsibilities of the Board

As explained more fully in the Board's responsibilities statement set out on page 4 the Board is 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 Board determines 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 Board is 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 Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. 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.



RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG



August 2018

MUIRHOUSE HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Notes	2018 £	2017 £
Turnover	2	3,178,535	3,136,346
Operating expenditure	2	(2,108,397)	(2,007,533)
Operating surplus	8	1,070,138	1,128,813
Loss on disposal of fixed assets		(9,498)	-
Interest receivable and other income		823	2,436
Interest payable and similar charges	7	(391,436)	(408,648)
Other finance costs		(1,000)	(9,945)
		(401,111)	(416,157)
Surplus before taxation		669,027	712,656
Taxation	9	-	-
Surplus for the year		669,027	712,656
Unrealised gain/(loss) on pension liability		-	-
Total comprehensive income for the year		669,027	712,656
		=====	=====

There were no discontinued operations during the year. As a consequence the results relate wholly to continuing activities.

The notes on pages 13 to 29 form part of these financial statements.

MUIRHOUSE HOUSING ASSOCIATION LIMITED

STATEMENT OF CHANGES IN RESERVES

As at 31 March 2018

	Share Capital £	Revenue Reserve £	Total Unrestricted Funds £
Balance at 1 April 2017	50	4,707,929	4,707,979
Movement in share capital	5	-	5
Surplus from statement of total comprehensive income	-	669,027	669,027
Balance at 31 March 2018	<u>55</u> =====	<u>5,376,956</u> =====	<u>5,377,011</u> =====
Balance at 1 April 2016	48	3,995,273	3,995,321
Movement in share capital	2	-	2
Surplus from statement of total comprehensive income	-	712,656	712,656
Balance at 31 March 2017	<u>50</u> =====	<u>4,707,929</u> =====	<u>4,707,979</u> =====

The notes on pages 13 to 29 form part of these financial statements.

MUIRHOUSE HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	£	2018 £	£	2017 £
Fixed assets					
Housing properties	10a		28,854,095		28,968,909
Other tangible fixed assets	10b		118,341		108,840
Intangible fixed assets	10c		2,363		-
			-----		-----
			28,974,799		29,077,749
Investment	11		1		1
Current assets					
Debtors	15	118,242		111,329	
Cash at bank and in hand	20	1,708,506		1,849,913	
			-----		-----
			1,826,748		1,961,242
Creditors: amounts falling due within one year	16	(1,173,987)		(1,182,095)	
			-----		-----
Net current assets			652,761		779,147
			-----		-----
Total assets less current liabilities			29,627,561		29,856,897
Creditors: amounts falling due after more than one year	17		(24,071,458)		(24,926,918)
Provisions for liabilities	18		(179,092)		(222,000)
			-----		-----
Net assets			5,377,011		4,707,979
			=====		=====
Capital and reserves					
Share capital	22		55		50
Revenue reserves	23		5,376,956		4,707,929
			-----		-----
			5,377,011		4,707,979
			=====		=====

The financial statements were approved and authorised for issue by the Board of Management and signed on its behalf on 13 August 2018.

	Robert McDougall Chair
	James R Douglas Board Member
	Stephen McAvoy Secretary

The notes on pages 13 to 29 form part of these financial statements.

MUIRHOUSE HOUSING ASSOCIATION LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	Notes	2018 £	2017 £
Total cash generated from operating activities	19	1,447,412	1,374,454
		-----	-----
Cash flows (used in) investing activities			
Purchase of tangible fixed assets		(804,267)	(152,499)
Interest received		823	2,436
		-----	-----
Total cash flows (used in) investing activities		(803,444)	(150,063)
		=====	=====
Cash flows (used in) financing activities			
Interest paid		(391,436)	(408,648)
Repayment of borrowings		(393,944)	(383,198)
Share capital issued		5	2
		-----	-----
Total cash flows (used in) financing activities		(785,375)	(791,844)
		=====	=====
Cash and cash equivalents			
<i>Total movement</i>			
Operating activities		1,447,412	1,374,454
Investing activities		(803,444)	(150,063)
Financing activities		(785,375)	(791,844)
		-----	-----
Net (decrease)/increase in cash and cash equivalents		(141,407)	432,547
		=====	=====
Cash and cash equivalents at the start of the year		1,849,913	1,417,366
		-----	-----
Cash and cash equivalents at the end of the year		1,708,506	1,849,913
		=====	=====

The notes on pages 13 to 29 form part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

For the year ended 31 March 2018

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS102), the Statement of Recommended Practice for social housing providers "Housing SORP 2014" and the Determination of Accounting Requirements 2014.

The financial statements are prepared in Sterling (£) and are rounded to the nearest whole £.

Legal Status

Muirhouse Housing Association Limited is registered under the Co-operative and Community Benefit Societies Act 2014 No. 2414R(S) and is a registered Scottish charity No.SC040979. Muirhouse Housing Association Limited is registered as a housing association with the Scottish Housing Regulator under the Housing (Scotland) Act 2010. The principal activity of the Association is the provision of social housing and thus the Association is considered a public benefit entity.

The registered office is 11 Muirhouse Medway, Edinburgh, EH4 4RW.

The Association is a Registered Society registered with the Financial Conduct Authority and is domiciled in Scotland.

The Association's principal place of business is Edinburgh, Scotland.

The Association is a Registered Social Landlord and Scottish Charity that owns and manages social housing properties in Edinburgh, Scotland.

1. Principal accounting policies

Going Concern

The Association has a healthy cash position and growing reserves. The Board of Management reviewed budgets and cashflow projections as part of the annual budget discussion for 2018/19, the development and approval of the three year business plan and the submission to the Scottish Housing Regulator of the five year financial projections. In addition, the Board of Management receives quarterly reports with sufficient information to react to any adverse circumstances which could pose a threat. On that basis, the Board of Management has a reasonable expectation that the Association has adequate resources to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Consolidation

As the parent of Muirhouse Homes Limited (note 11), Muirhouse Housing Association Limited has been exempted from the preparation of consolidated accounts, as granted by the Financial Conduct Authority, on the basis that the amounts involved are not material.

Turnover

Turnover represents rental and service charge income receivable less voids, fees receivable and revenue grants receivable and is recognised as it falls due.

Retirement Benefits

The Association participates in the Scottish Housing Association Pension Scheme and retirement benefits to employees of the Association are funded by the contributions from all participating employers and employees in the Scheme. Payments are made in accordance with periodic calculation by consulting Actuaries and are based on pension costs applicable across the various participating associations taken as a whole.

The Association accounts for amounts that it has agreed to pay towards the Scheme deficit in accordance with paragraph 28.11A of FRS102. The present value of this liability has been recognised in the Statement of Financial Position. The discount rate applied to this obligation is that of a yield rate for the high quality corporate bond.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

1. Principal accounting policies (continued)**Fixed Assets – Housing Properties**

Housing Properties are properties for the provision of social housing or to otherwise provide social benefit and are principally properties available for rent. Housing properties are stated at cost less accumulated depreciation.

Works to existing properties will generally be capitalised under the following circumstances:

- (i) Where a component of the housing property that has been treated separately for depreciation purposes and depreciated over its useful economic life is replaced or restored; or
- (ii) Where the subsequent expenditure provides an enhancement of the economic benefits of the tangible fixed assets in excess of the previously assessed standard of performance. Such enhancement can occur if the improvements result in an increase in rental income, a material reduction in future maintenance costs or a significant extension of the life of the property.

Works to existing properties which fail to meet the above criteria are charged to the Statement of Comprehensive Income.

The major components of housing properties are detailed below. Each component has a substantially different economic life and is depreciated over this individual life.

Depreciation is charge on a straight line basis over the expected useful life of each major component, to its estimated residual value, that makes up the housing property as follows:

<i>Component</i>	<i>Useful Economic Life</i>
Land	N/A
Structure	50 years
Roof	50 years
Render	50 years
Windows	30 years
External doors	25 years
Bathrooms	25 years
Electrics	25 years
Heating systems	20 years
Kitchen	15 years
Boiler	15 years

Capitalised Development and Development Interest

Costs which are directly attributable to bringing housing properties into working condition are included in housing properties cost. Directly attributable costs include direct labour cost of the Association and incremental costs which would have been avoided only if the property had not been constructed or acquired. All other development costs are written off to the Statement of Comprehensive Income in the period in which it occurs.

Interest charges incurred on the financing of housing properties are capitalised up to the date of practical completion. Interest charges arising after that date are charged to the Statement of Comprehensive Income.

Impairment of Fixed Assets

An assessment is made at each reporting date of whether there are indications that a fixed asset (including housing properties) may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist Muirhouse Housing Association Limited estimates the recoverable amount of the asset.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher value less costs to sell and value-in-use of the asset based on its service potential, are recognised as impairment losses in the Statement of Comprehensive Income.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

1. Principal accounting policies (continued)

Other Fixed Assets

Other fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the assets at the following annual rates:

Office premises	50 years
Furniture and fittings	5 years
Computer equipment	5 years
Office equipment	3 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

Leases/Leased Assets

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Assets held under finance leases and hire purchase contracts are capitalised in the Statement of Financial Position and are depreciated over their useful lives.

Government Grants

Government grants include grants receivable from the Scottish Government, local authorities and other government bodies. Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Government grants received for housing properties are recognised in income over the useful economic life of the structure of the asset (excluding land) under the accruals model.

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, then any unamortised grant remaining is derecognised as a liability and recognised as income. Where there is a requirement to repay a grant a liability is included in the Statement of Financial Position to recognise this obligation.

Other Grants

Grants received from non-government sources are recognised using the performance model. Grants are recognised as income when the associated performance conditions are met.

Intangibles

All intangible assets shall be considered to have finite useful life of five years on a straight line basis. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but maybe shorter depending on the period over which the entity expects to use the asset. Amortisation of intangible assets is shown within operating costs.

Financial Instruments

Debtors and creditors receivable/payable within one year

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at the transaction price. Any losses arising from impairment are recognised in the statement of comprehensive income in other administrative expenses.

Loans And Borrowings

Bank loans provided by Private Lenders are also classed as basic under the requirements of FRS 102, and are therefore also measured at amortised cost.

Payment Arrangements With Tenants

In the case of payment arrangements that exist with tenants, these are deemed to constitute financing transactions and, where material, are measured at the present value of future payments discounted at a market rate of interest applicable to similar debt instruments.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018**1. Principal accounting policies (continued)****Judgements in Applying Policies and Key Sources of Estimation Uncertainty**

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The members of the Board of Management are satisfied that the accounting policies are appropriate and applied consistently. Key sources of estimation have been applied in apportioning the cost of housing properties between constituent components and in determining the depreciation rates which have been deemed to be appropriate for the class of asset or asset component and in determining the appropriate level of bad debt provision for rental arrears and in determining the appropriate level of the pension liability.

Pension liability

The 2015 valuation has been used to value the past service deficit cost at 31 March 2018. At 31 March 2018, the provisional valuation of the pension scheme at 30 September 2015 and the Pension Trust's estimate of the Association's future past service deficit contributions was used to provide the basis of the pension past service deficit liability in the financial statements. The rate used to discount the past service deficit benefit obligations to their present value is based upon market trends for high quality corporate bonds at terms consistent with those of benefit obligations.

2. Particulars of turnover, operating costs and operating surplus or deficit

	Turnover £	Operating Costs £	2018 Operating Surplus/ (Deficit) £	2017 Operating Surplus/ (Deficit) £
Affordable lettings activities (Note 3)	2,831,433	2,089,895	741,538	819,081
Other activities (Note 4)	347,102	18,502	328,600	309,732
Total	3,178,535	2,108,397	1,070,138	1,128,813
	=====	=====	=====	=====
Total for previous reporting period	3,136,346	2,007,533	1,128,813	
	=====	=====	=====	

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018**3. Particulars of turnover, operating costs, and operating surplus from affordable letting activities**

	General Needs Housing £	Supported Housing £	2018 Total £	2017 Total £
Turnover				
Rent receivable net of service charges	2,228,884	-	2,228,884	2,181,473
Service charges receivable	131,745	-	131,745	140,506
Gross income from rents and service charges	2,360,629	-	2,360,629	2,321,979
<u>Less: Voids</u>	<u>(836)</u>	<u>-</u>	<u>(836)</u>	<u>(729)</u>
Net income from rents and service charges	2,359,793	-	2,359,793	2,321,250
Grants released from deferred income	458,470	-	458,470	458,470
Revenue grants from Scottish Ministers	13,170	-	13,170	21,553
Total turnover from affordable letting activities	2,831,433	-	2,831,433	2,801,273
Management and maintenance administration costs	727,474	-	727,474	700,125
Service costs	141,385	-	141,385	122,386
Planned and cyclical maintenance including major repair costs	123,913	-	123,913	110,592
Reactive maintenance costs	192,905	-	192,905	168,005
Bad debts – rents and service charges	6,867	-	6,867	8,071
Depreciation of affordable let properties	897,351	-	897,351	873,013
Operating costs for affordable letting activities	2,089,895	-	2,089,895	1,982,192
Operating surplus for affordable letting activities	741,538	-	741,538	819,081
Operating surplus for affordable letting activities for previous reporting period	819,081	-	819,081	

MUIRHOUSE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

4. 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 or deficit 2018 £	Operating surplus or deficit 2017 £
Mid-market rent lease charge	-	-	-	295,391	295,391	-	3,629	291,762	282,977
Mid-market rent management charge	-	-	-	15,120	15,120	-	14,873	247	(5,011)
Gift aid received from subsidiary	-	-	-	36,421	36,421	-	-	36,421	31,812
Other activities	-	-	-	170	170	-	-	170	(46)
Total from other activities	-	-	-	347,102	347,102	-	18,502	328,600	309,732
Total from other activities for the previous reporting period	-	-	-	335,073	335,073	-	25,341	309,732	

There were no other activities other than the activities shown above.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018**5. Officers' emoluments**

The officers are defined in Section 149 of the Co-operative and Community Benefit Societies Act 2014 as the members of the Board of Management, managers or servants of the Association.

	2018	2017
	£	£
Emoluments payable to Chief Executive (excluding pension contributions)	60,331	57,595
Employer's pension contributions	4,233	248
	-----	-----
Total emoluments payable	64,564	57,843
	=====	=====

Key management personnel, in the current and previous year, are considered to be the Chief Executive and the Finance & Corporate Services Manager.

	2018	2017
	£	£
Emoluments payable to key management personnel (excluding pension contributions)	112,339	92,490
Employer's pension contributions	5,233	248
	-----	-----
Total emoluments payable	117,572	92,738
	=====	=====

The number of key management personnel whose emoluments, excluding pension contributions, were above £60,000 for the year was:

	2018	2017
£60,001 to £70,000	1	-
	=====	=====

6. Employee information

	2018	2017
	No.	No.
The average monthly number of full time equivalent persons employed during the year was	10	9
	=====	=====
The average total number of employees employed during the year was	11	9
	=====	=====

	£	£
Staff costs were:		
Wages and salaries	344,626	311,910
Social security costs	32,521	28,498
Other pension costs	25,156	19,293
	-----	-----
	402,303	359,701
	=====	=====

7. Interest payable

	2018	2017
	£	£
On bank loans and overdrafts	391,436	408,648
	=====	=====

Interest incurred in the development period of housing properties which has been written off to the income and expenditure account amounted to £nil (2017: £nil).

MUIRHOUSE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

8. Operating surplus before taxation

	2018	2017
	£	£
Surplus on ordinary activities before taxation is stated after charging:		
Depreciation - tangible owned fixed assets	896,860	873,013
Amortisation - intangible fixed assets	859	-
Amortisation - housing association grant	(458,470)	(458,470)
Auditors' remuneration - audit services	12,778	9,370
Operating lease rentals - other	1,531	1,991
	=====	=====

9. Tax on surplus on ordinary

The Association is a Registered Scottish Charity and is not liable to United Kingdom Corporation Tax on its charitable activities.

	Housing Properties held for letting	Total
	£	£
10. Fixed assets		
(a) Housing properties		
Cost		
As at 1 April 2017	40,897,253	40,897,253
Additions	780,497	780,497
Disposals	(203,176)	(203,176)
	-----	-----
As at 31 March 2018	41,474,574	41,474,574
	-----	-----
Depreciation		
As at 1 April 2017	11,928,344	11,928,344
Charge for year	885,814	885,814
Disposal	(193,679)	(193,679)
	-----	-----
As at 31 March 2018	12,620,479	12,620,479
	-----	-----
Depreciated cost	28,854,095	28,854,095
	-----	-----
Net book value		
As at 31 March 2018	28,854,095	28,854,095
	=====	=====
As at 31 March 2017	29,968,909	29,668,909
	=====	=====

Expenditure on works to existing properties

	2018	2017
	£	£
Replacement component spend capitalised	780,497	152,499
Amounts charged to income and expenditure	55,999	64,442
	-----	-----
Total major repairs spend	836,496	216,941
	=====	=====

There were no capitalised interest or development administration costs.

All land and housing properties are freehold. The cost of land included in housing properties is £2,948,774 (2017: £2,948,774).

The net book value of properties held as security is £18,982,957 (2017: £18,956,847).

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018**10. Fixed assets (continued)****Housing stock****2018****2017**

No.

No.

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

General needs - new build
 - rehabilitation

513

513

57

57

570

570

=====

=====

(b) Other tangible assets

	Computer Equipment	Office Premises	Office F&F and Equip	Total
	£	£	£	£
Cost				
As at 1 April 2017	70,438	130,761	20,759	221,958
Additions	20,709	-	3,060	23,769
Disposals	(17,579)	-	-	(17,579)
Transfer	(27,561)	-	-	(27,561)
	-----	-----	-----	-----
As at 31 March 2018	46,007	130,761	23,819	200,587
	-----	-----	-----	-----
Aggregate depreciation				
As at 1 April 2017	53,874	39,768	19,476	113,118
Charge for year	7,704	2,347	995	11,046
Disposals	(17,579)	-	-	(17,579)
Transfer	(24,339)	-	-	(24,339)
	-----	-----	-----	-----
As at 31 March 2018	19,660	42,115	20,471	82,246
	-----	-----	-----	-----
Net book value				
As at 31 March 2018	26,347	88,646	3,348	118,341
	=====	=====	=====	=====
As at 31 March 2017	16,564	90,993	1,283	108,840
	=====	=====	=====	=====

(c) Intangible assets

	Computer Software	Total
	£	£
Cost		
As at 1 April 2017	-	-
Transfer	27,561	27,561
	-----	-----
As at 31 March 2018	27,561	27,561
	-----	-----
Aggregate depreciation		
As at 1 April 2017	-	-
Charge for year	859	859
Transfer	24,339	24,339
	-----	-----
As at 31 March 2018	25,198	25,198
	-----	-----
Net book value		
As at 31 March 2018	2,363	2,363
	=====	=====
As at 31 March 2017	-	-
	=====	=====

MUIRHOUSE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

11. Investments	2018	2017
	£	£
Cost		
As at 1 April 2017 and 31 March 2018	1	1
	=====	=====

In 2014, Muirhouse Housing Association Limited set up a subsidiary called Muirhouse Homes Limited to collect the rent of properties which are on a mid market basis. It owns one share which is 100% of the share capital. The relationship between the Association and its subsidiary is set out in an independence agreement between both parties.

	2018	2017
	£	£
Aggregate capital and reserves		
Muirhouse Homes Limited	61,526	61,530
	=====	=====
Profit for the year		
Muirhouse Homes Limited	36,417	48,247
	=====	=====

In the opinion of the Board of Management the aggregate value of the assets of the subsidiary is not less than the aggregate of the amounts at which those assets are stated in the Association's Statement of Financial Position.

12. Capital commitments	2018	2017
	£	£
Capital expenditure that has been contracted for but has not been provided for in the Financial Statements	-	-
	=====	=====

13. Contingent liabilities

Housing Association Grant received to assist in the funding of the development housing properties is recognised as deferred income and released to the Statement of Comprehensive Income on a systematic basis (as detailed in note 17); nonetheless this grant remains repayable should the associated property be disposed of and therefore a contingent liability exists in respect of the amortised amounts. At 31 March 2018, £7,345,250 (2017: £6,886,780) of grant had been amortised.

14. Commitments under operating leases

At the year end the commitments under operating leases were as follows:

	2018	2017
	£	£
Other		
Within 1 year	1,503	1,503
Between 1 and 2 years	1,503	1,503
Between 2 and 5 years	1,128	2,632
	=====	=====

MUIRHOUSE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

15. Debtors	2018	2017
	£	£
Arrears of rent and service charges	76,869	70,249
<u>Less:</u> Provision for doubtful debts	(25,442)	(22,267)
	-----	-----
	51,427	47,982
Prepayments and accrued income	27,169	26,513
Amounts owed by group undertakings	39,646	36,834
	-----	-----
	118,242	111,329
	=====	=====
16. Creditors: Amounts falling due within one year	2018	2017
	£	£
Housing loans (Note 17)	397,522	389,496
Trade creditors	33,901	92,601
Rent in advance	109,929	88,751
Other taxation and social security	9,404	8,740
Other creditors	8,420	16,832
Accruals and deferred income	156,341	127,205
Deferred Housing Association Grant (Note 17)	458,470	458,470
	-----	-----
	1,173,987	1,182,095
	=====	=====

At the balance sheet date there were pension contributions outstanding of £7,033 (2017 £6,143).

17. Creditors: Amounts falling due after more than one year	2018	2017
	£	£
Housing loans	8,951,663	9,348,653
Deferred Housing Association Grant	15,119,795	15,578,265
	-----	-----
	24,071,458	24,926,918
	=====	=====

Housing loans are secured by specific charges on the Association's housing properties and repayable at varying rates of interest in instalments due as follows:

Within one year	397,522	389,496
Between one and two years	406,494	398,054
Between two and five years	1,261,418	1,352,160
In five years or more	7,283,751	7,598,439
	-----	-----
	9,349,185	9,738,149
<u>Less:</u> Amount shown in current liabilities	(397,522)	(389,496)
	-----	-----
	8,951,663	9,348,653
	=====	=====

All of the Association's bank borrowings are repayable on a monthly or quarterly basis with the principal being amortised over the term of the loan. All loans are amortised over a maximum of 25 years.

Interest is charged at fixed rates on loans totalling £5,305,162 (2017: £5,479,312) with rates varying between 4.29% and 6.3%. The remainder of the loans are charged at variable rate interest with margins ranging between 1.10% and 2.85% (2017: 0.85% and 2.85%). The average rate of interest paid in the year is 3.37% (2017: 3.25%).

MUIRHOUSE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

17. Creditors: Amounts falling due after more than one year (continued)	2018	2017
	£	£
Deferred Housing Association Grant		
Balance b/fwd	16,036,735	16,495,205
Released in year	(458,470)	(458,470)
	-----	-----
Balance c/fwd	15,578,265	16,036,735
	=====	=====

Analysis of the Deferred Housing Association Grant is as follows:-

Within one year	458,470	458,470
Between one and two years	458,470	458,470
Between two and five years	1,375,410	1,375,410
In five years or more	13,285,915	13,744,385
	-----	-----
	15,578,265	16,036,735
<u>Less:</u> Amount shown in current liabilities	(458,470)	(458,470)
	-----	-----
	15,119,795	15,578,265
	=====	=====

18. Provisions

The provision for pension deficit contributions is repayable as follows:

Within one year	44,976	44,000
Between one and two years	46,000	45,000
Between two and five years	88,116	133,000
	-----	-----
	179,092	222,000
	=====	=====

The liability for the past service contributions have been accounted for in accordance with FRS102 para 28.13A and represents the present value of the contributions payable. The cash outflows have been discounted at a rate of 1.51% (2017: 1.06%).

19. Financial Instruments	2018	2017
	£	£
<i>Financial Assets:</i>		
Debt instruments measured at amortised cost	91,703	84,816
	=====	=====
<i>Financial Liabilities:</i>		
Measured at amortised cost	9,547,847	9,974,787
	=====	=====

MUIRHOUSE HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

20. Statement of Cash Flows

	2018 £	2017 £
Cash flows from operating activities		
Cash generated from operations		
Surplus for the year	669,027	712,656
Adjustment for non-cash items		
Depreciation of tangible fixed assets	897,719	880,399
(Increase)/decrease in trade and other debtors	(1,933)	40,399
(Decrease) in trade and other creditors	(16,133)	(177,874)
(Decrease) in pension provision	(42,908)	(28,868)
Adjustments for investing or financing activities:		
Housing Association grants utilised in the year	(458,470)	(458,470)
Loss on sale of tangible fixed assets	9,497	-
Interest receivable	(823)	(2,436)
Interest payable	391,436	408,648
	-----	-----
Total cash generated from operating activities	1,447,412	1,374,454
	=====	=====

21. Cash and cash equivalents

	At 1 April 2017 £	Movement in year £	At 31 March 2018 £
Cash at bank and in hand	1,849,913	(141,407)	1,708,506
	=====	=====	=====

Reconciliation of net cash flow to movement in net debt

	2018 £
Cash movement in the year	141,407
Cash outflow from debt financing	(393,944)
Loan arrangement fees amortisation	4,980

Change in debt resulting from cash flows	(247,557)
Net Debt at the start of the year	7,888,236

Net Debt at the end of the year	7,640,679
	=====

22. Share capital

	Ordinary Shares of £1 each issued and fully paid £
At 31 March 2017	50
Additions in the year	5

At 31 March 2018	55
	=====

Each members of Association holds one share of £1 in the Association. These shares carry no right to dividend or distribution on a winding up. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid thereon becomes the property of the Association.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

23. Reserves

Share capital – represents the nominal value of shares that have been issued.

Revenue reserves – includes all current and previous retained surpluses.

24. Related party transactions

Members of the Board of Management are related parties of the Association as defined by the Financial Reporting Standard 102 (FRS102).

Some members of the Board of Management are also tenants of the Association. Their tenancies are all on the same terms as for other tenants and no advantage can be gained from their position.

Governing Body members cannot use their position to their advantage. Any transactions between the Association and any entity with which a Governing Body member has a connection with is made at arm's length and is under normal commercial terms.

The Members of the Board of Management can receive a maximum of £15 per month each for internet access and in total members received £1,747 (2017: £1,800) for reimbursement of expenses.

The Association leased 60 properties during the year to Muirhouse Homes Limited, a subsidiary of Muirhouse Housing Association Limited which was set up to accommodate the properties which receive rent on a mid-market basis, receiving £295,391 (2017: £288,187) in respect of these leases. In addition, it provided management services totalling £15,120 (2017: £15,120) to Muirhouse Homes Limited. Muirhouse Homes Limited agreed a gift aid distribution of £36,421 (2017: £31,812) to the Association. The balance due from Muirhouse Homes Limited at 31 March 2018 was £39,646 (2017: £36,834) and is included in the Association's debtors in note 15.

4 of the Board of Management were tenants of the Association at 31 March 2018. They have standard tenancy agreements and were awarded their tenancies in line with best practice allocations policy. The total rental charge to the tenant Committee Members for the year was £19,489 (2017: £19,932) and the net balance outstanding as at 31 March 2018 was £52 (2017: £157).

Board of Management members J R Douglas, A M Thoronka, K H Momola and R McDougall are also directors of Muirhouse Homes Limited.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

25. Retirement benefit obligations

General

Muirhouse Housing Association Limited participates in the Scottish Housing Association Pension Scheme (the scheme).

The Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

The Scheme offers six benefit structures to employers, namely:

- Final salary with a 1/60th accrual rate
- Career average revalued earnings with a 1/60th accrual rate
- Career average revalued earnings with a 1/70th accrual rate
- Career average revalued earnings with a 1/80th accrual rate
- Career average revalued earnings with a 1/120th accrual rate, contracted in
- Defined contribution (DC) option

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Muirhouse Housing Association Limited elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 31 March 2012 and the final salary with a 1/80th benefit structure for new entrants from 1 April 2012. From 1 April 2015, the Association has also elected to operate the Defined Contribution option for new entrants. From 1 April 2017, all active members of the final salary scheme were transferred to the Defined Contribution scheme.

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

The actuarial valuation of the Scheme's assets at the valuation date is 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 values. 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, Muirhouse Housing Association Limited paid no contributions to the final salary Defined Benefit Scheme and there were no members' contributions. Muirhouse Housing Association paid a maximum of 10% contribution to the Defined Contribution scheme and members' chose to contribute from 1% to 5%.

As at the balance sheet date there were 9 active members of the Scheme employed by Muirhouse Housing Association Limited. The annual pensionable payroll in respect of these members was £328,163. Muirhouse Housing Association Limited continues to offer membership of the Scheme to its employees under the defined contribution options.

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

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

25. Retirement benefit obligations (continued)

General (continued)

A full actuarial valuation for the scheme was carried out at 30 September 2015. This actuarial valuation showed assets of £616m, liabilities of £814m and a deficit of £198m. There has been an improvement in the ongoing funding level from 76% at 30 September 2015 to 87% at 30 September 2017. The deficit has also reduced from £197m to £129m.

The improvements in the 'ongoing' funding level is in line with the Actuary's expectation. The main contributing factors to the change in the funding level are due to strong investment returns which led to better than assumed investment performance between 2015 and 2017, the deficit contributions paid by the employers which have increased the value of assets, and a reduction in the yields on government bonds has meant that the expectation for investment returns in the future has fallen, increasing the current value of past service liabilities. The view is that the recovery plan remains appropriate and there is no need to take any action ahead of the next actuarial valuation due at 30 September 2018.

The Scheme operates on a 'last man standing' basis, meaning that in the event of an employer withdrawing from the Scheme and being unable to pay its share on withdrawal, then the liability of the withdrawing employer is re-apportioned amongst the remaining employers. Therefore in certain circumstances the Association may become liable for the obligations of a third party.

Based on the provisional valuation the Scheme has provided an estimate of the contributions required to fund the past service deficit. Under the new proposals the Association will make annual payments of £44,976 from 1 April 2018. Payments are expected to increase by 3% per annum and continue until March 2021.

All employers' in the scheme have entered into an agreement to make additional contributions to fund the Scheme's past service deficit. This obligation has been recognised in terms of Para 28.11A of Financial Reporting Standard 102. At the balance sheet date the present value of this obligation was £179,000 (2017: £222,000). This was calculated by reference to the terms of the provisional valuation and funding plan and discounting the liability using the yield rate of high quality corporate bond with a similar term. The discount rate used was 1.51% (2017: 1.06%).

The Association made payments totalling £67,672 (2017: £73,059) to the pension scheme during the year.

As a result of Pension Scheme legislation there is a potential debt on the employer of £1,702,531 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.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

25. Retirement benefit obligations (continued)

Growth Plan

Muirhouse Housing Association participates in the Pension Trust's Growth Plan (the 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 Growth Plan or by the purchase of an annuity.

The rules of the Plan allow for the declaration of bonuses and/or investment credits of 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 3 years. The purpose of the actuarial valuation is to determine the financial 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 Growth Plan state that the proportion of obligatory contributions to be borne by the Member and the Member's Employer shall be determined by way of 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 paid regular contributions of £nil during the accounting period. Members paid contributions of £nil during the accounting period.

As at the Balance Sheet date there were no active members of the Plan employed by the Association. The 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 2017 were completed in 2018 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 £795 million and the Plan's Technical Provisions (i.e. past service liabilities) were £926 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £131 million, equivalent to a past service funding level of 86%. The funding deficit has decreased from £176.5m at 30 September 2014 to £131.5m at 30 September 2017, a decrease of approximately 26.7%.

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

25. Retirement benefit obligations (continued)

Growth Plan (continued)

The Plan's funding level and deficit has seen a notable improvement since the 2014 valuation. The main reasons for the positive change in the funding level since 30 September 2014 are:

- the deficit contributions and employer debts that have been paid over the period, resulting in a reduction in the deficit;
- membership movements such as transfers out and members taking cash at retirement have been higher than expected, resulting in a reduction in the Plan liabilities;
- a change in assumptions to reflect changes in insurer pricing, resulting in a reduction in the value of Plan liabilities.

These items have been partially offset by a decrease in the gilt yields, reducing expectations for future investment returns, resulting in an increase in the value of the Plan liabilities.

The buy-out funding deficit has decreased from £255.4m at 30 September 2014 to £187.2m at 30 September 2017, a decrease of 26.7%.

The buy-out basis is the statutory basis for calculating an employer's debt on withdrawal. The debt on withdrawal is the withdrawing employer's share of the difference between the Plan's assets and the Plan Actuary's estimate of the amount an insurance company would charge to take on responsibility for paying all of the benefits due.

Based on the new recovery plan, the Plan has provided an estimate of the contributions required to fund the past service deficit. Under the new proposals, the Association will make annual payments of £343 from 1 April 2019. Payments are expected to increase by 3% per annum.

At the balance sheet date, the present value of this obligation was £1,925 (2017: £2,167). This was calculated by reference to the terms of the provisional valuation and funding plan and discounted liability using the yield rate of high quality corporate bond with a similar term. The discount rate used was 1.71% (2017: 1.32%).

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.

The estimated cost to the Association of withdrawal from the Growth Plan is £5,964.