HANOVER (SCOTLAND) HOUSING ASSOCIATION

Financial statements for the year ended 31 March 2010

Hanover (Scotland) Housing Association Limited

Registered Address and Head Office:
Hanover (Scotland) Housing Association
95 McDonald Road
EDINBURGH
EH7 4NS

External Auditors:
Baker Tilly UK Audit LLP
First Floor, Quay 2
139 Fountainbridge
EDINBURGH
EH3 9QG

Internal Auditors:
The Internal Audit Association
54-56 Gosport Business Centre
Gosport
HAMPSHIRE
PO13 0SQ

Solicitors:
TC Young
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GLASGOW
G2 1BA

Bankers:
NatWest
6-8 George Street
EDINBURGH
EH2 2SA

Registered Housing Association No. HEP 124
Financial Services Authority No. 1983 R (S)
Scottish Charity Registration SC014738

Hanover (Scotland) Housing Association Limited

Financial Statements for the year ended 31 March 2010

Last printed 22 June 2010

Hanover (Scotland) Housing Association Limited

Committee of Management

Douglas T Boyd OBE CA FRSAMD (Chairperson)

Annie Burnett OBE BA

Robert M Dalgleish MRICS (retired 25 September 2009)

Sarah P Davidson

D Graham B Duncan RIBA ARIAS MRTPI FRSA

David J Essery CB

A Isobel Fowler BSc DAcad FRSAMD FRSA

Michael G Keohane FCIBS

Patricia MacCormick (appointed 25 September 2009)

Donna Mackay MA Hons

Michael Martin *(co-optee)*

Anne McCamley BA LLB

Hugh Mitchell FCMA FCCA (appointed 25 September 2009)

Geoffrey H Palmer OBE DSc

Stanley Thomson

Brian Watt MD FRCPath FRCPE

Officers

Helen E Murdoch MBA FCIH AIPD
Chief Executive

Andrew Aitken FCIPD
Director of Human Resources

Gregor M Booth BA Hons
Director of Housing & Care Services

Colin H T Gibson FCMA ACIH
Director of Finance & Risk Management Services

Bruce A Laing BSc MRICS
Director of Property & Development

Chris F Milburn BA (Hons) MBCS
Director of Business and Communications
(appointed 1 December 2009)

David G Reid LLB
Company Secretary

Hanover (Scotland) Housing Association Limited

Review by the Committee of Management

at 31 March 2010

The Committee of Management presents its review and audited financial statements for the year ended 31 March 2010.

Review of the Business

Structure and Activities
Hanover (Scotland) Housing Association ("HSHA") is incorporated under the Industrial & Provident Societies Acts 1965. An exempt Scottish charity and Registered Social Landlord ("RSL") HSHA is part of a group of businesses traditionally focused on providing housing and related services, mainly, to older people. However, future strategy aims to assist a wider range of customers who can benefit from services it is able to deliver. Since HSHA was founded in 1979, the Association has expanded, mainly organically, to become a national organisation that manages, on behalf of itself and others, over 5,200 properties across 24 local authorities.

The main trading entity within the Group is:

Hanover (Scotland) Housing Association, which develops and manages purpose-built housing for rent to mainly older people. HSHA also provides support services, both to its residents and to other people living in the wider community.

The Association is registered in Scotland and forms part of a group, the other member of which is Hanover (Scotland) Housing Association Charitable Trust ("The Charitable Trust").

- The Charitable Trust, a company registered in Scotland with charitable aims, details of which are provided within the report and Financial Statements of the Trust. This company had net incoming resources of £3,691, (2009: £3,463 outgoing) in the year and net assets at 31 March 2010 of £123,989, (2009: £119,953).

Hanover (Scotland) Housing Association Limited is the ultimate parent undertaking of the group. Separate Group accounts are not required as the Group has been exempted from this requirement by the Financial Services Authority, because of the insignificant amounts involved. Therefore, these accounts present the financial information for the parent undertaking and not for the Group.

Equality and Diversity
The Association is firmly committed to providing flexible services to its increasingly diverse market place. Equality and fairness underpin the Association's business philosophy. The Association has policies, procedures and practices in place to ensure that its

customers, staff and others are treated fairly. The Association's workforce is well placed to provide responsive services and take a positive approach to promoting its services to Black and Minority Ethnic ("BME") communities. The Association's partnership work on equality celebrated its 10th anniversary this year and has achieved national recognition.

Target Market and Products
The Association has focused on providing accommodation and services to people over retirement age and 97% of the Association's housing stock is designed and operated solely for their benefit. In future, it will also aim to assist other groups in society who can benefit from services the Association is able to provide. The broad Strategic objectives relating to target market and products are:

1. Customers, *"To provide customers with affordable accommodation and/or services to enable them to live as independent a life as possible and to encourage their participation and involvement in their communities."*
2. Housing, *"To provide high quality, sustainable and affordable housing for people wishing to live in the rented or owner-occupied sectors."*
3. Services, *"To provide an innovative, flexible and affordable choice of support and care options to achieve best value and enable independent living."*

The over-65 age group is forecast to continue growing to such an extent that it will out number those under 16 by 2014. In particular, throughout the first half of the 21st century, the number of people aged over 80 will rise substantially – a major target market for the Association. In considering this, it needs to be borne in mind that there is an increasing number of older people with long-term conditions, such as dementia. Consequently, Hanover is committed to helping to meet the demand for services that cater for the specific needs of frail, older people and believes that much more innovative housing solutions need to be provided for people with dementia. The Association is currently running a "Care at Home" pilot. SMART technology and Hanover's Telecare service continue to present new opportunities. The planned second Telecare centre in Glasgow will help to provide a stable platform from which new opportunities can be developed.

Housing has a significant contribution to make towards meeting the needs and aspirations of the Association's target market. There is likely to be an increasing role for supported housing/care housing, including care at home, as a substitute and replacement for residential care homes. This, together with an asset management strategy of remodelling/reprovisioning of our housing stock, will ensure that the future needs and aspirations of customers continue to be met.

The Association is developing a new marketing strategy designed to ensure that we communicate effectively at all levels and that our facilities and support services meet the needs and aspirations of our current and future customers. The costs of the Association's facilities and services are relatively low, compared with alternative forms of accommodation and services for the elderly. The benefit of allowing our customers to live independent and fulfilling lives far outweighs cost considerations.

Partnering
The Association has always worked on the basis that strong partnerships are very important for every stage of the planning and delivery of housing and related services. Hanover believes that this can only be undertaken after a thorough needs analysis and strategic planning with reassurance at the outset, that appropriate funding will be provided. The most recent partnering initiatives involve working with Bield and Trust Housing Associations to develop a joint approach and common message to the key decision makers in the Scottish Government. In addition, the three bodies have collaborated in developing a joint reactive repairs contract for the West of Scotland which is expected to produce significant benefits, including effective repairs handling and cost reductions.

Housing Support
This local authority funding is provided to HSHA to finance tenant support services. The Association has made significant progress in reducing previous substantial deficits through negotiations with the Local Authorities and, for the first time, funding levels were adequate to meet the cost of providing these services. The Association is still concerned that cut backs in public sector spending may result in future provision for people in need falling short of requirements. The Committee of Management has agreed that the Association should continue to work with Local Authorities to resolve any this imbalance which may arise. The position will continue to be closely monitored.

Development grant
HSHA continues to develop new properties. For HSHA, as for most other RSLs that develop properties, a key issue is the availability of capital grant funding from The Housing & Investment Division of the Scottish Government, (previously Communities Scotland), and other providers. New developments are usually financed through a mixture of such funding, plus loans raised from commercial banks. HSHA has traditionally achieved high levels of grant allocation. These grant

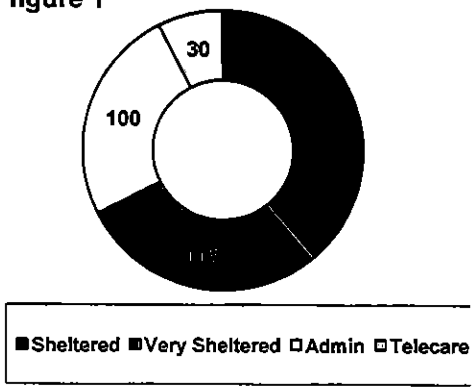
allocations underpin HSHA's development programme. Cut backs in public sector spending may result in further reductions of grant levels and, this combined with more difficult lending conditions will require fresh thinking to continue a sustainable development programme.

Housing Stock
The Association manages over 5,200 properties, of which it owns over 4,200. The remainder is managed, on behalf of individual owners. Note 22 of the Financial Statements sets out the number of units that are both owned and managed.

Organisation Structure
During the year the Association went through major organisational change. This involved strengthening the Human Resources, (HR), function, including the appointment of a new Director of HR. Some elements of Corporate Services were transferred to Finance under the heading of "Risk Management". All other elements of Corporate services and the IT function were included within a new department of Business and Communications. This new structure means the Association is better focussed and prepared for future challenges.

Employees
During 2009/10, the average number of full-time equivalent staff employed by the Association was 360 (2008/09: 371), as shown in ***figure 1***.
Without a committed, motivated and well trained workforce, the Association would not be able to meet the needs of our customers. The Association has just completed a review of market comparator rewards. It has benchmarked its working environment to ensure that it provides competitive terms and conditions. A number of additional benefits, such as career breaks and annual leave purchase, are currently being developed to provide further working options wherever possible. Levels of staff turnover, sickness absence, ethnic mix, gender and age profile are closely monitored and benchmarked against available statistics on a regular basis. The Association's staff turnover rate is in line with industry averages for the public sector. The Association is further committed to providing a safe and healthy environment for its workforce and is currently reviewing a number of health and safety procedures. The Association is committed to

figure 1



ensuring the wellbeing of all members of staff while at work and has several policies covering areas such as flexible working, equal opportunities and dignity at work.

Communication within such a dispersed organisation has to make full use of a variety of channels, including Information and Communications Technology.

Information and Communications Technology (ICT)
ICT is seen as an important business enabler within the Association, eliminating unnecessary paperwork; ensuring commonality of data across the different areas of the business; providing consistent business processes across the dispersed organisation; and allowing staff at all levels to access the information relevant to them, as and when they need it.
Over the last nine years, (ending 31 March 2010), the Association has spent significant resources on new comprehensive housing management software, covering all elements of the business. During the year the Association continued development of its new "intranet" facility, "The Hub", extending and expanding this new facility which provides a means of coordinating and standardising the delivery of critical business information to staff.

Other areas being developed in the coming months include the improvement of access to ICT services from remote locations. Video conferencing facilities are being extended to staff and residents. The various IT related working groups at the Association are increasingly focusing on the ways in which ICT can deliver demonstrable efficiency savings for the organisation (eg by moving from paper based communications to e-mail). There is also a continuous programme of updating IT hardware and other software and, rolling out the technology to more frontline service providers. Investment will continue in future, to ensure that maximum benefit is gained from this valuable resource.

HSHA Key Performance Indicators
The Association continues to work towards achieving its strategic objectives, outlined previously. All parts of the business work to key performance indicators and these are detailed along with departmental objectives in the Association's Business Plan. ***Figure 2*** shows performance against some of the more measurable key objectives.

Indicator	Internal target	2009/10	2008/09
Arrears	less than 1.4%	1.6%	1.6%
Void loss percentage	less than 3.2%	2.8%	2.6%
Surplus as %age of turnover	greater than 4%	11.7%	3.6%
Percentage repairs completed within target timescales	greater than 95%	94.8%	95.1%

figure 2: key performance indicators

Arrears due from Local Authorities for housing benefit, (technical arrears) are more difficult to control and these are slightly above target. Arrears due directly from residents, (non-technical) are slightly below target.

The new partnership initiative for reactive repairs, combined with improved reporting will bring actual performance above target.

Risks
The Association, like all businesses, faces a wide variety of business-related risks. These have recently been reviewed and will be included within the Business Plan for 2010-13. The five key risks currently facing the Association are:

Key Risks – identified as High Risk

1. Housing might not remain affordable to customers due to increased rents, or to the organisation due to costs increasing beyond income levels from acceptable rent increases.

2. The reduction in grant levels and availability of private finance could threaten the future development programme.

3. The Association may be unable to recover full costs, with particular reference to housing support funding from local authorities.

4. Any anticipated public sector spending cuts could have an adverse impact on the Association's business model.

5. The increase in older or frailer people requiring services that may not be affordable for Government or Local Authorities, may lead to a Government policy shift in future provision of housing and services for older persons.

Appropriate steps have been taken to monitor and minimise the impact of these risks. Risk management review is a standing item on the agenda of all the Committees.

Capital Structure
The Group contains entities with differing legal forms (Industrial & Provident Society and a company limited by guarantee), neither of which is able to raise equity funding. Consequently, the Group finances its operations by a combination of Government and other grants, housing loans from commercial banks and retained surpluses. No member of the Hanover (Scotland) Group pays dividends.

Housing Assets
A strong balance sheet and a growing asset base are key factors in enabling the Association to raise additional finance to support property development plans. The number of units and the value of the Group's housing stock have generally risen over the past five years. This increase has been driven mainly by organic growth.

These housing assets are included on the balance sheet at £32.4 million, (2008/09, £30.2 million), which is gross historical cost less depreciation and Housing Association Grant. The Committee of Management believes that the current market value of these properties is still significantly in excess of their net book value, see note 9b. This assessment is based on valuations of elements of the portfolio undertaken during 2006, combined with the Association's planned maintenance programme. Valuations will be updated during 2011.

Impairment Review
The Association has conducted an impairment review and the Committee of Management does not believe that any of its properties has suffered from any impairment during the year.

New Properties
During the 12 months ended 31 March 2010, HSHA completed four new developments. Three further projects are due for completion and others are in preparation for 2010/11 and beyond.

Other Tangible Fixed Assets
The Association purchased new premises in Glasgow and our west area office staff relocated there in February 2009. The previous office at Newton Place, Glasgow was sold during the year.

Accounting Policies
Accounting Policies are covered in detail in Note 1 of the Financial Statements. A number of key policies are explained below:

Rent Policy
The aim of the Association is to have a common level of rents for all similar properties. The policy should be logical, easily applied and allow for regional variations in marketability.

The Association's rent policy takes into account three principal objectives:

a. Affordability to customers;
b. Viability for the Association;
c. Marketability.

The first objective of the policy is to ensure that rents are affordable for each client group, the assessment of affordability takes into account basic retirement pension, housing benefit levels and sector guidance.

Income from rents should also be sufficient to meet the financial commitments of the Association in order to maintain continued financial viability.

Marketability is also an important factor and as part of this a comparison of the rent levels applied to properties of the Association with other providers' rents of similar properties.

Reserves Policy
The Association will build up sufficient reserves to keep it financially viable within the environment in which it has to operate and enable it to achieve its overall aims. This requirement is reviewed annually. The Association will maintain any risk reserve deemed necessary in accordance with the policy on risk management.

Designated Reserves
The Association will maintain an adequate reserve to cover future repairs liabilities on its properties over and above its normal day-to-day maintenance programme.

The current 30 year planned maintenance projections show a peak requirement of £4.2m in 2010/11 and again in 2022/23 at today's values. Designated Reserves to meet this commitment currently stand at £8.8m and are believed to be sufficient to fund the future planned maintenance programme. The Association will maintain designated reserves for any other identifiable need as necessary such as the asset management review.

Revenue Reserves
The Association's revenue reserve should be set at a level which is adequate to cover both known and unforeseen risks. A figure of 6 months working capital is £4m. A further amount of between £3.5m and £4m is recommended for known risks such as those

mentioned previously. Current Revenue Reserves, £8.4m, are adequate to meet this commitment. Where possible, the potential cost of known risks, are quantified to inform the annual review of the reserves policy. Further details are provided at Notes 1 h), 16 and 17.

It should be noted that at present these reserves are not fully cash backed as this would be considered an inefficient use of resources.

Treasury Management Policy
The Association has an active treasury management function which operates in accordance with the Treasury Management Policy approved by the Committee.

In this way, the Association manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held. At 31 March 2010, the Association had £3m undrawn loan facilities.

The Association's Treasury Management Policy aims to manage liquidity, funding, investment and the Association's financial risk, including risk from volatility in interest rates and counterparty credit risk. The objective is to manage risk on a cost effective basis.

The Treasury Management Policy is regularly reviewed and approved by the Committee of Management. The Association manages interest rate risk by utilising a high proportion of fixed interest debt, which the Committee of Management currently believes to be in the region of 75 per cent. At 31 March 2010, 72 per cent of the debt portfolio was at a fixed rate (2009:68 per cent).

Creditor Payment Policy
The Association's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The average payment period is 22 days (2009: 22 days).

Maintenance Policies
The Association seeks to maintain its properties to the highest standard. Reactive maintenance is carried out in accordance with our published response targets.

Programmes of cyclical repairs are carried out in the medium term to deal with the gradual and predictable deterioration of building components. It is expected that the cost of all these repairs would be charged to the Income and Expenditure Account.

In addition, the Association has a long term programme of planned maintenance to cover works such as replacement or repairs to features of the property which have come to the end of their economic lives. It also includes works required by subsequent legislative changes, such as the Scottish Housing Quality Standard, (SHQS). These The cost of these repairs would be charged to the Income and Expenditure Account, unless it was agreed they could be capitalised within the terms outlined in the Statement of Recommended Practice. There are no major works required to comply with the SHQS, with all properties meeting the standard by 2015.

Employee Involvement and Health and Safety
The Association encourages employee involvement in all major initiatives and holds an annual review day for staff to discuss major issues affecting the Association. A Health and Safety working group reported to the Committee of Management through the sub-committee, chaired by the Director of Human Resources, four times during the year.

Balance Sheet Debt and Liquidity
The Balance Sheet continues to show a position of overall strength, including an increase in reserves.

Liquidity is measured in terms of cash available to meet short term liabilities and this was considered adequate at 31 March 2010.

Gearing is measured in terms of net debt compared with net assets and including capital grants received. The current position, at 13.1 per cent, (2008/09: 13.7 per cent), provides considerable comfort in terms of ability to continue borrowing to fund future developments.

Fixed Assets
Details of fixed assets are set out in Note 9.

Going Concern
The Committee of Management has reviewed the results for this year and, has also reviewed the projections for the next five years. It, therefore, has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in these financial statements.

The Association is at the beginning of a challenging period of reductions in public sector spending combined with higher than average long term maintenance expenditure. On the basis of the assumptions used in the projections of income and expenditure, longer term plans over the next 30 years offer a satisfactory picture of viability. The Association believes it is well placed to meet future challenges.

Cash Flow
The net cash inflow in 2009/10 was just over £1m, which was £0.8m less than in 2008/09. The net cash inflow, of £4.6m, from operating activities is an increase of £1.2m on the prior year, reflecting the stability of the underlying rental stream combined with a decrease in expenditure on maintenance.

Turnover and Operating Surplus

Performance in the period
The results for the year to 31 March 2010 show turnover up from £24.5m in 2008/09 to £25.9m. The increase reflects the inflationary increases in charges, combined with additional revenue from new properties.

The Association's operating surplus for the year was £3.7m (2009: £1.7m). This is £900k greater than the budgeted surplus of £2.8m and represents 14% of turnover. This is 7% better than achieved in the year ended 31 March 2009, mainly due to savings on staff costs, maintenance underspend and a significant Telecare surplus, combined with the surplus on the sale of the Glasgow office. The funds available to meet interest due on loans were more than adequate and all interest cover covenants have been met. The surplus for the year, after interest charges on loans, was just over £3m, before transfers to designated reserves of £1.5m.

Total expenditure on repairs and maintenance in the year was £4.5m (2009: £5.4m). This includes a sum of £0.537m on the adaptation of 214 existing properties to meet the needs of tenants as they become more frail. This demonstrates the Association's ongoing commitment to investing in its existing stock.

The Committee of Management considers the financial results of the Association for the year ended 31 March 2010 to be satisfactory.

The Association has not prepared Group accounts taking advantage of the exemption under FRS2 relating to the immateriality of the individual accounts of the subsidiary. Relevant information is disclosed in note 24.

The Committee of Management
The Association has 184 members, each of whom holds a single fully-paid £1 share. From their number, the Committee of Management is elected and members who served on it in the year are listed on page 2. Members are appointed with reference to experience, skills and qualifications and any potential skills gaps are taken into account when seeking new members. The Committee of Management is supported by six Sub-Committees; Property and Development, Housing and Care Services, Business and Communications, Human Resources, Finance and Audit. Decisions are made by

officers of the Association and Committees by reference to the scheme of sub-committees and delegation.

All new members undergo induction training and additional training is provided, both internally and externally on specific topics as they arise and, in accordance with the policy on training and development of committee members.

Statement of Responsibilities of the Committee of Management
The Industrial and Provident Societies Acts 1965 to 2002 require the Committee of Management to prepare financial statements for each financial year, which give a true and fair view of the Association's state of affairs and of the surplus or deficit of the Association for that period. In preparing those financial statements, the Committee of Management is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is not appropriate to presume that the Association will continue in business; and
- prepare a statement on Internal Financial Control.

The Committee of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Association. The Committee must ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007. It is 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 that the Association's suppliers are paid promptly.

The members of the Committee of Management at the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant information of which the auditors are unaware. They confirm that they have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Statement on Internal Financial Control

1. The Committee 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;
    - the safeguarding of assets against unauthorised use or disposition.

2. It is the Committee 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 the Association's assets;
    - experienced and suitably qualified staff take responsibility for the 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 Committee of Management to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;
    - quarterly management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, with significant variances from budget being investigated as appropriate;
    - all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the Committee of Management;

Review by the Committee of Management

at 31 March 2010

- the Audit Committee receives 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 weakness identified through internal and external audit reports: and

- significant risks are identified, evaluated and managed, as previously outlined on page 8 of this review.

3. The Association's internal auditor was appointed in 2008 and a programme of work, based on the Audit Needs Assessment and an internal risk review is almost complete. In addition to individual reports resulting from the ongoing programme of work, the internal auditor prepares an annual report for the Audit Committee each year. These arrangements are considered appropriate to the scale and range of the Association's activities and comply with the requirements contained in the Scottish Housing Regulator's Guidance and the SFHA's publication "Raising Standards in Housing".

4. The effectiveness of the Association's system of internal financial control has been reviewed by the Audit Committee. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in these financial statements or in the auditors' report on the financial statements.

Auditors

A resolution for the reappointment of Baker Tilly UK Audit LLP, as auditors of the Association, will be proposed at the Annual General Meeting.

On behalf of the Committee of Management

Douglas T. Boyd.

Chairperson (Douglas T Boyd)

Date: 2 JULY 2010

Hanover (Scotland) Housing Association Limited

Independent Auditor's report on Corporate Governance

Corporate Governance

In addition to our audit of the financial statements, we have reviewed the Committee of Management's statement on pages 14 to 16 concerning the Association's compliance with the information required by the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing".

Basis of Opinion

We carried out our review having regard to the Bulletin 2006/5 issued by the Auditing Practices Board. 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 reasons given for non compliance.

Opinion

In our opinion the statement on internal financial control on pages 15 to 16 has provided the disclosures required by the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing" and is consistent with the information which came to our attention as a result of our audit work on the financial statements.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
Registered Auditors
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: 7 July 2010

Hanover (Scotland) Housing Association Limited

Independent Auditor's Report to the members of Hanover (Scotland) Housing Association Limited

We have audited the financial statements on pages 20 to 44 which have been prepared under the accounting policies set out on pages 24 to 27.

The report is made solely to the Association's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. 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 responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report and for the opinion we have formed.

Respective responsibilities of the Committee of Management and Auditors

The Committee of Management's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Management Committee's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007. We also report to you if, in our opinion, Management Committee's Report is not consistent with the financial statements, if the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Management Committee's Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Group Accounts Section 14 (2) of the Friendly and Provident Societies Act 1968

We agree with the opinion of the Committee of Management of the Association that it would be of no real value to the members of the Association to consolidate or include the accounts of the Association's subsidiaries, in the Group accounts required to be prepared under Section 13 of the Friendly and Industrial and Provident Societies Act 1968 for the year ended 31 March 2010, because of the insignificant amounts involved.

Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Association's affairs as at 31 March 2010 and of its surplus for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
Registered Auditors
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG
Date: 7 July 2010

Hanover (Scotland) Housing Association Limited
Income and Expenditure Account

For the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Turnover	2	25,852	24,520
Less: Operating Costs	2	(22,179)	(22,803)
Operating Surplus		3,673	1,717
Surplus/(Deficit) on sale of assets		267	(49)
Interest receivable and other income	7	65	138
Interest payable and similar charges	8	(984)	(999)
Surplus on ordinary activities before taxation		3,021	807
Tax on surplus on ordinary activities	21	-	(5)
Surplus on ordinary activities after taxation		3,021	802

The results for the year relate wholly to continuing activities.

The Association has no recognised gains and losses other than those included in the surplus above, and therefore no separate statement of total recognised gains and losses has been presented.

Hanover (Scotland) Housing Association Limited

Balance Sheet As at 31 March 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Fixed Assets					
Tangible fixed assets:					
Housing properties: Cost less depreciation			179,133		175,322
Grants			(146,753)		(145,170)
	9		32,380		30,152
Fixed Asset Investment	9		51		51
Other tangible fixed assets	9		6,350		6,490
	9		38,781		36,693
Current Assets					
Stock	10	31		26	
Office Property for Sale		-		207	
Debtors	11	2,441		2,683	
Cash at bank and in hand	12	6,282		5,215	
		8,754		8,131	
Current Liabilities					
Creditors: Amounts falling due within one year	13	(6,718)		(6,812)	
Net Current Assets			2,036		1,319
Total Assets less Current Liabilities			40,817		38,012
Creditors: Amounts falling due after more than one year	14		(23,627)		(23,843)
Net Assets			17,190		14,169
Capital and Reserves					
Share Capital	15		-		-
Designated Reserves	16		8,780		7,284
Revenue Reserve	17		8,410		6,885
			17,190		14,169

The Committee approved and authorised the financial statements for issue on 2 July 2010.

Chairperson (Douglas T Boyd) Douglas G. Boyd. **Company Secretary (David G Reid)**

Chairperson Finance Committee (Dr A Isobel Fowler) A Isobel Fowler

Hanover (Scotland) Housing Association Limited
Cash Flow Statement
For the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Net cash inflow from operating activities	(i)	4,618	3,444
Returns on investments and servicing of finance			
Interest received		65	138
Interest paid loans		(975)	(989)
Interest paid finance lease		(9)	(10)
Loss on investments		-	(88)
Net cash outflow from investments and servicing of finance		(919)	(949)
Taxation			
Corporation tax paid		-	(5)
Net cash outflow from taxation		-	(5)
Capital expenditure			
Payments to acquire and develop housing properties		(4,264)	(7,449)
HAG and other grants received		1,926	4,531
Payments to acquire other fixed assets		(204)	(1,297)
Net receipts from shared ownership property sales		73	74
HAG repaid on shared ownership property sales		(41)	(68)
Proceeds from sale of other fixed assets		450	-
Net cash outflow from investing activities		(2,060)	(4,209)
Net Cash inflow/outflow before financing and management of liquid resources		1,639	(1,719)
Management of liquid resources			
Provision for bank bad debt		-	(181)
Financing			
Finance lease obligations		(28)	(27)
(Loans repaid) / advances received		(544)	3,740
Net cash (outflow)/inflow from financing	(iii)	(572)	3,713
Increase in cash	(iii)	1,067	1,813

Hanover (Scotland) Housing Association Limited

Notes to the Cash Flow Statement for the year ended 31 March 2010

(i) Reconciliation of operating surplus for the year to net cash flow from operating activites

	2010 £'000	2009 £'000
Operating surplus	3,673	1,717
Depreciation	749	677
(Increase)/Decrease in stocks	(5)	4
Decrease in bad debt provision	-	181
(Increase) in debtors	(61)	(258)
Increase in creditors	82	990
Movements in residents' funds	180	133
Net cash inflow from operating activities	**4,618**	**3,444**

(ii) Analysis of net debt

	At 31-Mar 2009 £'000	Cash flows £'000	Other changes £'000	At 31-Mar 2010 £'000
Cash and short term deposits	5,215	1,067		6,282
	5,215	1,067	-	6,282
Debt due within one year	(571)	572	(586)	(585)
Debt due after one year	(20,968)	-	586	(20,382)
Total	(16,324)	1,639	-	(14,685)

(iii) Reconciliation of net cash flow to movement in net debt

	2010 £'000
Increase in cash and short term deposits in the period	1,067
Decrease in loans in the period	572
Change in net debt	1,639
Net debt at 1 April 2009	(16,324)
Net debt at 31 March 2010	(14,685)

1 Accounting Policies

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Financial Services Authority.

a) Basis of accounting
The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards. They comply with the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007 and with the Statement of Recommended Practice on Accounting by Registered Social Landlords 2008.

b) Turnover
Turnover represents rental and service charge income receivable from tenants and owner occupiers, income from sale of housing properties, fees and revenue based grants receivable from Local Authorities and the Scottish Government, and charges to users of the Hanover Telecare service.

c) Housing properties, Housing Association Grant and depreciation

i) Housing properties are stated at the lower of cost and net realisable value where cost includes the cost of acquiring land and buildings, development expenditure and interest charged on the funds used to finance housing projects in the development period. Net realisable value has been assessed with reference to the 'Open Market value for the Existing Use' criterion.

ii) Reviews for impairment of housing properties are carried out on an annual basis and any impairment in an income generating unit is recognised by a charge to the Income and Expenditure Account. Impairment is recognised where the carrying value of an income generating unit exceeds the higher of its net realisable value or its value in use. Value in use represents the net present value of expected future cash flows from these units. The length of forecast period used is 75 years.

iii) For developments under the terms of the Housing (Scotland) Act 2001, Housing Association Grant (HAG) is paid directly to the Association as required to meet its liabilities during the development process. HAG is repayable under certain circumstances, primarily following the sale of property, but will normally be restricted to sale proceeds.

iv) Depreciation is charged on a straight line basis on housing properties from 1 April 1999, based on Actual Cost less Grants Receivable less Estimated Cost of Land. The Association's policy and practice is to maintain properties to a high standard by implementing a continuing programme of refurbishment and maintenance and the estimated life of housing properties is considered to be approximately 75 years with effect from 1 April 1999.

v) In relation to the development at Sunnyside Court, Edinburgh, significant improvement works were undertaken to bring the property up to an acceptable standard, following its transfer to the Association on 15 March 2002. Consequently, the Association's policy was to capitalise such improvement costs and depreciate over 20 years from 1 April 2002.

vi) In relation to the development at Haugh Road, Elgin, significant reinstatement works were undertaken in the year to bring four properties back into letting following flood damage in 2003, the Association's policy was to capitalise such reinstatements costs and depreciate over the estimated life of the development.

vii) Strictly attributable development administration costs relating to development activities are capitalised based on an apportionment of staff time spent on this activity.

viii) Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of the property sold are removed from the financial statements at the date of sale, except for first tranche sales. Any grants received that cannot be repaid from the proceeds of sale are abated and the grants removed from the financial statements.

d) Other fixed assets

Other fixed assets purchased that are over the value of £500 are capitalised.

Depreciation is calculated to write down the cost of other fixed assets on a straight line basis over the expected useful lives at the following rates:

Office premises	2%
Garages	7%
Equipment	20 – 25%

e) Stock

Stock is stated at the lower of cost and net realisable value.

f) Residents' Fund for replacement of scheme equipment

Transfers are made from the service charge to replace items of scheme equipment based on current replacement costs and estimated lives. The fund is included in deferred income and is split into amounts falling due within one year and after more than one year, based on budgeted figures for the following year.

g) Residents' Fund for repairs – owner occupiers

Transfers are made from the service charge to meet the cost of future repairs on owner occupied developments where the owners have the responsibility to meet these costs. The fund is included in deferred income and is split into amounts falling due within one year and after more than one year, based on budgeted figures for the following year.

h) Reserves

i) Designated Reserve – Major repairs and remodelling reserve

An annual amount is transferred to the reserve in accordance with estimates required to fund future major repairs. Currently the Association anticipates annual spend of between £2.5m and £4.2m to meet the current programme of major repairs. The current 30 year planned maintenance projections show a peak requirement of £4.2m in 2010/11 and again in 2022/23. Designated Reserves to meet this commitment currently stand at £8.8m and are believed to be sufficient to fund the future planned maintenance programme (see note 16).

ii) Revenue Reserve

The balance of any surpluses, over and above those transferred to the designated reserve for major repairs, is held in a revenue reserve. The reserve, which is not cash backed, is held to meet any unforeseen risks encountered by the Association. The Committee of Management regularly considers the target level on a risk management basis and the future expected use of this reserve.

i) Leasing

Rentals paid under operating leases are charged to income and expenditure on a straight line basis over the term of the lease.

Assets held under finance leases are included in tangible fixed assets and are depreciated on a straight line basis over their estimated useful lives. Rentals payable are apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable; the finance charge being allocated to accounting periods over the lease term so as to produce a constant rate of charge on the remaining balance of the obligation. The Association's obligations under finance leases are secured on the asset to which the leases relate.

j) Taxation Policy
The Association pays corporation tax on its non-charitable activities. As a Registered Social Landlord, the Association is exempt from payment of corporation tax on its social letting activities.

k) Value Added Tax
The Association is VAT registered. However, a large proportion of the income, namely rents, is exempt for VAT purposes and therefore gives rise to a partial exemption calculation. Expenditure as a result is shown inclusive of VAT.

l) Liquid Resources
Liquid resources comprise of balances held in bank current and deposit accounts, and balances held on fixed term deposit.

m) Pensions
The Association participates in the SFHA defined benefits pension scheme and retirement benefits to employees are funded by contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating associations as a whole. Two employees are members of The City of Edinburgh Council pension fund.

The expected cost to the Association of pensions is charged to the income and expenditure account so as to spread the cost of pensions over the service lives of the employees.

n) Group Accounts
The Association is registered in Scotland and forms part of a group, the other member is:

- Hanover (Scotland) Housing Association Charitable Trust, a company registered in Scotland with charitable aims.

Hanover (Scotland) Housing Association Limited is considered to be the ultimate parent undertaking of the group. These financial statements present the information only relating to Hanover (Scotland) Housing Association Limited. Separate Group accounts are not required as the Group has been exempted from this requirement by the Financial Services Authority because of the insignificant amounts involved.

2 Turnover, Operating Costs and Operating Surplus

	Notes	Turnover £'000	Operating costs £'000	2010 Operating surplus £'000	2009 Operating surplus/ (deficit) £'000
Social Lettings	3a	20,192	(16,593)	3,599	1,958
Other Activities	3b	5,660	(5,586)	74	(241)
Total for 2010		**25,852**	**(22,179)**	**3,673**	**1,717**
Total for 2009		24,520	(22,803)	1,717	

3a Particulars of Income and Expenditure from Lettings

	General Needs Housing £'000	Supported Housing Accommodation £'000	Shared Ownership Accommodation £'000	Total 2010 £'000	Total 2009 Reclassified £'000
Income from lettings					
Rent receivable net of Identifiable Service Charges	572	11,554	51	12,177	11,355
Service Charges receivable	58	8,035	-	8,093	7,465
Gross income from rents & service charges	630	19,589	51	20,270	18,820
Less: Voids	-	(520)	-	(520)	(570)
Net income from rents & service charges	**630**	**19,069**	**51**	**19,750**	**18,250**
Revenue Grants from Local Authorities and Other Agencies	-	442	-	442	531
Total turnover from social letting activities	**630**	**19,511**	**51**	**20,192**	**18,781**
Management & maintenance administration costs	145	3,242	10	3,397	3,365
Service costs	58	8,234	-	8,292	7,715
Planned and cyclical maintenance including major repairs costs	123	2,479	-	2,602	3,641
Reactive maintenance costs	88	1,787	-	1,875	1,730
Bad debts - rents and service charges	-	13	-	13	7
Depreciation of social housing	40	374	-	414	365
Operating Costs for social letting activities	**454**	**16,129**	**10**	**16,593**	**16,823**
Operating Surplus for social letting	**176**	**3,382**	**41**	**3,599**	**1,958**
Operating Surplus for social letting for previous period of account	158	1,762	38	1,958	

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2010

3b Turnover, Operating Costs and Operating Surplus/(Deficit) from Other Activities

	Grants from Scottish Ministers £'000	Other revenue grants £'000	Supporting people income £'000	Other income £'000	Total turnover £'000	Operating costs bad debts £'000	Other operating costs £'000	2010 Surplus/ (deficit) for the year £'000	2009 Surplus/ (deficit) for the year £'000
Wider Role Activities	-	-	-	-	-	-	-	-	-
Care & Repair of Property	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	1,490	1,490	-	(1,490)	-	-
Development & construction of property activities	-	-	-	-	-	-	-	-	-
Support Activities	-	-	2,588	-	2,588	-	(2,588)	-	-
Care Activities	-	-	-	-	-	-	-	-	-
Agency/management services for RSLs	-	-	-	-	-	-	-	-	-
Other agency/management services	-	-	-	-	-	-	-	-	-
Developments for sale to RSLs	-	-	-	-	-	-	-	-	-
Developments & improvements for sale to non RSLs	-	-	-	205	205	-	(243)	(38)	-
Telecare	-	-	-	1,213	1,213	(1)	(1,092)	120	71
Other Activities	-	-	-	164	164	-	(172)	(8)	(312)
Total from Other Activities	-	-	**2,588**	**3,072**	**5,660**	**(1)**	**(5,585)**	**74**	**(241)**
Total from other activities for year ended 31 March 2009 Reclassified	-	-	**2,700**	**3,039**	**5,739**	**(1)**	**(5,979)**	**(241)**	

Included within income and expenditure in note 3a was an amount of £308k that related to other activities
The 2009 prior year comparatives have been reclassified to bring them into line with the requirements of the Accounting Order 2007.

4 Directors' Emoluments

The directors are defined as the members of the Committee of Management, the Chief Executive and any other person reporting directly to the directors or the Committee of Management whose total emoluments exceed £60,000 per annum.

	2010 £'000	2009 £'000
Total emoluments (including pension contributions and benefits in kind	398	361
The emoluments (excluding pension contributions) of the highest paid director amounted to :	88	87

The number of directors (including the highest paid Director) who received emoluments (excluding pension contributions) in excess of £60,000 were within the following ranges:	No. of Directors	No. of Directors
£60,001 to £65,000	1	2
£65,001 to £70,000	-	-
£70,001 to £75,000	-	-
£75,001 to £80,000	-	-
£80,001 to £85,000	-	-
£85,001 to £90,000	1	1

The Association made pension contributions of £22,732 (2009: £39,485) on behalf of those directors whose total emoluments, excluding pension contributions, are in excess of £60,000 per annum.

The Committee of Management had a maximum membership of 14 during the year with 14 members as at 31 March 2010. In accordance with the rules of the Association the co-optees are not included in the expression 'Committee Members' or 'members of the Committee'. No payment or fees or other remuneration was made to the members during the year.

	2010 £'000	2009 £'000
Total expenses reimbursed to the Chief Executive insofar as not chargeable to UK Income Tax:	1	1
Total expenses incurred on behalf of Committee Members who were neither officers nor employees of the Association amounted to:	17	19

5 Employee Information

	2010 No.	2009 No.
The average full time equivalent number of persons employed in the year was:	360	371
The average number of persons employed in the year was:	489	499

	£'000	£'000
Staff costs (including directors' emoluments)		
Wages and salaries	8,252	8,436
Social security costs	537	581
Pension costs	664	694
BUPA	8	8
	9,461	9,719

6 Operating Surplus

	2010 £'000	2009 £'000
Operating surplus is stated after charging:		
Depreciation	749	678
Repairs: cyclical, planned, day to day	5,479	6,336
Auditors' remuneration - external	19	18
Auditors' remuneration - internal	19	19
Auditors' remuneration - non audit services	4	2
Hire of plant and machinery - rentals payable under operating leases	163	138

7 Interest receivable and other income

	2010 £'000	2009 £'000
Interest receivable on bank deposits	65	138

8 Interest payable and similar charges

	2010 £'000	2009 £'000
Housing loans:		
On loans from banks and building societies repayable in more than 5 years	970	981
Interest charged on finance leases	9	10
	979	991
Interest on owner occupier funds	5	8
	984	999

9 Tangible Fixed Assets

	Housing Properties								
	Held for letting £'000	Shared ownership £'000	Under construction £'000	Total housing £'000	Fixed Asset Investment Shared Equity £'000	Heritable office property £'000	Computer & leased equipment £'000	Total other £'000	Grand total £'000
Cost									
At 1 April 2009	167,158	975	10,023	**178,156**	**1,059**	6,523	2,061	**8,584**	**187,799**
Additions in the year	272	-	3,992	**4,264**	-	45	159	**204**	**4,468**
Transfers in the year	11,052	-	(11,052)	-	-	-	-	-	-
Disposals in the year	-	(40)	-	**(40)**	-	(7)	(161)	**(168)**	**(208)**
At 31 March 2010	178,482	935	2,963	**182,380**	**1,059**	6,561	2,059	**8,620**	**192,059**
Housing Association Grant (HAG)									
At 1 April 2009	128,560	642	6,910	**136,112**	**1,008**	-	-	-	**137,120**
Received in the year	-	-	1,623	**1,623**	-	-	-	-	**1,623**
Transfers in the year	7,257	-	(7,257)	-	-	-	-	-	-
Repaid and abated in the year	-	(41)	-	**(41)**	-	-	-	-	**(41)**
At 31 March 2010	136,089	601	1,004	**137,694**	**1,008**	-	-	-	**138,702**
Other grants									
At 1 April 2009	9,059	-	-	**9,059**	-	-	-	-	**9,059**
Received in the year	-	-	-	**0**	-	-	-	-	-
Transfers in the year	-	-	-	-	-	-	-	-	-
At 31 March 2010	9,059	-	-	**9,059**	-	-	-	-	**9,059**
Depreciation									
At 1 April 2009	2,830	3	-	**2,833**	-	600	1,494	**2,094**	**4,927**
Provided during the year	414	-	-	**414**	-	136	199	**335**	**749**
Disposals in the year	-	-	-	-	-	-	(159)	**(159)**	**(159)**
At 31 March 2010	3,244	3	-	**3,247**	-	736	1,534	**2,270**	**5,517**
Net book value									
at 31 March 2009	26,709	330	3,113	**30,152**	**51**	5,923	567	**6,490**	**36,693**
at 31 March 2010	30,090	331	1,959	**32,380**	**51**	5,825	525	**6,350**	**38,781**

9 Tangible Fixed Assets (continued)

a) The Association has received £5,935,890 (£536,075 in the year) in respect of Housing Association Grant for Adaptations which has been treated as revenue and not capitalised in the Balance Sheet. No grants were received in the year for Major Repairs.

b) Notwithstanding the Balance Sheet position, the Association undertook a programme of property valuations in 2006. The average value of each unit was £16,300, using the existing use criteria. This compares to an average net book value of £7,942 per unit.

c) Development administration costs capitalised in the year amounted to £233,352 (2009: £225,123) for which Housing Association Grants amounting to £64,022 (2009: £46,434) were received in the year.

d) Shares were held at nil cost from Barclays plc. Market value of 104 shares at 31 March 2010 is £375 (2009: £154).

e) No Land or Buildings included in Fixed Assets are held on a lease or managed by other association bodies.

f) Within Computer and Leased Equipment are assets owned under a Finance lease with a net book value of £108,591 (2009: £152,028), depreciation on those assets is £43,436 (2009: £43,436).

g) Included within Housing Properties held for letting is an investment property with a net book value of £23,882.

10 Stocks

	2010 £'000	2009 £'000
Fuel oil stocks	11	8
Sundry stocks	8	7
Food stocks	12	11
	31	26

11 Debtors

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Rental debtors	313	321
Less: bad debt provision	(9)	(4)
	304	317
Development funding receivable	20	323
Major repairs / Adaptations HAG receivable	49	106
Service equalisation balances	1,276	1,191
Other debtors	562	631
Prepayments and accrued income	230	115
	2,441	2,683

12 Cash at bank and in hand

	2010 £'000	2009 £'000
Cash at bank and in hand	6,282	5,577
Less Provision for bad debt	-	(362)
	6,282	5,215

Kaupthing, Singer and Friedlander went into administration on 8 October 2008. Recent correspondence received from the administrator Ernst and Young, is that the Association should receive at least 50p in the £1. As at 31 March 2010, £109,645 has been received from the administrators with further £27,410 received since, this equates to 35p in the £.

13 Creditors: Amounts Falling Due Within One Year

	2010 £'000	2009 £'000
Loan repayments: instalments of principal (see note 14)	555	541
Finance lease obligations (see note 14)	30	30
Residents' funds (see note 14)	655	845
Service equalisation balances	2,814	2,223
Corporation Tax	-	3
Other taxation and social security	235	215
Development 'work in progress' accruals	182	243
Accruals and deferred income	853	1,310
Rent in advance	89	119
Other creditors	1,305	1,283
	6,718	6,812

14 Creditors: Amounts Falling Due After More Than One Year

	2010 £'000	2009 £'000
Loans	20,262	20,820
Residents' funds	3,193	2,823
Finance lease obligation	120	148
Other	52	52
	23,627	23,843

Loans are secured by fixed charges on the Association's properties and interest is repayable at:

i. Fixed rates between 4.59% and 5.46%.
ii. Finance Lease charged at 6%
iii. Residents funds receive interest of between 1% and 0.5% (2009: 1.5% and 1%).

Instalments are due as follows:	2010 £'000	2009 £'000
Within one year (note 13)	585	571
Between one and two years	603	583
Between two and five years	1,837	1,817
In over five years	17,942	18,568
	20,967	21,539

14 Creditors: Amounts Falling Due After More Than One Year (continued)

Residents' Funds	Balance at 31/03/09 £'000	Expenditure in year £'000	Provided in year £'000	Balance at 31/03/10 £'000
Replacement of scheme equipment	3,367	(325)	509	3,551
Owner occupier repairs	301	(342)	338	297
	3,668	(667)	847	3,848
split as follows :				
less than one year and included in note 13	(845)			(655)
more than one year	2,823			3,193

15 Share Capital

	2010 No.	2009 No.
Opening share capital	177	161
Shares allocated during the year	22	33
Shares relinquished during the year	(15)	(17)
Closing share capital	184	177

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions 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. Each member has a right to vote at members' meetings. Shares are fully paid as at 31 March 2010.

16 Designated Reserves – Major Repairs

	2010 £'000	2009 £'000
Balance at beginning of year	7,284	6,813
Transfer (to) Revenue Reserve for the year	(1,659)	(2,752)
Transfer from Revenue Reserve for the year	3,155	3,223
Balance at end of year	8,780	7,284

17 Reconciliation of Movements in Revenue Reserve

	2010 £'000	2009 £'000
Revenue reserve at beginning of year	6,885	6,554
Surplus for the year	3,021	802
Transfer (to)/from designated reserve (note 16)	(1,496)	(471)
Revenue reserve at end of year	8,410	6,885

18 Capital Commitments

Housing expenditure contracted less certified at 31 March 2010 amounted to £1.343m (2008: £5.681m). Expenditure authorised by the Committee of Management but not contracted at 31 March 2010 amounted to £nil (2009: £1.260m).

All of the amounts contracted for 31 March 2010 have received approval from the Scottish Government for HAG funding, other grant providers and private finance.

Expenditure authorised by the Committee of Management but not contracted will ultimately be funded by the Scottish Government, other grant providers or from private finance.

In addition, the Committee of Management has authorised expenditure on other fixed assets amounting to £231,062 (2009: £236,749), which includes the purchase of computer equipment and software.

19 Leasing Commitments

	2010 £'000	2009 £'000
Operating leases which expire:		
Between two and five years	130	138

All operating leases are in relation to the lease of company cars.

20 Pension Commitments

General
Hanover (Scotland) Housing Association participates in the SFHA Pension Scheme.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to an individual participating employer 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 individual employer experience. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

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 obligations as they fall due.

The last formal valuation of the Scheme was performed as at 30 September 2006 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £268 million. The valuation revealed a shortfall of £54 million of assets compared to liabilities, equivalent to a past service funding level of 83.4%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2008. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed a decrease in the assets of the Scheme to £265 million and indicated an increase in the shortfall of approximately £149 million of assets compared to liabilities, equivalent to a past service funding level of 63.9%

The current triennial formal valuation of the Scheme, as at 30 September 2009, is being undertaken by a professional qualified Actuary. The results of the valuation will be available in Autumn 2010.

The provisional results of the triennial valuation reflect this showing a deficit of £160 million as at 30 September 2009. This means that the funding level of liabilities represented by assets is 64.8%. Therefore, the total contribution rate must increase on average by 7% of pensionable earnings for all existing benefit options structures from April 2011.

Growth Plan
Hanover (Scotland) Housing Association participates in the Pensions Trust's Growth Plan. The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension Plan.

Hanover (Scotland) Housing Association offers the Growth Plan as an AVC investment option for members of the SFHA Pension Scheme. The members pay contributions at a rate of their choice. Hanover (Scotland) Housing Association does not pay any contributions to the Growth 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 Growth Plan allow for the declaration of bonuses and/or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses/investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Growth 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.

As at the balance sheet date there were 6 active members of the Plan employed by Hanover (Scotland) Housing Association. Hanover (Scotland) Housing Association continues to offer membership of the Plan to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. 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 2008 have now 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 £742 million and the Plan's Technical Provisions (i.e. past service liabilities) were £771 million. The valuation therefore revealed a shortfall of £29 million of assets compared with the value of liabilities, equivalent to a funding level of 96%.

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	%pa
Investment return pre retirement	7.6
Investment return post retirement	
- Actives/Deferreds	5.1
- Pensioners	5.6
Bonuses on accrued benefits	0.0
Rate of price inflation	3.2

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

The Scheme Actuary has prepared a funding position update as at 30 September 2009. The market value of the Plan's assets at that date was £765 million and the Plan's Technical Provisions (i.e. past service liabilities) were £820 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £55 million, equivalent to a funding level of 93%.

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

In view of the small funding deficit and the level of prudence implicit in the assumptions used to calculate the Plan liabilities the Trustee has prepared a recovery plan on the basis that no additional contributions from participating employers are required at this point in time. In reaching this decision the Trustee has taken actuarial advice and has been advised that the shortfall of £29 million (as at 30 September 2008) will be cleared within 10 years if the investment returns from assets are in line with the 'best estimate' assumptions. 'Best estimate' means that there is a 50% expectation that the return will be in excess of that assumed and a 50% expectation that the return will be lower than that assumed over the next 10 years. These 'best estimate' assumptions are 8.4% per annum pre retirement, 5.1% per annum post retirement (actives and deferreds and 5.6% per annum post retirement (pensioners).

A copy of the recovery plan must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example the Regulator could require that the trustee strengthens the actuarial assumptions (which would increase the Plan liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2008 valuation was forwarded to the Pensions Regulator on 18 December 2009.

The next full actuarial valuation will be carried out as at 30 September 2011.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Plan. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buyout basis i.e the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Plan's pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Plan liabilities, Plan investment performance in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

21 Taxation

	2010 £000	2009 £000
UK Corporation Tax		
Based on the results for the year	-	2
Adjustment in respect of previous periods	-	3
Total Current tax	-	5

Factors affecting tax charge for the year

	2010 £000	2009 £000
Surplus on ordinary activities before taxation	3,021	904
Expected tax charge at 20% (2009: 20%)	604	181
Exempt charitable activities	(604)	(179)
Adjustment to tax charge in respect of previous period	-	3
Current tax charge	-	5

22 Housing Stock

	2010 No.	2009 No.
Rented - General needs housing	167	167
Rented - Supported housing accommodation	3,910	3,868
Shared ownership	36	37
Shared equity	88	88
Owner occupied	1,002	1001
Totals	5,203	5,161

The number of units in development as at 31 March 2010, was as follows:

	2010 No.	2009 No.
Rented - General needs housing	10	52
Rented - Supported housing accommodation	26	25
	36	77

23 Average Annual Scottish Secure Tenancy Rents

	2010	2009
	£	£
Average annual Scottish secure tenancy rents for housing accommodation	2,998	2,820
	%	%
Percentage increase from previous year	6.30	6.50
	No.	No.
Number of Scottish secure tenancies	3,801	3,589

24 Group Structure

The Association is registered in Scotland and forms part of a group, the other member is:

- Hanover (Scotland) Housing Association Charitable Trust, a company registered in Scotland with charitable aims. This company had net incoming resources of £3,691 (2009: £3,463 outgoing) in the year and net assets at 31 March 2010 of £123,989 (2009: £119,953).

Hanover (Scotland) Housing Association Limited is considered to be the ultimate parent undertaking of the group. Separate Group accounts are not required as the Group has been exempted from this requirement by the Financial Services Authority.

25 Related Party Transactions

Two members of the Committee of Management, Mr Stanley Thomson and Mrs Patricia MacCormick who were elected on 26 September 2008 and 25 September 2009 respectively, hold tenancies with the Association.

To facilitate the development of a new National Common Housing Register, Hanover purchased a £1 share in a limited company (Housing Options Scotland Limited) with Bield and Trust Housing Associations. In 2005 each committed a £30,000 contribution towards the development costs of the software. Mrs Helen Murdoch, Chief Executive, is a director of the company.

During the year, Hanover (Scotland) Housing Association Ltd incurred expenditure on behalf of Hanover (Scotland) Housing Association Charitable Trust, a company limited by guarantee controlled by the Association, totalling £9,392. This was then invoiced from Hanover (Scotland) Housing Association Ltd to the Hanover (Scotland) Housing

Association Charitable Trust. At the year end £4,685 was due to Hanover (Scotland) Housing Association Ltd from the General Fund of the Charitable Trust.

There were no other related party transactions in the year.

25 Contingent Liabilities

The Committee of Management are not aware of any contingent liabilities as at 31 March 2010 (2009: Nil) and no other liabilities have emerged since.

26 Post Balance Sheet Events

The Committee of Management was not aware of any post balance sheet events as at 31 March 2010.