



HANOVER (SCOTLAND) HOUSING ASSOCIATION

Financial statements

for the year ended 31 March 2013

Hanover (Scotland) Housing Association Limited

Registered Address and Head Office:

Hanover (Scotland) Housing Association
95 McDonald Road
EDINBURGH
EH7 4NS

Solicitors:

TC Young
7 West George Street
GLASGOW
G2 1BA

Bankers:

NatWest
Scotland Corporate Service Centre
Drummond House
PO Box 1727
EDINBURGH
EH12 9JN

External Auditors:

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

Internal Auditors:

Scott Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

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

Hanover (Scotland) Housing Association Limited

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Hanover (Scotland) Housing Association Limited

Committee of Management

Isobel Fowler BSc DACad FRSSAMD FRSA (Chairperson)	Robin McGregor LLB (Hons) DipLP NP CA
Fiona Bisset (resigned 5 July 2012) (co-optee)	Hugh Mitchell FCMA CGMA FCCA
Wilma Dickson CBE PhD	Geoffrey Palmer OBE DSc
David Essery CB (retired 27 September 2012)	Alison Petch (elected 27 September 2012) (previously co-optee)
Michael Keohane FCIBS (resigned 17 December 2012)	Alan Savage
Patricia MacCormick (resigned 11 March 2013)	Stanley Thomson (resigned 4 June 2012)
Donna Mackay MA (Hons) (retired 27 September 2012)	Barbara Walton BSc CA
Michael Martin (elected 27 September 2012) (previously co-optee)	Brian Watt MD FRCPATH FRCPE
Anne McCamley BA LLB NP	Roger Williams

Officers

Helen Murdoch MBA FCIH MRICS ACIPD Chief Executive	Bruce Laing BSc MRICS Director of Property & Development
Andrew Aitken FCIPD Director of Human Resources	Christopher Milburn BA (Hons) MBCS MBA Director of Business and Communications
Gregor Booth BA (Hons) Director of Housing & Care Services	David Reid LLB ACIS Company Secretary
Colin Gibson FCMA CGMA CIHM Director of Finance & Risk Management Services	

Hanover (Scotland) Housing Association Limited

Review by the Committee of Management at 31 March 2013

The Committee of Management presents its review and audited financial statements for the year ended 31 March 2013.

Review of the Business

Structure and Activities

Hanover (Scotland) Housing Association Limited (HSHA) is incorporated under the Industrial & Provident Societies Acts 1965. A 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 forms part of a group, the other member of which is Hanover (Scotland) Housing Association Charitable Trust (The Charitable Trust). The Charitable Trust is 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 outgoing resources of £80,723 (2012: £1,093) in the year and net assets at 31 March 2013 of £35,798 (2012: £116,549).

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 Conduct Authority because of the insignificant amounts involved. Therefore, these accounts present the financial information for the parent undertaking and not for the group.

Business Strategy

Following a Strategy Conference held by Hanover in 2011 a revised Business Strategy was approved by the Committee of Management in March 2012 and the revised broad Strategic objectives agreed, are:

1. *People, 'To help our customers to live the lives they want by providing them with modern and safe accommodation and supporting services. To promote their wellbeing, enabling them to live as*

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healthy, independent and secure lives as possible and encourage and assist their participation and involvement in their communities to whatever extent they wish. '

2. Housing, 'To provide quality, well maintained, safe, sustainable and affordable housing for people wishing to live in the rented or owner-occupied sectors.'
3. Support Services, 'To provide a range of quality, innovative, flexible and affordable support and care services to reflect what our customers want and need, to achieve best value and independent living.'

The next strategy day is scheduled for the end of June 2013.

Market

The over-65 age group is forecast to continue growing and is expected to outnumber those under 16 by 2014. In particular, throughout the first half of the 21st century, the number of people aged over 80 is expected to 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

including those with dementia and believes that much more innovative housing solutions need to be provided for this group.

Housing

Housing has a significant contribution to make towards meeting the needs and aspirations of the Association's target market. It is inevitable, that there will be an increasing role for supported housing/care housing, including care at home, as a substitute and replacement for residential care homes. We recognise, however, that the existing models of housing provision may no longer be appropriate in the current environment and we are considering new and innovative ways of providing housing and associated services. This, together with an asset management strategy of remodelling and/or re-provisioning of our housing stock and re-design of housing support services will ensure that the future needs and aspirations of customers continue to be met.

Care at Home

The Association provides a Care at Home Service which offers clients assistance with personal care, domestic tasks, shopping, companionship and short breaks from caring. Our services are flexible and adaptable to individuals' changing needs. We plan to expand Care at Home and integrated care services in 2013 and beyond, when suitable opportunities arise.

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Hanover Telecare

A strategic review of the Hanover Telecare service is currently underway and the service has recently benefited from significant investment in upgraded technology, including the expansion of the control centre with the development of a second monitoring centre in Glasgow. This expansion allows Hanover to proactively market various additional services, for example, an Out of Hours Repairs service and Lone Worker monitoring, in addition to being able to demonstrate a more resilient Telecare service, for both individual and corporate customers.

Hanover now has the expertise and technology to develop new services, allowing us to enter new markets and strengthen our brand.

Marketing Strategy

In order to ensure that our customers and potential customers are fully aware of the range of services we provide, the Committee has approved a new marketing strategy covering the period 2013-16 for the organisation. Work has commenced on achieving its objectives, which are closely aligned to the Association's overall business plan and are focused on increasing income and improving awareness of Hanover in the market and of the services it provides.

Partnering

We will continue to work constructively with others where this can improve our efficiency and effectiveness and help us to achieve our strategic objectives. Therefore, partnership working might take place across the range of our activities including: construction of new properties; modernisation and/or remodelling of existing developments; management of our properties; delivery of key services, including financial services and the development of new services, including Telecare initiatives and Care at Home.

We have already put in place a number of joint initiatives with Bield, Trust and other Housing Associations. This has allowed us to pool resources and reduce costs. Examples of our joint working include repairs and maintenance, public relations, human resources, tenancy applications through a common housing register, tenant participation, equal opportunities and benefits advice. We operate our joint repairs and maintenance service in the West of Scotland and the extension of this to Fife, the Lothians, Falkirk, Stirling, Perth & Kinross and Kincairdineshire is currently being tendered.

Discussions are also taking place with a number of other organisations to explore further opportunities for joint working.

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Housing Support

This local authority funding stream is provided to HSHA to finance tenant support services. Housing Support Funding is no longer ring fenced and is now included within local authorities' Care budgets. Since 2006 we have had in place a strategy to deal with changing Housing Support funding and this has assisted us to redesign services where housing support services have not been fully funded.

During 2011 this strategy was reviewed and a new one was put in place for 2012-15. This resulted in achievement of full cost recovery. The main aim of this new strategy is to continue to work with local authorities to obtain full cost recovery or to redesign services in keeping with the local authority's strategy for older people. It also includes an exit option where a local authority is no longer prepared to fund housing support services and no other option is available. This is, however, the option of last resort and all efforts would be undertaken to prevent this.

While this deals with the management of housing support services, it is hoped that this may be the beginning of a potentially organic process in the development of new transformational models, as part of the Government's "Shifting the Balance of Care" policy.

Development Grant

HSHA continues to consider development opportunities on a case by case basis where there are strong strategic links underpinned by a robust business plan. A key issue for the viability and sustainability of individual development opportunities remains the availability and level of capital grant funding. While HSHA have been able to support individual projects at the current levels of grant, which are forecast to continue within the constrained public sector resources, these cannot underpin a long term sustainable development programme.

Housing Stock

The Association manages over 5,200 properties, of which it owns over 4,000. The remainder is managed on behalf of individual owners. Note 24 of the Financial Statements sets out the number of units that are both owned and managed. The updated business strategy document provides details of the proposed new build programme from 2012 – 2015.

Organisation Structure

During 2011 the Association went through major organisational change. This is continuing as part of the drive for efficiency and effectiveness which will help the Association to be better focussed and prepared for future challenges.

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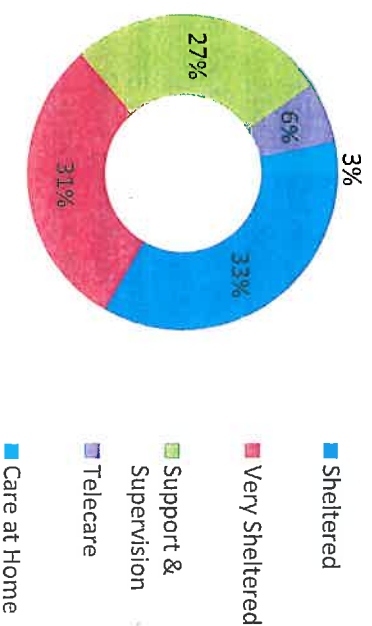
Review by the Committee of Management

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Employees

During 2012/13, the average number of full-time equivalent staff employed by the Association was 379 (2011/12: 373), as shown in **figure 1**.

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 continues to benchmark its working environment to ensure that it provides competitive terms and conditions and a number of additional non financial benefits have been introduced as part of our HR policies.

Levels of staff turnover, sickness absence, and other key HR indicators are closely monitored and benchmarked against available statistics on a regular basis. The Association's staff turnover is in line with industry

averages for the public sector. Hanover is committed to providing a safe and healthy environment for its staff and has in place a comprehensive manual of health and safety policies and procedures which are constantly being updated. The Association is committed to ensuring the wellbeing of all members of staff while at work and has several policies covering areas such as flexible working, equalities and dignity at work.

The Association has been named among the top 20 'Scotland's Best Workplaces' every year since 2011 and reached number 4 in 2013. The Association is also working towards consolidating its Investors in People (IIP) accreditation during 2013.

These schemes recognise organisations that have achieved outstanding effectiveness in HR and people excellence.

Effective communication is important as Hanover is a very dispersed organisation which makes full use of a variety of channels, including Information and Communications Technology.

Information and Communications Technology (ICT)

The Information & Communications Technology (ICT) section at Hanover plays a crucial role in supporting the organisation. The primary focus of the ICT team is to deliver the objectives detailed in the ICT Strategy (2012-

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15), which has been developed to closely align with Hanover's overall business plan.

Key achievements in the last twelve months include the development of a dedicated ICT service desk which is staffed to provide better support to the business. The benefits of this was evidenced in the results of the 2012 ICT satisfaction survey in which overall satisfaction with the performance and responsiveness of the ICT Section increased from the previous year.

Hanover Telecare's second centre has now opened in the Association's Glasgow area office. Telephony and IT resources have been installed in the centre allowing for the simultaneous use of both centres or seamless transfer to one of the centres to handle all call traffic as required, or in a disaster recovery scenario. This development provides Hanover with a telecare alarm receiving centre supported by two different power grids and telephone exchanges increasing its resilience to failure and allowing the maintenance of the equipment without the need for loss of service.

Another significant piece of work has involved the upgrading of our wide area 'intra-office' networks, allowing our area offices and housing developments to take advantage of Hanover's improved Microsoft Remote Desktop environment. These new networks have also allowed Hanover to replicate all

backups to the Glasgow office and move away completely from costly and unreliable tape backup systems. The Glasgow area office has also become our business continuity site, which can be used as a command centre should any outages be experienced at our Edinburgh headquarters.

Hanover's SharePoint based intranet system, (The Hub) has now been upgraded to include pages for every housing development providing a central area accessible to all staff which holds all the key information. The benefits of this centralised facility have allowed our maintenance, telecare and housing teams to co-ordinate maintenance appointments on our properties via the development page calendars.

Equality and Diversity

The Association has a legal and moral obligation as a good and socially responsible service provider and employer to be fair and equitable in the treatment of its customers, employees and others. With an increasingly diverse market place the Association is firmly committed to providing equal access to service and employment opportunities. Our policies, procedures and practices ensure that no one is disadvantaged.

Performance Management Framework

A strong performance management framework is in place and is directly linked to our strategic objectives. All parts

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of the business work to key performance indicators and these are detailed along with departmental objectives in the Association's Business Plan.

Risks

Hanover recognises the critical importance of monitoring and assessing the changes taking place in our operating environment and our risk map helps us assess the level of the main risks facing our organisation. Risk management is a continuous process and risks are regularly reviewed by Chief Officers and our committees. Key risks currently facing the Association are:

Key Risks – identified as High Risk

1. Fire safety for very sheltered developments, resulting from new legislation and stricter controls.
2. Reduction in income or increased costs outwith the Association's control.
3. Affordability of housing and/or housing support to our customers.
4. Reduced demand for social housing.
5. Increased competition for our Telecare service.
6. The increasing cost of pension provision and deficit recovery.

Appropriate steps have been taken to monitor and minimise the impact of these risks.

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. Neither 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 increased over the past five years, driven mainly by organic growth.

These housing assets are included on the balance sheet at £41.7 million (2012, £39 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

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portfolio undertaken during 2012/13, which take account of the Association's planned maintenance programme.

Impairment Review

The Association has conducted an impairment review and, although impairment exists on some newer properties, the Committee of Management does not believe that any accounting adjustments are required at this stage, as they relate to planned internal subsidies.

New Properties

During the 12 months ended 31 March 2013, there were 14 completed units; a further 5 developments, 64 units, are in preparation for 2012-15, with 35 units in development at the year end.

The next few years are likely to present significant challenges in sustaining new development activity. The significant reduction in grant levels from the Scottish Government as a result of spending reductions coupled with the introduction of new funding mechanisms, which seek far greater investment from the Association, mean it is more than ever essential to appraise each development on a case by case basis, ensuring that it will not impact on the long term viability of the Association. The delivery of housing for particular needs, specifically for older people, faces even greater hurdles in the current climate of financial austerity. According to a recent report from Shelter, "If current levels of demand, for affordable

housing, remain constant, supply will have to increase by over 70% in the next 20 years" and, in the foreseeable future this target seems unlikely to be met.

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 policy is to have a common level of rents for all similar properties.

The policy is underpinned by three principal objectives:

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

The first objective 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. The association is running a pilot which breaks the link between the retail price index and the level of rent increase. This has resulted in a lower rent increase for 2012/13.

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Marketability is also an important factor and Hanover generally compares favourably with rents, of similar properties, of other providers.

Reserves Policy

The Association will build up sufficient reserves to keep it financially viable to enable it to achieve its overall aims. This requirement is reviewed annually. The Association will maintain any risk reserve which is considered 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 £4.3m in 2022/23 at today's values. This figure may change once the results of the recently completed stock condition survey are known.

The amount held in a new Designated Reserve for the Replacement of Equipment on Rented Developments has decreased from £3.9m to £3.7m. These funds will be held to provide for years when there will be greater demand for replacement equipment on the developments and funding to ensure that properties continue to be

maintained to a high standard without undue financial burden for residents in years of high expenditure.

During the year an amount of £5.2m has been transferred from Revenue Reserves to a new Designated Reserve for the Past Service Deficit on the Scottish Housing Association Pension Scheme (SHAPS). These funds will be held to provide for future liability. The amount transferred equals the Net Present Value of the past service deficit currently estimated to be repaid over the next eleven years.

Further details of the full impact of the Association's pension commitment under the SHAPS scheme are detailed at note 22. All the details of the 2012 valuation are not yet known but the increasing pension deficit will impact on the Association's future financial position.

Pension Reserves

The Association has been informed that its share of the pension deficit in the Lothian Pension Fund as at 31 March 2013 amounts to £1.3m and this is shown on the balance sheet.

Revenue Reserves

The Association's revenue reserve should be set at a level which is adequate to cover both known and unforeseen risks. Our aim is to have a reserve of 6 months working capital which is £4m. A further amount of between £15m

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and £17m is recommended for known risks such as those mentioned previously. Current Revenue Reserves of £15.6m, 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) and 18.

It should be noted that 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.

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 2013, the Association had £3m undrawn loan facilities.

The 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 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%. At 31 March 2013, 79% of the debt portfolio was at a fixed rate (2012: 68%).

Creditor Payment Policy

This policy complies with the Confederation of British Industry guidelines, 30 days, and Hanover's average payment period is 19 days (2012: 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 and planned maintenance are carried out to deal with the deterioration of building components and Hanover's long term programme of planned maintenance covers replacement or repairs to features of the property which have come to the end of their economic lives. This programme also includes works required by legislation, such as the Scottish Housing Quality Standard (SHQS). The cost of these planned maintenance repairs would previously have been charged to the Income and Expenditure Account. However, under the terms of component accounting requirements, some major repairs will be capitalised. The major works required to comply with the SHQS, will be updated from the recently completed stock condition survey and programmed for implementation.

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Hanover's Committee of Management maintain a regular overview of all the Association's policies.

Employee Involvement and Health and Safety

The Association encourages employee involvement in all major initiatives. The Health, Safety and Wellbeing Manager reports to the Committee of Management through the HR sub-committee, three 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 2013.

Gearing is measured in terms of net debt compared with net assets and including capital grants received. The current position, at 10.8% (2012: 12.1%), 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.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review on pages 3 to 18. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described on pages 24-25 and notes 12-14 to the financial statements.

The company has considerable financial resources together with long-term income from its customers. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Committee of Management have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cash Flow

The cash outflow in 2012/13 was just over £400k, which was £1.2m more than in 2011/12. The cash inflow of

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£5.7m from operating activities is £40k more than the figure for the prior year.

Turnover and Operating Surplus

Performance in the period

The results for the year to 31 March 2013 show turnover up from £27.4m in 2011/12 to £28.4m. The increase reflects the inflationary increases in charges, combined with additional revenue from new properties and the care at home contracts.

The Association's operating surplus for the year was £2.8m (2012: £3.2m). This is £0.4m greater than the budgeted surplus of £2.4m. The operating surplus is less than that achieved in the previous year. 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 £2m, before transfers to reserves.

Total expenditure on repairs and maintenance in the year was £5.5m (2012: £5.2m). This includes a sum of £391k on the adaptation of 175 existing properties to meet the needs of tenants as they become more frail. These adaptations have been funded by government grant and Hanover is pleased to note that, despite the political threat of cutbacks, the government has continued to provide the same level of funding as last year. Hanover

has, through research on the Social Return on Investment (SROI), demonstrated the value of adaptations where for every £1 spent there is a total return on investment of between £5.50 and £6.00. Hanover will continue to work with others to demonstrate the benefits of this funding in an effort to persuade the Scottish Government not to reduce this valuable resource.

The Committee of Management considers the financial results of the Association for the year ended 31 March 2013 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 26.

New Accounting Standards

The new Financial Reporting Standard, FRS102 will have a significant impact on the way the financial statements are presented in future. The anticipated date of application of this standard is in 2016. This will not, however, have any impact on the underlying financial performance of the Association.

Outlook

The Association continues to meet the challenges of reductions in public sector spending combined with sustained maintenance expenditure. These challenges

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were considered in detail at a two day strategy conference, held in August 2011 and are now covered in the Association's revised business strategy for 2012 – 2015. 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.

The Committee of Management

The Association has 258 (2012: 226) 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 nine Sub-Committees; Property and Development, Housing and Care Services, Business and Communications, Human Resources, Finance, Audit, Advisory, Membership and Nominations. Decisions are made by officers of the Association and Committees by reference to powers set out in the scheme of sub-committees and delegation.

All new members undergo induction training. Additional training is provided, both internally and externally, on specific topics as they arise.

Statement of Responsibilities of the Committee of Management

The Industrial and Provident Societies Acts 1965 to 2002 require the Committee of Management to ensure that financial statements are prepared 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
- ensure a statement on Internal Financial Control is prepared.

The Committee of Management is responsible for the keeping of proper accounting records which disclose with

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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 2010 and the Registered Housing Associations Determination of Accounting Requirements 2012. 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 or failure to meet objectives. 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

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- and progress being made towards achieving the financial plans set for the year and for the medium term;
- monthly 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;
- 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;
- the Internal Audit plan was amended during the year to focus on certain key areas arising following the issue of the Scottish Housing Regulation plan

indicating medium engagement with Hanover. This highlighted that a further focus on project management is required to improve the effectiveness of operations particularly within the Property and Development Department. This will be a focus for the next 12 months.

- significant risks are identified, evaluated and managed, as previously outlined on page 9 of this review.
3. The Association's internal auditor was appointed in 2011 and the second year of the programme of work, based on the Audit Needs Assessment and an internal risk review, is nearing completion. 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.
 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

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in these financial statements or in the auditor's 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

Committee Member: **Dr Brian Watt**



Date: **4 July 2013**

Hanover (Scotland) Housing Association Limited

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

We have audited the financial statements of Hanover (Scotland) Housing Association for the year ended 31 March 2013 on pages 21 to 52. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 opinion we have formed.

Respective responsibilities of the Committee of Management and Auditor

As explained more fully in the Committee of Management's Responsibilities on pages 15 and 16, the Committee of Management are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the

financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2013 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements April 2012.

Hanover (Scotland) Housing Association Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 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.

Baker Tilly UK Audit LLP

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

Date: *10 July 2013*

Hanover (Scotland) Housing Association Limited

Income and Expenditure Account

For the year ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Turnover	2	28,364	27,411
Less: Operating Costs	2	(25,532)	(24,166)
Operating Surplus		2,832	3,245
Surplus/(Deficit) on disposal of assets		25	(81)
Interest receivable and other income	7	154	119
Interest payable and similar charges	8	(968)	(964)
Surplus on ordinary activities before taxation		2,043	2,319
Tax on surplus on ordinary activities	23	(6)	(2)
Surplus on ordinary activities after taxation	18	2,037	2,317

Statement of Total Recognised Gains and Losses

	2013 £'000	2012 £'000
Surplus for the Year	2,037	2,317
Actuarial (Loss) on pension obligations	(80)	(433)
Prior period adjustment	-	9,261
Total surpluses recognised since last reporting period	1,957	11,145

The results for the year relate wholly to continuing activities.

Hanover (Scotland) Housing Association Limited

Balance Sheet As at 31 March 2013

	Notes	2013	2012
		£'000	£'000
Fixed Assets			
Tangible fixed assets:			
Housing properties: Cost less depreciation		182,459	179,126
Grants		(140,782)	(140,058)
Fixed Asset Investment	9	41,677	39,068
Other tangible fixed assets	9	51	51
	9	6,143	6,222
Current Assets		47,871	45,341
Debtors	10	1,457	1,400
Cash at bank and in hand	11	8,247	8,649
		9,704	10,049
Current Liabilities			
Creditors: Amounts falling due within one year	12	(4,949)	(4,066)
Net Current Assets		4,755	5,983
Total Assets less Current Liabilities		52,626	51,324
Creditors: Amounts falling due after more than one year	13	(18,725)	(19,428)
Net Assets Before Pension Liability		33,901	31,896
Pension Liability	22	(1,257)	(1,145)
		32,644	30,751
Capital and Reserves			
Share Capital	14	-	-
Designated Reserves	15/16/17	18,280	13,477
Revenue Reserve	18	15,621	18,419
Pension Reserve	19	(1,257)	(1,145)
		32,644	30,751

The Committee approved and authorised the financial statements for issue on 4 July 2013.

Committee Member:

Dr Brian Watt



Chairperson Finance Committee:

Robin McGregor



Company Secretary:

Dávid Reid



Hanover (Scotland) Housing Association Limited

Cash Flow Statement

For the year ended 31 March 2013

	Notes	2013	2012
		£'000	£'000
Net cash inflow from operating activities		5,666	5,627
Returns on investments and servicing of finance	(1)		
Interest received		154	119
Interest paid loans		(929)	(950)
Interest paid finance lease		(4)	(5)
Finance Cost on Pension Scheme Assets		(35)	(9)
Net cash (outflow) from investments and servicing of finance		<u>(814)</u>	<u>(845)</u>
Taxation			
Corporation tax paid		(6)	(2)
Net cash outflow from taxation		<u>(6)</u>	<u>(2)</u>
Capital expenditure			
Payments to acquire and develop housing properties		(5,681)	(3,585)
HAG and other grants received		1,317	381
Payments to acquire other fixed assets		(289)	(223)
Net receipts from shared ownership property sales		82	145
HAG repaid on shared ownership property sales		(30)	(47)
Net cash outflow from investing activities		<u>(4,601)</u>	<u>(3,329)</u>
Net Cash inflow before financing		245	1,451
Financing			
Finance lease obligations		(35)	(32)
Loans (repaid)		(612)	(570)
Net cash (outflow) from financing	(ii)	<u>(647)</u>	<u>(602)</u>
(Decrease)/Increase in cash	(iii)	<u>(402)</u>	<u>849</u>

Hanover (Scotland) Housing Association Limited

Notes to the Cash Flow Statement for the year ended 31 March 2013

(i)	<p>Reconciliation of operating surplus for the year to net cash flow from operating activities</p> <p>Operating surplus Depreciation Decrease in stocks (Increase)/Decrease in pension provision (Increase) in debtors Increase in creditors (Decrease) in residents' funds</p> <p>Net cash inflow from operating activities</p>	<p>2013 £'000 2,832 2,094 - (32) (57) 872 (43)</p> <p>5,666</p>	<p>2012 £'000 3,245 2,025 35 13 (153) 466 (4)</p> <p>5,627</p>	<p>At 31-Mar 2012 £'000 8,649 (617) (19,163)</p> <p>At 31-Mar 2013 £'000 8,247 (629) (18,504)</p>
(ii)	<p>Analysis of net debt</p> <p>Cash and short term deposits Debt due within one year Debt due after one year</p> <p>Total</p>	<p>2013 £'000 (402) 647 -</p> <p>245</p>	<p>Other changes £'000 - (659) 659</p> <p>-</p>	<p>At 31-Mar 2012 £'000 8,649 (617) (19,163)</p> <p>At 31-Mar 2013 £'000 8,247 (629) (18,504)</p>
(iii)	<p>Reconciliation of net cash flow to movement in net debt</p> <p>Decrease in cash and short term deposits in the period Decrease in loans in the period Change in net debt Net debt at 1 April 2012 Net debt at 31 March 2013</p>	<p>2013 £'000 (402) 647 245</p>	<p>2013 £'000 (402) 647 245</p>	<p>At 31-Mar 2012 £'000 (11,131)</p> <p>At 31-Mar 2013 £'000 (10,886)</p>

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

1 Accounting Policies

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Financial Conduct 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 Determination of Accounting Requirements 2012 and with the Statement of Recommended Practice on Accounting by Registered Social Landlords 2010.

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 less depreciation and Housing

Association Grant. Net realisable value has been assessed with reference to the 'Open Market value for the Existing Use Value – Social Housing' (EUV-SH) criterion.

- ii) Works to existing properties will generally be capitalised under the following circumstances: 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 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 Income and Expenditure account.

- iii) The major components are deemed to be: Land, Structure, Roof Structure and Coverings, Bathrooms, Kitchens, Doors, Windows, Lifts, Intercom/Door Entry, Radiators/Pipework, Storage Heating and Boilers. Each component has a substantially different economic life and is depreciated over this individual life. Depreciation rates are shown in Note 1c vi. The accounting policy is compliant with the SORP 2010.

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

iv) 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.

v) For developments under the terms of the Housing (Scotland) Act 2010, 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.

vi) Depreciation is charged on a straight line basis over the expected economic useful lives of each major component that makes up the housing property, not including land as land is not depreciated, based on Actual Cost less Grants Receivable, as follows:

Component	Useful Economic Life
Structure	60 years
Roof Structure	60 years
Roof Covering	35 years

Bathrooms	30 years
Radiators/Pipework	30 years
Windows	30 years
Kitchens	20 years
Lifts	20 years
Intercom/Door Entry	15 years
Doors	15 years
Storage Heating	15 years
Boilers	15 years

vii) The Shared Equity fixed asset investment reflects the Association's 30% interest share in three shared equity developments. This 30% share reflects the value of the Housing Association Grant received from the then Scottish Office and remains the property of the Association in perpetuity so that the benefit of the original grant is passed onto successive equity shareholders.

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

ix) 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

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

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 £1,000 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% - 15%
Garages	7%
Equipment	20 – 25%

e) Stock

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

f) Fund for replacement of scheme equipment – owner occupiers

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) Fund for repairs and replacement equipment – 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 (excluding items capitalised as components)

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 £4.3m to meet the current programme of major repairs. The current 30 year planned maintenance projections show a peak requirement of £4.3m in 2022/23. Designated Reserves to meet this commitment currently stand at £9.3m and are believed to be sufficient to fund the future planned maintenance programme (note 15).

ii) Designated Reserve – Replacement Equipment Fund on Developments

This fund had previously been held within creditors. An annual amount is transferred to the reserve based on future replacement costs and the estimated economic useful lives of the equipment.

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

Currently the Association anticipates annual expenditure of between £350k and £500k with a peak of £1m in the next financial year. The Association believes that the reserve balance held is sufficient to meet future demands (note 16).

iii) Designated Reserve – SHAPs Past Service Deficit

During the year an amount of £5.2m has been transferred from Revenue Reserves to a new Designated Reserve for the Past Service Deficit on the Scottish Housing Association Pension Scheme (SHAPs). These funds will be held to provide for future liability (note 17), in line with the past service debt notified to the Association as payable over the next 11 years (note 21).

iv) Revenue Reserve

The balance of any surpluses, over and above those transferred to the designated reserve for major repairs, development expenditure and Pension Past Service Deficit, 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 (note 18).

iv) Pension Reserve

This reserve is based on the Association's liability with regard to the Lothian Pension Fund defined benefits, final salary scheme. In line with FRS17 the deficit is required to be disclosed on the face of the balance sheet (note 19).

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.

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

K) Value Added Tax

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

l) Pensions

The Association participates in two defined benefits pension schemes, the Scottish Housing Association Pension Scheme (SHAPS) and the Lothian Pension Fund (LPF). Retirement benefits to employees are funded by contributions from employers and employees in the schemes.

Last year the Association underwent a review of the SHAPS due to the escalating costs that has a bearing on the affordability to both the organisation and employees. The Committee of Management made the decision that from 1 April 2012 the final salary scheme would be closed to new entrants and moved to CARE 70ths as the defined pension option.

Twelve employees (2012:15 employees) are members of the Lothian Pension Fund administered by The City of Edinburgh Council.

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.

m) 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 by the Financial Services Authority because of the insignificant amounts involved.

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

2 Turnover, Operating Costs and Operating Surplus

			2013	2012
		Operating costs	Operating surplus	Operating surplus
	Turnover	£'000	£'000	£'000
	Notes	£'000	£'000	£'000
Social Lettings	3a	21,800	(19,496)	2,304
Other Activities	3b	6,564	(6,036)	528
				2,835
				410
Total for 2013		28,364	(25,532)	2,832
				3,245

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

3a Particulars of Income and Expenditure from Lettings

	General Needs Housing £'000	Supported Housing Accommodation £'000	Shared Ownership Accommodation £'000	Total 2013 £'000	Total 2012 £'000
Income from lettings					
Rent receivable net of Identifiable Service Charges	546	13,337	44	13,927	13,439
Service Charges receivable	51	8,076	-	8,127	7,999
Gross income from rents & service charges	597	21,413	44	22,054	21,438
Less: Voids	(10)	(688)	-	(698)	(664)
Net income from rents & service charges	587	20,725	44	21,356	20,774
Revenue Grants from Local Authorities and Other Agencies	-	444	-	444	408
Total turnover from social letting activities	587	21,169	44	21,800	21,182
Management & maintenance administration costs	140	3,795	9	3,944	3,912
Service costs	41	8,707	-	8,748	7,969
Planned and cyclical maintenance including major repairs costs	48	2,632	-	2,680	2,491
Reactive maintenance costs	100	2,280	-	2,380	2,305
Bad debts - rents and service charges	-	18	-	18	22
Depreciation of social housing	75	1,651	-	1,726	1,648
Operating Costs for social letting activities	404	19,083	9	19,496	18,347
Operating Surplus for social letting	183	2,086	35	2,304	2,835
Operating Surplus for social letting for previous period of account	164	2,635	36	2,835	

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

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 had debts £'000	Other operating costs £'000	2013 Surplus/(deficit) for the year £'000	2012 Surplus/(deficit) for the year £'000
Wider Role Activities	-	-	-	-	-	-	-	-	-
Care & Repair of Property	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	1,646	1,646	-	(1,646)	-	-
Development & construction of property activities	-	-	-	-	-	-	-	-	-
Support Activities	-	-	2,681	-	2,681	-	(2,351)	330	296
Care Activities	-	-	-	252	252	-	(318)	(66)	(23)
Agency/management services for RSLs	-	-	-	67	67	-	(56)	11	-
Other agency/management services	-	-	-	-	-	-	-	-	-
Developments for sale to RSLs	-	-	-	-	-	-	-	-	-
Developments & improvements for sale to non RSLs	-	-	-	-	-	-	-	-	-
Telecare	-	-	-	1,102	1,102	-	(898)	204	83
Stage 3 Adaptations	-	391	-	-	391	-	(391)	-	-
Other Activities*	-	-	-	425	425	-	(376)	49	54
Total from Other Activities	-	391	2,681	3,492	6,564	-	(6,036)	528	410
Total from other activities for year ended 31 March 2012	-	466	2,593	3,170	6,229	-	(5,819)	410	410

* Under other activities – no single activity exceeds £250k

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

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.

	2013	2012
	£'000	£'000
Total emoluments (excluding pension contributions and benefits in kind)	428	<u>376</u>
The emoluments (excluding pension contributions) of the highest paid director amounted to :	<u>100</u>	<u>99</u>

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	-
£65,001 to £70,000	-	3
£70,001 to £75,000	4	1
£95,001 to £100,000	1	1

The Association made pension contributions of £79,328 (2012: £68,646) on behalf of those directors whose total emoluments, excluding pension contributions, are in excess of £60,000 per annum, including £17,122 to the highest paid director.

The Committee of Management had a membership of 12 as at 31 March 2013 and had a maximum of 15 members during the year. 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.

	2013	2012
	£'000	£'000
Total expenses reimbursed to the Chief Executive insofar as not chargeable to UK Income Tax:	<u>1</u>	<u>1</u>

Total expenses incurred on behalf of Committee Members who were neither officers nor employees of the Association amounted to:

	<u>7</u>	<u>11</u>
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5 Employee Information

The average full time equivalent number of persons employed in the year was:

	<u>379</u>	<u>373</u>
The average number of persons employed in the year was:	<u>514</u>	<u>504</u>

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

5 Employee Information (continued)

	£'000	£'000
Staff costs (including directors' emoluments)	9,090	8,859
Wages and salaries	625	608
Social security costs	897	950
Pension costs	9	12
BUPA	<u>10,621</u>	<u>10,429</u>

Average FTE Employees per Month

Apr-12	377	Oct-12	380
May-12	380	Nov-12	380
Jun-12	383	Dec-12	377
Jul-12	386	Jan-13	374
Aug-12	384	Feb-13	373
Sep-12	385	Mar-13	369

Payments to the value of £13,149 in respect of redundancy costs are included within the totals for staff costs.

6 Operating Surplus

	2013 £'000	2012 £'000
Operating surplus is stated after charging:		
Depreciation	<u>2094</u>	<u>2025</u>
Repairs: cyclical, planned, day to day	<u>6,623</u>	<u>6,560</u>
Auditors' remuneration - external	<u>23</u>	<u>19</u>
Auditors' remuneration - internal	<u>17</u>	<u>21</u>
Auditors' remuneration - non audit services	<u>-</u>	<u>-</u>

Hire of plant and machinery - rentals payable under operating leases	<u>160</u>	<u>163</u>
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7 Interest receivable and other income

	2013 £'000	2012 £'000
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Interest receivable on bank deposits	<u>154</u>	<u>119</u>
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8 Interest payable and similar charges

	2013 £'000	2012 £'000
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Housing loans:

On loans from banks and building societies repayable in more than 5 years	923	944
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Interest charged on finance leases	<u>4</u>	<u>5</u>
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Net return on pension assets	<u>927</u>	<u>949</u>
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Interest on owner occupier funds	<u>35</u>	<u>9</u>
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	<u>6</u>	<u>6</u>
	<u>968</u>	<u>964</u>

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

	-----Housing Properties-----				Fixed Asset		Heritable		Computer		Total	Grand total
	Held for letting £'000	Shared ownership £'000	Under construction £'000	Total housing £'000	Investment £'000	Shared Equity £'000	office property £'000	& leased equipment £'000	other £'000	£'000		
Cost												
At 1 April 2012	193,681	680	1,900	196,261	1,059	6,723	2,236	8,959	206,279		206,279	
Additions in the year	1,961	-	3,720	5,681	-	-	289	289	5,970		5,970	
Transfers in the year	2,307	-	(2,307)	-	-	-	-	-	-		-	
Disposals in the year	(797)	(34)	-	(831)	-	-	-	-	(831)		(831)	
At 31 March 2013	197,152	646	3,313	201,111	1,059	6,723	2,525	9,248	211,418		211,418	
Housing Association Grant (HAG)												
At 1 April 2012	130,126	492	381	130,999	1,008	-	-	-	132,007		132,007	
Received in the year	-	-	1,245	1,245	-	-	-	-	1,245		1,245	
Transfers in the year	610	-	(610)	-	-	-	-	-	-		-	
Repaid and abated in the year	(563)	(30)	-	(593)	-	-	-	-	(593)		(593)	
At 31 March 2013	130,173	462	1,016	131,651	1,008	-	-	-	132,659		132,659	
Other grants												
At 1 April 2012	9059	-	-	9059	-	-	-	-	9,059		9,059	
Received in the year	-	-	72	72	-	-	-	-	72		72	
Transfers in the year	-	-	-	-	-	-	-	-	-		-	
At 1 April 2012 and 31 March 2013	9,059	-	72	9,131	-	-	-	-	9,131		9,131	
Depreciation												
At 1 April 2012	17,132	3	-	17,135	-	1,011	1,726	2,737	19,872		19,872	
Provided during the year	1,726	-	-	1,726	-	142	226	368	2,094		2,094	
Disposals in the year	(209)	-	-	(209)	-	-	-	-	(209)		(209)	
At 31 March 2013	18,649	3	-	18,652	-	1,153	1,952	3,105	21,757		21,757	
Net book value												
at 31 March 2012	37,364	185	1,519	39,068	51	5,712	510	6,222	45,341		45,341	
at 31 March 2013	39,271	181	2,225	41,677	51	5,570	573	6,143	47,871		47,871	

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

9 Tangible Fixed Assets (continued)

- a) The Association has received £390,787 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 2012. The average value of each unit was £24,160, using the existing use criteria. This compares to an average net book value of £10,208 per unit.
- c) During the year the Association spent £4.191m on major repairs, £1.961m was capitalised for replacement components and £1.752m was expensed through the Income and Expenditure account. A further £478k of additions relate to improvements.
- d) Development administration costs capitalised in the year amounted to £224,225 (2012: £233,808) for which Housing Association Grants amounting to £nil (2012: £6,173) were received in the year.
- e) Interest capitalised in the year amounted to £10,000 (2012: nil) at an assumed interest rate of 4.8%.
- f) Shares were held at nil cost from Barclays plc. Market value of 104 shares at 31 March 2013 is £303 (2012: £245).
- g) No Land or Buildings included in Fixed Assets are held on a lease or managed by other association bodies.
- h) Within Computer and Leased Equipment are assets owned under a Finance lease with a net book value of £nil (2012: £21,718), depreciation on those assets is £217,182 (2012: £195,464).
- i) Included within Housing Properties held for letting is an investment property with a net book value of £19,785.

10 Debtors

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Rental debtors	366	381
Less: bad debt provision	(13)	(17)
Development Funding Receivable	353	364
Major repairs / Adaptations HAG receivable	79	-
Owners service charge balances	212	120
Other debtors	48	59
Prepayments and accrued income	434	567
	331	290
	<u>1,457</u>	<u>1,400</u>

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

11 Cash at bank and in hand

	2013	2012
	£'000	£'000
Cash at bank and in hand	8,247	8,649

Kaupthing, Singer and Friedlander went into administration on 8 October 2008. At that time, correspondence received from the administrator Ernst and Young, stated that the Association should receive at least 50p in the £1. As at 31 March 2013, £277,766 has been received from the administrators, this equates to 76p in the £1.

13 Creditors: Amounts Falling Due After More Than One Year

	2013	2012
	£'000	£'000
Loans	18,484	19,109
Owners' funds	170	213
Finance lease obligation	19	54
Other	52	52
	18,725	19,428

12 Creditors: Amounts Falling Due Within One Year

	2013	2012
	£'000	£'000
Loan repayments: instalments of principal (see note 13)	594	583
Finance lease obligations (see note 13)	35	34
Owners' funds (see note 13)	449	375
Owners service charge balances	114	105
Corporation Tax	6	2
Other taxation and social security	248	236
Development 'work in progress' accruals	184	126
Accruals and deferred income	1,083	1,166
Rent in advance	112	97
Other creditors	2,124	1,342
	4,949	4,066

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

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

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% (2012: 1% and 0.5%).

	2013	2012
Loan instalments are due as follows:	£'000	£'000
Within one year (note 12)	594	583
Between one and two years	594	596
Between two and five years	1,867	1,869
In over five years	16,023	16,644
	<u>19,078</u>	<u>19,692</u>

Lease instalments are due as follows:

Within one year (note 12)
Between one and two years
Between two and five years
In over five years

	2013	2012
	£'000	£'000
	35	34
	19	35
	-	19
	-	-
	<u>54</u>	<u>88</u>

Owners' Funds

	Balance at 31/03/12 £'000	Expenditure in year £'000	Provided in year £'000	Balance at 31/03/13 £'000
Owners replacement of scheme equipment	144	(15)	19	148
Owner occupier repairs	444	(389)	416	471
	<u>588</u>	<u>(404)</u>	<u>435</u>	<u>619</u>
split as follows :				
less than one year and included in note 12	(375)			(449)
more than one year	<u>213</u>			<u>170</u>
	<u>38</u>			<u>38</u>

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

14 Share Capital

	2013	2012
	No.	No.
Opening share capital	226	214
Shares allocated during the year	42	23
Shares relinquished during the year	(10)	(11)
Closing share capital	258	226

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 2013.

15 Designated Reserves – Major Repairs

	2013	2012
	£'000	£'000
Balance at beginning of year	9,613	9,837
Transfer (to) Revenue Reserve for the year	(1,752)	(1,667)
Transfer from Revenue Reserve for the year	1,476	1,443
Balance at end of year	9,337	9,613

16 Designated Reserves – Rented Developments

	2013	2012
	£'000	£'000
Balance at beginning of year	3,864	-
Transfer (to) Revenue Reserve for the year	(455)	(390)
Transfer from Revenue Reserve for the year	334	4,254
Balance at end of year	3,743	3,864

17 Designated Reserves – SHAPS Past Service Deficit

	2013	2012
	£'000	£'000
Balance at beginning of year	-	-
Transfer from Revenue Reserve for the year	5,200	-
Balance at end of year	5,200	-

The amount transferred to this reserve equals to the Net Present Value of the Past Service Deficit of the SHAPS Scheme payable over the next 11 years.

Total Designated Reserves	18,280	13,477
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Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

18 Reconciliation of Movements in Revenue Reserve

	2013 £'000	2012 £'000
Balance at beginning of year	18,419	19,729
Surplus for the year	2,037	2,317
Transfer from designated reserve (note 15)	276	224
Transfer from/(to) designated reserve (note 16)	121	(3,864)
Transfer (to) designated reserve (note 17)	(5,200)	-
Transfer (to)/from Pensions Reserve (note 19)	(32)	13
Revenue reserve at end of year	<u>15,621</u>	<u>18,419</u>

19 Pension Reserve

	2013 £'000	2012 £'000
Balance at beginning of year	(1,145)	(699)
Transfer from Revenue Reserve (note 18)	(32)	(13)
Actuarial (Loss)	(80)	(433)
Balance at end of year	<u>(1,257)</u>	<u>(1,145)</u>

20 Capital Commitments

Housing expenditure contracted less certified at 31 March 2013 amounted to £2.288m (2012: £1.217m). Expenditure authorised by the Committee of Management but not contracted at 31 March 2013 amounted to £nil (2012:

£1.341m). Furthermore, Committee has authorised expenditure on replacement components amounting to £2,000,000.

All of the amounts contracted for at 31 March 2013 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 £467,116 (2012: £360,861), which includes the purchase of computer equipment and software.

21 Leasing Commitments

	2013 £'000	2012 £'000
Operating leases which expire: Between two and five years	<u>161</u>	<u>154</u>

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

22 Pension Commitments

In 2011/12 certain employees have elected to contribute to the Scottish Housing Associations' Pension Scheme (SHAPS) or the Lothian Pension Fund (LPF), both of which

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

are defined benefit schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company and employer contributions to the schemes are charged to the Income and Expenditure account so as to spread the costs of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations.

The estimate of total contributions payable by the Association in 2013/14 is £822k to the SHAPS scheme and £105k to the LPF scheme.

Scottish Housing Associations Pension Scheme

General

Hanover (Scotland) Housing Association participates in the Scottish Housing Association's Pension Scheme (the Scheme). The scheme is funded and is contracted-out of the State 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 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.

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 last formal valuation of the Scheme was performed as at 30 September 2009 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £295 million. The valuation revealed a shortfall of £160 million of assets compared to liabilities, equivalent to a past service funding level of 64.8%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2011. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £341 million and indicated an increase in the shortfall of approximately £207 million of assets compared to liabilities, equivalent to a past service funding level of 62.2%.

The September 2012 valuation has been undertaken and although this has not been formally issued the early

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

indication on the valuation reveals a shortfall of £304 million of assets compared to liabilities, equivalent to a past service funding level of 56.4%

The Association has also been notified by The Pensions Trust of a liability to be paid for the next eleven years in respect of the past service deficit in the Scottish Housing Associations' Pension Scheme. The amount to be paid in 2013/14 is £513,294, this figure is due to increase by 4.5% per annum based on the current past service deficit. This therefore equates to a Net Present Value of £5.2m, for which an equivalent amount has been transferred from Revenue Reserves to Designated Reserves to provide for future liability. This amount may be subject to change following the results of the next valuation.

Growth Plan

Hanover (Scotland) Housing Association participates in the Pensions 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.

Hanover (Scotland) Housing Association offers the 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 Plan.

Contributions paid into the Plan up to and including September 2001 were converted to defined amounts of

pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Plan or by the purchase of an annuity.

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

The Trustee commissions an actuarial valuation of the 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 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.

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

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 was 1 active member of the Plan employed by Hanover (Scotland) Housing 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 Plan assets are co-mingled for investment purposes and benefits are paid from the total Plan assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

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

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

	%pa
Rate of Return pre retirement	4.9
Rate of Return post retirement:	
- Active/Deferred	4.2
- Pensioners	4.2
Bonuses on accrued benefits	0.0
Inflation: Retail Prices Index (RPI)	2.9
Inflation: Consumer Prices Index (CPI)	2.4

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

The Scheme Actuary has prepared a funding position update as at 30 September 2012. The market value of the Plan's assets at that date was £790 million and the Plan's Technical Provisions (i.e. past service liabilities) was £984 million. The update, therefore, revealed a shortfall of assets compared with the value of liabilities of £194 million, equivalent to a funding level of 80%.

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

recovery plan setting out the steps to be taken to make up the shortfall.

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

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Plan and the Pensions Act 2011 has more recently altered the definition of Series 3 of the Growth Plan so that a liability arises to employers from membership of any Series except Series 4. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

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

When an employer withdraws from a multi-employer defined benefit pension scheme which is in deficit, the employer is required by law to pay its share of the deficit, calculated on a statutory basis (known as the buy-out basis). The calculation basis that applies to the Growth Plan was amended due to a change in the definition of money purchase contained in the Pensions Act 2011 but the regulations that will determine exactly how the change will apply in practice are still awaited. As the law stands, it is not yet clear whether the statutory calculation should include or exclude Series 3 liabilities. However, based upon current

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

advice, the most likely interpretation is that Series 3 liabilities will have to be included in the calculation of an employer's debt on withdrawal.

Owing to this situation, we have included 2 figures/calculations, namely:

- The cost of withdrawal if we include Series 3 liabilities in the calculation is £103,822.49
- The cost of withdrawal if we exclude Series 3 liabilities from the calculation is £112,331.32.

If an employer withdraws from the Growth Plan prior to the implementation of the regulations, the debt will be calculated on both bases and we would request payment of the higher amount with any adjustment being made when the regulations are implemented.

The Association has been notified of a liability to be paid in respect of the deficit in the Growth Fund. The amount be paid in 2013/14 is £6,045, amounts will be paid for ten years commencing 1 April 2013, as this amount is in respect of additional voluntary contributions paid by members and not the Association, the Association is currently investigating its legal liability.

Lothian Pension Fund

Hanover (Scotland) Housing Association Ltd participates in the Lothian Pension Fund ("the Scheme") and had 12

active members at the balance sheet date (15 active members in 2012).

The Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme. Hanover (Scotland) Housing Association paid contributions at the rate of 17.1% during the accounting period and individual members paid contributions between 6.4% and 9.8%.

The last formal valuation of the Association's share of the Scheme assets and liabilities was performed at 31 March 2011 by a professionally qualified actuary using the projected unit method. The next valuation will be as at 31 March 2014.

The figures used to determine the overall expected rate of return on assets were based on the actuaries recommended return assumptions which were derived from the HRAM model, the proprietary stochastic asset model developed and maintained by Hymans Robertson LLP.

Principal actuarial assumptions at the balance sheet date

	2013	2012
Pension increase rate	p.a. 2.8%	p.a. 2.5%
Salary increase rate	5.1%	4.8%
Expected return on assets	5.3%	5.8%
Discount rate	4.5%	4.8%

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

Analysis of the amount recognised in statement of recognised gains and losses:

	2013	2012
Actuarial (losses)	£'000	£'000
Actuarial (losses) recognised in STRGL	(80)	(433)
Cumulative actuarial (losses)	(1,079)	(999)

Changes in the present value of the defined benefit obligations are as follows:

	2013	2012
Opening defined benefit obligation	£'000	£'000
Current service cost	3,121	2,728
Interest cost	110	51
Contributions by members	150	147
Actuarial losses	48	15
Estimated unfunded benefits paid	273	360
Estimated benefits paid	(1)	(1)
	(158)	(179)
Closing defined benefit obligation	3,543	3,121

Changes in the fair value of plan assets are as follows:

	2013	2012
Opening fair value of employer assets	£'000	£'000
Expected return on assets	1,977	2,029
Contributions by members	115	138
Contributions by the employer	48	15
Contributions un respect of unfunded benefits	111	47
Actuarial gains/ (losses)	1	1
Estimated unfunded benefits paid	193	(73)
Estimated benefits paid	(1)	(1)
	(158)	(179)
Closing fair value of employer assets	2,286	1,977

	2013	2012	2011
Fair Value of Employer Assets	£'000	£'000	£'000
Present Value of Defined Benefit Obligation	2,286	1,977	2,029
Surplus/ (Deficit)	(3,543)	(3,121)	(2,728)
Experience Gains/ (Losses) on Assets	(1,257)	(1,144)	(699)
Experience Gains/ (Losses) on Liabilities	193	(73)	(35)
Experience Gains/ (Losses) on Liabilities	8	(288)	1
	2010	2009	
Fair Value of Employer Assets	£'000	£'000	
Present Value of Defined Benefit Obligation	2,042	1,640	
Surplus/ (Deficit)	(3,047)	(2,306)	
Experience Gains/ (Losses) on Assets	(1,005)	(666)	
Experience Gains/ (Losses) on Assets	441	(501)	
Experience Gains/ (Losses) on Liabilities	(1)	7	

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

23 Taxation

	2013	2012
	£000	£000

UK Corporation Tax Charge

Based on the results for the year	6	2
Adjustment in respect of previous periods	-	-
Total Current tax	6	2

Factors affecting tax charge for the year

Surplus on ordinary activities before taxation	2,043	2,319
Expected tax charge at 20% (2012: 20%)	408	464
Exempt charitable activities	(402)	(462)
Adjustment to tax charge in respect of previous period	-	-
Current tax charge	6	2

24 Housing Stock

The number of units in management as at 31 March 2013, was as follows:

	2013	2012
	No.	No.
Rented - General needs housing	181	181
Rented - Supported housing accommodation	3,912	3,898
Shared ownership	29	30
Shared equity	88	88
Owner occupied	1,053	1,052
Totals	5,263	5,249

The number of units in development as at 31 March 2013, was as follows:

	2013	2012
	No.	No.
Rented - Supported housing accommodation	35	13
	35	13

25 Average Annual Scottish Secure Tenancy Rents

	2013	2012
	£	£
Average annual Scottish secure tenancy rents for housing accommodation	3,376	3,240
	3,376	3,240

	2013	2012
	%	%
Percentage increase/(decrease) from previous year	4.20%	5.50%
	4.20%	5.50%

	2013	2012
	No.	No.
Number of Scottish secure tenancies	3,874	3,852
	3,874	3,852

26 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 outgoing resources of £80,723 (2012: £1,093) in the year and net assets at 31 March 2013 of £35,798 (2012: £116,549).

Hanover (Scotland) Housing Association Limited **Notes to the Financial Statements** For the year ended 31 March 2013

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.

27 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, held arms length tenancies with the Association. Mr Thomson and Mrs MacCormick resigned as Committee members on the 4 June 2012 and 11 March 2013 respectively.

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 £8,067. This was then invoiced from Hanover (Scotland) Housing Association Ltd to the Hanover (Scotland) Housing Association Charitable Trust.

There was a further £71,980 donated in September 2012 from the Charitable Trust to Hanover (Scotland) Housing Association to part fund a new development at Corpach. At the year end £1,450 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.

28 Contingent Liabilities

Hanover (Scotland) Housing Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme (formerly the SFHA Pension Scheme) based on the financial position of the Scheme as at 30 September 2012. As of this date the estimated employer debt for Hanover (Scotland) Housing Association was £30,067,264. It has also been notified of the estimated employer debt on withdrawal from the Growth Plan based on the financial position of the Plan as at 31 March 2012. As of this date the estimated employer debt for Hanover (Scotland) Housing Association was either £103,822 or £112,331 as explained earlier.

There is a further contingent liability as referred to in note 22 in respect of the past service deficit in the Scottish Housing Association's Pension Scheme. The present day value of the total commitment over the next thirteen years discounted at 5% is £5.2m. The amount may be subject to change following the results of the next valuation and therefore as the liability cannot be properly quantified it has not been accrued or include in the balance sheet.

With the introduction of component accounting Housing Association Grant received to fund developments had

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

been allocated across the components. Therefore components replaced within 30 years may have to be repaid where the component has been disposed. The amount of grant received less than 30 years ago on replaced components amounts to £5.654m.

The Committee of Management is not aware of any other contingent liabilities as at 31 March 2013 (2012: £Nil) and no other liabilities have emerged since.

29 Prior Period Adjustment – Year Ended 31 March 2012

a) Component Accounting

The principle of component accounting is to account separately for each major component of a property asset with substantially different useful economic lives, and to depreciate them over their individual useful economic life. This change in accounting policy has resulted in major works expenditure written off in prior years being capitalised, and an additional depreciation charge now being recognised.

The effect of this change in accounting policy on the 31 March 2011 financial statements is shown below. As at 31 March 2011 opening reserves were increased by £3.6m, of which £11.3m related to increased depreciation (decreasing reserves), of which £7.7m related to major repairs previously written off to the Income and Expenditure Account now capitalised as components

increasing reserves) and £7.2m related to abated HAG now allocated across components (increasing reserves).

Increase depreciation charge	£'000
Decrease major works charged against income	(644)
Increase in the surplus for the year to 31 March 2011	<u>1,299</u>
	655

Increase Fixed Asset Cost	£'000
Increase Fixed Asset Depreciation	9,017
Decrease in HAG	(11,911)
Net movement in the balance sheet at 1 April 2011	<u>7,194</u>
	4,300

The impact of component accounting in the year ended 31 March 2012 was to increase the operating surplus by £1.2m, capitalised replacements previously expensed of £2.4m off set by increased depreciation of £1.2m.

b) Lothian Pension Fund
Hanover (Scotland) Housing Association applied FRS17 Retirement Benefits to The Lothian Pension Fund, for the first time in the year to 31 March 2012. The Association had not previously disclosed this information on the grounds that it was immaterial. However, due to an increase in members in the pension scheme in the year the liability was recognised. The effect of this prior year adjustment on the 31 March 2011 financial statements is shown below. As at 31 March 2011, opening reserves decreased by £1,005k, of which £651k related to actuarial loss and £354k related to other adjustments through the

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2013

Income and Expenditure account. The effect on the comparative year surplus is as follows:

Actuarial gain for the year	£1'000
Effect on interest payable	85
Effect on wages and salaries	(9)
Increase in the surplus for the year to 31 March 2011	230
2011	306

In addition the effect upon the Balance Sheet up to 31 March 2011 was:

Increase in Pension Liability	£1'000
	<u>(699)</u>

The impact of the Lothian Pension Fund on the figures for the year ended 31 March 2012 was to reduce the operating surplus by £13k.

c) Residents Funds and Service Equalisation
 During the year to 31 March 2012 Hanover (Scotland) Housing Association reviewed the policy on residents funds held for developments and due to the nature of the balances it was agreed that these balances should be released to reserves from debtors and creditors. This represents a change in accounting policy and was considered a more reasonable treatment in line with the SORP2010 and FRS12. Amounts held under debtors and creditors in respect of the service equalisation accounts were also released to revenue reserves.

The effect of this change on the comparative year's figures for 2011 was to:

Effect on service charge income	£1'000
	<u>830</u>
Increase in surplus for the year to 31 March 2011	830

In addition, the effect upon the balance sheet up to March 2011:

Decrease on debtors	£1'000
Decrease creditors	1,300
	<u>(6,960)</u>

5,660

The impact of the release of residents funds to reserves in the year to 31 March 2012 was to increase the operating surplus by £457k.

The total effect of the prior period adjustment on the 31 March 2011 financial statements was £9,261k, comprised of the £4300k increase in the value of properties as a result of component accounting, the £699k increase in the Lothian Pension Fund liability and the £5,660k movement of residents' funds to reserves.

30 Post Balance Sheet Events

On 28 June 2013 the Scottish Housing Association's Pension Scheme issued an update on the past service debt contingent liability referred to in notes 28 and 22. This indicated a present day value of commitments of

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£15.3m however the basis of this calculation is still under discussion.

The Committee of Management is not aware of any other post balance sheet events as at 31 March 2013.