

**Hanover (Scotland) Housing Association Limited**



**Financial statements  
for the year ended 31 March 2015**

# Hanover (Scotland) Housing Association Limited

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External Auditors:  
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Bankers:  
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Scott Moncrieff (until 31 March 2015)  
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BDO LLP  
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Registered Housing Association No. 124  
Financial Conduct Authority No. 1983 R (S)  
Scottish Charity Registration SC014738  
Registered Property Factor No PF000340

# Hanover (Scotland) Housing Association Limited

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## **The Board Members**

**Michael Martin** (Chairperson)

**Gary Devlin** ACA CPFA

**Wilma Dickson** CBE PhD

**Derek Fothergill**

**Oonagh Gil MRTPI** (elected 25 September 2014)

**David Griffin** FRICS

**Susan Hamilton** MBA CPFA CIRM (elected 25 September 2014)

**Anne Hendry** PhD

**Ann MacDonald** MCIH

**Anne McCamley** BA LLB NP (resigned 3 July 2014)

**Prof Sir Geoffrey Palmer** Kt OBE DSc

**Prof Alison Petch**

**Neil Rennick** BArch (Hons) (elected 25 September 2014)

**Alasdair Rutherford** BSc BA (Hons) MSc PhD (elected 25 September 2014)

**Alan Savage** (Vice Chairperson)

**Roger Williams** (resigned 3 July 2014)

**Catherine Wyllie** BA CA

## Officers

**Helen Murdoch** MBA FCIH MRICS ACIPD  
Chief Executive

**Andrew Aitken** FCIPD  
Director of Organisational Services (appointed 8 December 2014)  
(previously Director of Human Resources)

**Graham Bennie**  
Acting Director of Property and Development (until 13 February 2015)

**Gregor Booth** BA (Hons)  
Director of Housing & Care Services (resigned 7 November 2014)

**Mark Farey** BA (Hons) CIHCM MRICS  
Director of Asset Management (appointed 16 February 2015)

**Karen McIntosh** FCCA  
Director of Strategic Finance (appointed 22 January 2015)  
(previously Acting Director of Finance & Risk Management Services)

**Christopher Milburn** MBA MBCS  
Director of Customer Services (appointed 10 November 2014)  
(previously Director of Business & Communications)

**David Reid** LLB ACIS  
Company Secretary

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2015

The Committee of Management (Board) presents its review and audited financial statements for the year ended 31 March 2015.

### Operating and Financial Review of the Business

#### Structure and Activities

Hanover (Scotland) Housing Association Limited (HSHA) (the Association) is a registered society in terms of the Co-operative and Community Benefit Societies Act 2014. A Scottish charity and registered social landlord (RSL), the Association is 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 the Association was founded in 1979, it 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.

#### Governance and the Board

The Association has 320 (2014: 311) members, each of whom holds a single fully-paid £1 share. From this number, its' governing body, the Board is elected and members who served on it in the year are listed at page 1. The Board brings together a broad range of skills, experience and strengths to ensure good governance.

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

Following a strategy review day in April 2014 the Board agreed a four directorate model to support the focus of a "personalised customer facing journey" with each new Director in post by the middle of February 2015. Further information about this is provided later in this report on page 11.

As part of the organisational design the Board structure was also reviewed and it was agreed, in May 2015, to move to a single Board supported by two Sub Committees; Audit & Risk and Remuneration. This new structure strengthens the Board and the control of Hanover's strategic direction and provides a more focused, flexible, streamlined and efficient structure.

#### Business and Financial Review

The Board is pleased to report an operating surplus for the year of £3.47m in what has been a challenging year. The Association has continued to invest in both its existing housing stock and in new opportunities for development.

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 £2.65m, before transfers to reserves.

Total expenditure on revenue repairs and maintenance in the year was £4.7m (2014: £5.1m), with a further £6m of expenditure on capitalised maintenance and major repairs (2014: £3.3m). This included a major refurbishment of a 77 unit in Aberdeen and the installation of two new biomass boilers in Newtonmore and Tarves. The Association received a total of £354k (2014: £383k)

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## Review by the Board

Year ended 31 March 2015

for the adaptation of 159 (2014: 168) existing properties to meet the needs of tenants as they become more frail. These adaptations have been funded by Scottish Government grant and the Association is pleased to note that, despite the possibility of cutbacks, the Scottish Government has continued to provide the same level of funding as last year. The Association has, through research on 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. The Association 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 Board considers the financial results of the Association for the year ended 31 March 2015 to be very positive and demonstrate the financial strength of the organisation.

## Financial Performance Headlines

	2015	2014	Mvmnt
Turnover £k	30,028	29,091	937
Operating Surplus £k	3,467	2,953	514
Operating Surplus %	11.5%	10.2%	1.3%
Net surplus(deficit) £k	2,652	2,131	583
Net surplus(deficit) %	8.8%	7.3%	1.5%
Total Fixed Assets £k	54,795	50,980	3,815
Total Loan Debt £k	17,887	18,508	(621)
Total Reserves £k	36,667	34,684	1,983
Average cost of Funds	4.79%	4.79%	-

## Business Strategy

The strategy for the Association is set out in a 3 year strategic plan that is reviewed annually and approved by the Board.

The financial year 2014/15 was the final year of the 2012-15 strategic business plan, first approved by the then Committee of Management in March 2012.

The broad strategic objectives agreed were:

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*

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- them to live as healthy, independent and secure lives as possible and encourage and assist their participation and involvement as they choose in their communities.'*
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 strategic business plan for 2015-18 was approved by the Board in May 2015. The key strategic objectives remain consistent, with further development to emphasise the importance of:

- the personalised customer facing journey;
- financial sustainability;
- warm sustainable modern homes;
- our people and culture;
- partnerships and relationship building;
- effective communication, knowledge management and engagement; and
- streamlined governance.



# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2015

### Performance Management Framework

A strong performance management framework is in place and is directly linked to our strategic objectives. All parts of the business work to key performance indicators and these are detailed along with departmental objectives in the Association's Business Plan. The senior management team has developed a series of key performance indicators some of which are noted in table 1 below.

Objective	Target	Performance
<b>Development</b> – to provide quality homes to people in need	<ul style="list-style-type: none"> <li>Develop 30 units annually</li> </ul>	<ul style="list-style-type: none"> <li>Although no new developments were completed in this year, a significant refurbishment of a 77 unit development in Aberdeen was completed.</li> </ul>
<b>Customer Service</b> – to meet customer's needs and provide excellent service	<ul style="list-style-type: none"> <li>Improve standards of customer service</li> <li>95% of repairs completed within timescales</li> <li>New service initiative or partnership working</li> </ul>	<ul style="list-style-type: none"> <li>91.2% of customers were very or fairly satisfied survey completed in Dec 2013.</li> <li>Completion timescales on repairs were 97.4% of emergency, 90.6% on urgent and 93.2% on routine. The target of 95% was achieved until part way through the year when a new contractor commenced.</li> <li>A new partnership was agreed with Scottish Borders to provide a flexible care service to the Hanover's residents on 3 developments</li> </ul>
<b>Finance</b> – to improve efficiencies and increase financial strength of the Association	<ul style="list-style-type: none"> <li>Achieve an operating surplus of 4% plus RPI</li> <li>Meet lenders covenants</li> <li>Manage rent arrears to 1.4% of rental income</li> </ul>	<ul style="list-style-type: none"> <li>Target 4.9%, achieved 9%. The target was exceeded due to lower than budgeted maintenance expenditure. However, maintenance in 2015/16 will be correspondingly higher.</li> <li>We have complied with lenders covenants throughout the year.</li> <li>Rent arrears at the year end had reduced to 2.0% (1.7% technical, 0.3% non technical) (2014: 2.3%), due primarily to the timing of payment of housing benefit last year.</li> </ul>
<b>Good place to work</b> – to invest in our people	<ul style="list-style-type: none"> <li>Staff turnover should not exceed 15%</li> <li>Develop staff</li> </ul>	<ul style="list-style-type: none"> <li>Staff turnover for the year was 12.4%.</li> <li>Achieved Investors in People Bronze award.</li> <li>All line managers are developing leadership and management skills through Institute of Leadership and Management.</li> <li>All staff must complete an e-learning programme relevant to their role.</li> </ul>

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## Review by the Board

Year ended 31 March 2015

### Risks

The Association 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 Board. Key risks currently facing the Association are:

### Key Risks – identified as High Risk

Key Risks Identified	Action being taken
<p><b>Fire Safety for very sheltered development, resulting from new legislation and stricter controls</b> If very sheltered developments fire safety recommendations are not implemented, then the Association could face adverse publicity, and ultimately prosecution.</p>	<ul style="list-style-type: none"> <li>• Fire evacuation policy and procedure in place</li> <li>• Fire risk assessments carried out</li> <li>• Fire risk assessment remedial works being carried out</li> <li>• Development of specification for sprinkler systems and instalment</li> </ul>
<p><b>Reduction in income or increased costs outwith the Association's control</b> If there is a reduction in income (including Housing Support from Local authorities) or increased costs, then this could increase pressure on the Association's viability.</p>	<ul style="list-style-type: none"> <li>• New income generation opportunities to be assessed</li> <li>• Housing Support exit strategy in place</li> <li>• Efficiency review – to reduce costs and improve procurement and contracting</li> <li>• Budget for an operating surplus of 4% over RPI</li> </ul>
<p><b>Affordability of housing and/or housing support to our customers</b> If housing and /or housing support does not remain affordable to our client group, then this together with other factors, such as change in customer demographics may lead to reduction in demand, increasing voids and affect financial viability.</p>	<ul style="list-style-type: none"> <li>• Continuously monitor rent policy</li> <li>• Benchmarking of rent against other housing associations</li> <li>• Representation on Scottish Government working group on investment reform</li> <li>• Effective procurement</li> </ul>
<p><b>Reduced demand for our social housing in some developments</b> If there is a drop in demand for social housing, then this could lead to higher voids levels.</p>	<ul style="list-style-type: none"> <li>• Review and further develop asset management strategy</li> <li>• Service redesign with more flexible services and products</li> <li>• Regular statistical reporting based on feedback from surveys</li> </ul>

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Year ended 31 March 2015

<p><b>Increased competition for our Telecare service</b> If Hanover faces increased competition and the service becomes no longer viable, then the service could be provided by an HSHA competitor</p>	<ul style="list-style-type: none"> <li>• Regular management and monitoring of business plan and results</li> <li>• Creation of business development to monitor customers and undertake competitor analysis</li> <li>• Provide high quality service at competitive pricing</li> </ul>
<p><b>The increasing cost of pension provision and deficit recovery</b> The Association could face significant liabilities for meeting pension fund deficits. The Association's contribution to the fund may increase significantly in order to fund the scheme.</p>	<ul style="list-style-type: none"> <li>• Transfer of the default scheme from a higher cost to lower cost</li> <li>• Regularly monitor through review of valuations and discussions with professionals</li> <li>• Created a pension working group to consider future options</li> </ul>

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### Market

The over-60/65 age group is forecast to continue growing and already outnumbers those under 16 by 2%. 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, the Association 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 and Integrated Services

The Association provides a Care at Home Service which offers customers assistance with personal care, domestic tasks,

shopping, companionship and short breaks from caring. Our services are flexible and adaptable to individuals' changing needs. During 2014-15 we worked in partnership with Scottish Borders Council to provide flexible care on 3 of our sheltered developments in the Scottish Borders. We plan to expand Care at Home and integrated care services in 2015 and beyond, when suitable and financially sustainable opportunities arise.

### Hanover Telecare

The recommendations from a strategic review of the Hanover Telecare service are currently being implemented and the service has recently benefitted from significant investment in upgraded technology. The Telecare service is provided from two monitoring control centres, one in Edinburgh and the other in Glasgow. This allows the Association 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.

The Association 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, a Marketing Strategy for the period 2013-16 is being implemented. Work has commenced on achieving the objectives, which are closely aligned to the Association's overall business plan and are focused on

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increasing income and improving awareness and brand recognition of the Association in the market and of the services it provides.

During 2014-15 the Association launched its' new logo, redesigned its website and has started to change the signage across its developments. The aim of rebranding is to make the organisation easier to remember and assist in attracting potential new customers and users of our services.

### 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, reduce costs and lead the field in innovation. Examples of our joint working include repairs and maintenance, public relations, human resources, tenancy applications through a common housing register, tenant participation and equal opportunities. We operate our joint repairs and maintenance service in the West of Scotland, Fife, the Lothians, Falkirk, Stirling, Perth & Kinross and Kincardineshire.

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

### Housing Support

This local authority funding stream is provided to the Association 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 strategy was 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. Following an agreement with Glasgow City Council, the Association no longer provides housing support services to customers in this local authority.

It is hoped that the Public Bodies (Joint Working) Scotland Bill designed to integrate adult health and social care services recognises housing as a key contributor to the health and wellbeing of the people of Scotland and this may be the beginning

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## Review by the Board Year ended 31 March 2015

of a potentially organic process in the development of new transformational models.

### Development Grant

The Association 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 the Association has 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. However, the Association is well placed to manage a modest development programme as it retains a low level of debt as a percentage of the value of the business.

### 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 2015 – 2018.

### Organisation Structure

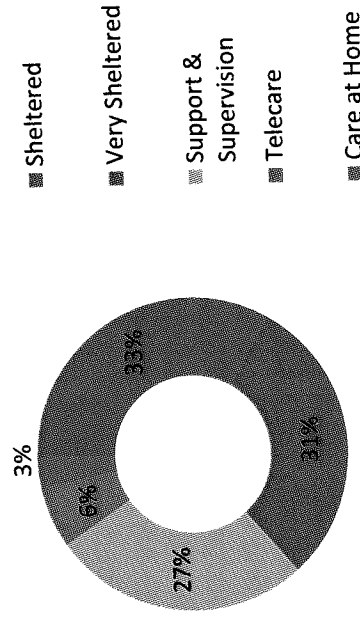
As referred to previously in page 3, during 2013 the Association embarked on a review of its organisational design. The overall aim of the review is to create a more customer focused organisation by linking mutually beneficial services for the benefit

of its customers. During 2014 the Board agreed the new four Directorate model and the Directors were all in post by the middle of February 2015. During 2015-16 the new Directors will develop their departments in order to address and meet their individual operational objectives that in turn meet the organisations' strategic objectives.

### Employees

During 2014/15, the average number of full-time equivalent staff employed by the Association was 375 (2013/14: 376), as shown in **figure 1**.

**Figure 1**



Without a devoted, 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.

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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. The Association 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 keen to ensure 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 and also achieved the Bronze Award from Healthy Working Lives. During 2014-15 the Association achieved its Investors in People (IIP) Bronze award and Investors in Diversity (IID) accreditation. These schemes recognise organisations that have achieved outstanding effectiveness in HR and people excellence.

### Information and Communications Technology (ICT)

The Information & Communications Technology (ICT) section at the Association plays a crucial role in supporting the organisation. The primary focus of the ICT team is the delivery of the ICT Strategy for 2015-18 to support the delivery of the strategic objectives of the Association.

### Employee Involvement and Health and Safety

The Association is fully aware of its responsibilities relating to Health and Safety and encourages employee involvement in all

major initiatives. Hanover employs a Health, Safety and Wellbeing Manager who reports to the Board, three times during the year.

### 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.

### 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 has generally increased over the past five years, driven mainly by organic growth.

These housing assets are included on the balance sheet at £48.5 million (2014, £44.6 million), which is gross historical cost less depreciation and Housing Association Grant. The Board believes that the current market value of these properties is still significantly in excess of their net book value, see note 9b. This assessment is based on valuations of elements of the portfolio undertaken during 2012/13, which take account of the Association's planned maintenance programme.

Details of fixed assets are set out in Note 9.

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### Impairment Review

The Association has conducted an impairment review and, although impairment exists on some newer properties, the Board 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 2015, there were no new units completed. The Association closed a 40 unit sheltered development to enable redevelopment of the site; a further 2 developments, 61 units, are in development.

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 assessment of affordability takes into account basic retirement pension, housing benefit levels and sector guidance.

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

Marketability is also an important factor and the Association 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.



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### Designated Reserves

The amount held in the Designated Reserve for the Replacement of Equipment on Rented Developments has decreased from £3.1m to £2.9m. 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.

The amount held in the Designated Reserve for the Past Service Deficit on the Scottish Housing Association Pension Scheme (SHAPS) is £15.2m. This fund represents the estimated future liability of the past service deficit currently estimated to be repaid over the next twelve and a half years.

Further details of the full impact of the Association's pension commitment under the SHAPS scheme are detailed at note 22.

### Pension Reserves

The Association has been informed that its share of the pension deficit in the Lothian Pension Fund as at 31 March 2015 amounts to £2.2m (2014: £1.4m) 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 and £17m is recommended for known risks such as those mentioned previously. Current Revenue Reserves of £21m, are adequate to meet this

commitment. Where possible, the potential cost of known risks is 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 2015, the Association had £3m undrawn loan facilities. The Association has a loan agreement in principle with Lloyds Bank for a £20m facility to finance the new build and asset management programme.

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. At 31 March 2015, 79% of the debt portfolio was at a fixed rate (2014: 79%).

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### **Creditor Payment Policy**

This policy complies with the Confederation of British Industry guidelines, 30 days, and Hanover's average payment period is 20 days (2014: 19 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 the Association'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) which was met by the target date of 31 March 2015 and the Energy Efficiency Standards for Social Housing (EESH) which has a target date for compliance by 2020. The Association continues to improve its' repairs response rates.

The Association's Board maintains a regular overview of all the Association's policies.

### **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 2015. Gearing is measured in terms of net debt compared with net assets and including capital grants received. The current position, at 9.7% (2014: 10.2%), provides considerable comfort in terms of ability to continue borrowing to fund future developments.

### **Going Concern**

The Board has reviewed the results for this year and has also reviewed the projections for the next five years.

The Association'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 - 18. The financial position of the Association, its cash flows, liquidity position and borrowing facilities are described on pages 23 - 24 and notes 11 - 13 to the financial statements.

The Association has considerable financial resources together with long-term income from its customers. The Association also has a loan agreement in principle with Lloyds Bank for a £20m facility to finance the new build and asset management programme.

As a consequence, the Board believe that the Association is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the

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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 2014/15 was just under £1.8m, £260k more than the outflow in 2013/14. The cash inflow of £6m from operating activities is £672k more than the figure for the prior year.

### 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 date of application of this standard is for the 31 March 2016 Financial Statements. 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. 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 and that the future investment in ESSH will ensure that our homes will remain modern, warm and comfortable places to live, which are affordable by our residents.

### Statement of Responsibilities of the Board

The Co-operative and Community Benefit Societies Act 2014 require the Board 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 Board 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 Controls is prepared.

The Board is responsible for the keeping of proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Association. The Board must ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, 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

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2015

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 Board 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 Controls

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

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

2. It is the Board'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 Board to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;
- 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;
- Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2015

procedures through the Board;

- the Audit Committee receives reports from management and from the external and internal auditors, to provide reasonable assurance that control procedures are in place and are being followed, and that a general review of the major risks facing the Association is undertaken;
- formal procedures have been established for instituting appropriate action to correct any weakness identified through internal and external audit reports; and
- significant risks are identified, evaluated and managed, as previously outlined on pages 7 and 8 of this review.

3. The Association's new internal auditor was appointed in 2015 and the plan for the first year of a new programme of work, based on the Audit Needs Assessment and an internal risk review, is completed. 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

Regulatory Advice Note: Internal Financial Controls and Regulatory Standards September 2014.

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

Board Member: Michael Martin

Date: 2 July 2015



# Hanover (Scotland) Housing Association Limited

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

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>.

### 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 2015 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements April 2012.

### Statement on Compliance with Regulatory Standards

In addition to our audit of the Financial Statements, we have reviewed your statement on pages 17 and 18, concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory advisory Notes which are issued by the Scottish Housing Regulator.

We have audited the financial statements of Hanover (Scotland) Housing Association for the year ended 31 March 2015 on pages 21 to 49. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinion we have formed.

### Respective responsibilities of the Board and Auditor

As explained more fully in the Board's Responsibilities on pages 16 and 17 the Board 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.

# Hanover (Scotland) Housing Association Limited

## Basis of Opinion

We have carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/05 issued by the Financial Reporting Council, through enquiry of certain members of the Board and Officers of the Association, and examination of relevant documents. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

## Opinion

In our opinion the Statement on Internal Financial Control on pages 17 and 18 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Matters on which we are required to report by exception

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

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or

- the financial statements are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we require for our audit.

*Baker Tilly UK Audit LLP*

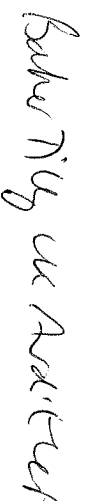
Baker Tilly UK Audit LLP  
Statutory Auditors  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
EH3 9QG  
Date: 27/15

# Hanover (Scotland) Housing Association Limited

## Independent Auditor's Report to the members of Hanover (Scotland) Housing Association Limited on Internal Financial Controls

In addition to our audit of the Financial Statements, we have reviewed your statement on page 17 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.



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

Baker Tilly UK Audit LLP  
Statutory Auditors  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
EH3 9QG  
Date: 3/7/15

### Opinion

In our opinion the Statement on Internal Financial Control on page 17 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated



# Hanover (Scotland) Housing Association Limited

## Income and Expenditure Account

For the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Turnover			
Less: Operating Costs	2	30,028	29,091
<b>Operating Surplus</b>	2	<b>(26,561)</b>	<b>(26,138)</b>
		3,467	2,953
Surplus on disposal of assets		31	21
Interest receivable and other income	7	62	92
Interest payable and similar charges	8	(899)	(934)
<b>Surplus on ordinary activities before taxation</b>		<b>2,661</b>	<b>2,132</b>
Tax on surplus on ordinary activities	23	(9)	(1)
<b>Surplus on ordinary activities after taxation</b>	18	<b>2,652</b>	<b>2,131</b>

## Statement of Total Recognised Gains and Losses

	2015 £'000	2014 £'000
Surplus for the Year	2,652	2,131
Actuarial (Loss) on pension obligations	(669)	(91)
<b>Total surpluses recognised since last reporting period</b>	<b>1,983</b>	<b>2,040</b>

The results for the year relate wholly to continuing activities.

# Hanover (Scotland) Housing Association Limited

Balance Sheet As at 31 March 2015

	Notes	2015 £'000	2014 £'000
<b>Fixed Assets</b>			
Tangible fixed assets:			
Housing properties: Cost less depreciation		189,207	185,090
Grants	9	(140,726)	(140,522)
		<u>48,481</u>	<u>44,568</u>
Fixed Asset Investment	9	51	51
Other tangible fixed assets	9	6,263	6,361
	9	<u>54,795</u>	<u>50,980</u>
<b>Current Assets</b>			
Debtors	10	1,676	1,475
Cash at bank and in hand	11	4,915	6,711
		<u>6,591</u>	<u>8,186</u>
<b>Current Liabilities</b>			
Creditors: Amounts falling due within one year	12	(4,727)	(4,903)
		<u>1,864</u>	<u>3,283</u>
<b>Net Current Assets</b>		<u>56,659</u>	<u>54,263</u>
<b>Total Assets less Current Liabilities</b>	13	<u>(17,839)</u>	<u>(18,166)</u>
<b>Creditors: Amounts falling due after more than one year</b>			
<b>Net Assets Before Pension Liability</b>	19	38,820	36,097
Pension Liability		(2,153)	(1,413)
		<u>36,667</u>	<u>34,684</u>
<b>Capital and Reserves</b>			
Share Capital	14	-	-
Designated Reserves	15/16/17	18,086	18,281
Revenue Reserve	18	20,734	17,816
Pension Reserve	19	(2,153)	(1,413)
		<u>36,667</u>	<u>34,684</u>

The Board approved and authorised the financial statements for issue on 2 July 2015.

Chairperson:  
Mike Martin

Board Member:  
Gary Devlin

Company Secretary:  
David Reid





# Hanover (Scotland) Housing Association Limited

## Cash Flow Statement

For the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
<b>Net cash inflow from operating activities</b>			
<b>Returns on investments and servicing of finance</b>	(i)	5,951	5,279
Interest received		62	92
Interest paid loans		(888)	(894)
Interest paid finance lease		-	(2)
Finance Cost on Pension Scheme Assets		(11)	(38)
<b>Net cash outflow from investments and servicing of finance</b>		<u>(837)</u>	<u>(842)</u>
<b>Taxation</b>			
Corporation tax paid		(9)	(1)
<b>Net cash outflow from taxation</b>		<u>(9)</u>	<u>(1)</u>
<b>Capital expenditure</b>			
Payments to acquire and develop housing properties		(7,203)	(5,252)
HAG and other grants received		1,135	442
Payments to acquire other fixed assets		(309)	(578)
Net receipts from shared ownership property sales		171	107
HAG repaid on shared ownership property sales		(74)	(66)
<b>Net cash outflow from investing activities</b>		<u>(6,280)</u>	<u>(5,347)</u>
Net Cash (outflow) inflow before financing		(1,175)	(911)
<b>Financing</b>			
Finance lease obligations		-	(19)
(Loans repaid) / advances received		(621)	(606)
<b>Net cash (outflow) from financing</b>	(ii)	<u>(621)</u>	<u>(625)</u>
<b>(Decrease) in cash</b>	(iii)	<u>(1,796)</u>	<u>(1,536)</u>

# Hanover (Scotland) Housing Association Limited

Notes to the Cash Flow Statement for the year ended 31 March 2015

## Reconciliation of operating surplus for the year to net cash flow

### (i) from operating activities

	2015	2014
	£'000	£'000
Operating surplus	3,467	2,953
Depreciation	2,494	2,260
Increase/(Decrease) in pension provision	71	65
(Increase) in debtors	(201)	(18)
(Decrease)/ Increase in creditors	(169)	(38)
Increase/ (Decrease) in residents' funds	289	57
<b>Net cash inflow from operating activities</b>	<b>5,951</b>	<b>5,279</b>

### (ii) Analysis of net debt

	At 31-Mar 2014	Cash flows	Other changes	At 31-Mar 2015
	£'000	£'000	£'000	£'000
Cash and short term deposits	6,711	(1,796)	-	4,915
Debt due within one year	6,711	(1,796)	(616)	4,915
Debt due after one year	(621)	621	(616)	(616)
	(17,887)	-	616	(17,271)
<b>Total</b>	<b>(11,797)</b>	<b>(1,175)</b>	<b>-</b>	<b>(12,972)</b>

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

Decrease in cash and short term deposits in the period	2015
Decrease in loans in the period	£'000
Change in net debt	(1,796)
Net debt at 1 April 2014	621
	(1,175)
<b>Net debt at 31 March 2015</b>	<b>(11,797)</b>
	(12,972)

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements For the year ended 31 March 2015

### 1 Accounting Policies

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014 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

iv) The accounting policy is compliant with the SORP 2010.

v) 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

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements For the year ended 31 March 2015

future cash flows from these units. The length of forecast period used is 30 years.

vi) 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.

vii) 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
Biomass Boilers	20 years
Intercom/Door Entry	15 years
Doors	15 years
Storage Heating Boilers	15 years

viii) 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.

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

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

d) Other fixed assets  
Other fixed assets purchased that are over the value of £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%

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements For the year ended 31 March 2015

- e) 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.

- f) 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.

- g) Reserves

- i) Designated Reserve – Major repairs and remodelling reserve (excluding items capitalised as components)

Following a review of the stock condition survey and future asset management, the Association anticipates that the annual spend on major repairs will be no more than £2m and that in future this will be funded through the income and expenditure account. Accordingly, the balance held in this designated reserve has been transferred to the Revenue Reserve.

- ii) Designated Reserve – Replacement Equipment Fund on Rented Developments

An annual amount is transferred to the reserve based on future replacement costs and the estimated economic useful lives of the equipment.

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

The Designated Reserve for the Past Service Deficit on the Scottish Housing Association Pension Scheme (SHAPS), is held to provide for future liability (note 17), in line with the past service debt notified to the Association as payable over the next 12 and a half years (note 22).

- iv) Revenue Reserve

The balance of any surpluses, over and above those transferred to the designated reserve for 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 Board regularly considers the target level on a risk management basis and the future expected use of this reserve (note 18).

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements For the year ended 31 March 2015

### v) 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).

### h) 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.

### i) 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.

### j) 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.

### k) 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 further escalating costs that has a bearing on the affordability to both the organisation and employees. The Board made the decision that from 1 April 2014 the Care 70ths scheme would be closed to new entrants and moved to CARE 80ths as the defined pension option.

Seventeen employees (2014: 18 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 to enable the cost of pensions to be spread over the service lives of the employees.



# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## l) Group Accounts

The Association is registered in Scotland and does not form part of a group.

Until 19 March 2014 the Association was the parent company of Hanover (Scotland) Housing Association Charitable Trust Limited (the Trust). However, on 19 March 2014 OSCR granted approval for the Trust to be dissolved. The Registrar of Companies advised that the Trust had ceased to be a company on 24 October 2014 and OSCR confirmed that the Trust had been wound up on 4 February 2015.

**Hanover (Scotland) Housing Association Limited**  
 Notes to the Financial Statements For the year ended 31 March 2015

		2015		2014	
2 Turnover, Operating Costs and Operating Surplus					
	Notes	Turnover £'000	Operating costs £'000	Operating surplus £'000	Operating surplus £'000
Social Lettings	3a	23,547	(20,397)	3,150	2,240
Other Activities	3b	6,481	(6,164)	317	713
		<b>30,028</b>	<b>(26,561)</b>	<b>3,467</b>	<b>2,953</b>
<b>Total for 2015</b>					

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## 3a Particulars of Income and Expenditure from Lettings

	General Needs Housing £'000	Supported Housing Accommodation £'000	Shared Ownership Accommodation £'000	Total 2015 £'000	Total 2014 £'000
<b>Income from lettings</b>					
Rent receivable net of Identifiable Service Charges	655	14,299	39	14,993	14,595
Service Charges receivable	77	8,732	-	8,809	8,271
Gross income from rents & service charges	732	23,031	39	23,802	22,866
Less: Voids	(10)	(730)	-	(740)	(787)
<b>Net income from rents &amp; service charges</b>	<b>722</b>	<b>22,301</b>	<b>39</b>	<b>23,062</b>	<b>22,079</b>
Revenue Grants from Local Authorities and Other Agencies	-	485	-	485	477
<b>Total turnover from social letting activities</b>	<b>722</b>	<b>22,786</b>	<b>39</b>	<b>23,547</b>	<b>22,556</b>
Management & maintenance administration costs	197	4,528	10	4,735	4,142
Service costs	66	9,109	-	9,175	9,447
Planned and cyclical maintenance including major repairs costs	80	2,257	-	2,337	2,438
Reactive maintenance costs	96	1,933	-	2,029	2,346
Bad debts - rents and service charges	-	34	-	34	43
Depreciation of social housing	80	2,007	-	2,087	1,900
<b>Operating Costs for social letting activities</b>	<b>519</b>	<b>19,868</b>	<b>10</b>	<b>20,397</b>	<b>20,316</b>
<b>Operating Surplus for social letting</b>	<b>203</b>	<b>2,918</b>	<b>29</b>	<b>3,150</b>	<b>2,240</b>
Operating Surplus for social letting for previous period of account	294	1,912	34	2,240	

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

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

	Grants from Scottish Ministers £'000	Other revenue grants £'000	Supporting people income £'000	Other income £'000	Total turnover £'000	Operating costs bad debts £'000	Other operating costs £'000	2015 Surplus/ (deficit) for the year £'000	2014 Surplus/ (deficit) for the year £'000
Wider Role Activities	-	-	-	-	-	-	-	-	-
Care & Repair of Property	-	-	-	1,778	1,778	-	(1,778)	-	-
Factoring	-	-	-	-	-	-	-	-	-
Development & construction of property activities	-	-	2,544	-	2,544	-	(2,229)	315	386
Support Activities	-	-	-	328	328	-	(346)	(18)	18
Care Activities	-	-	-	-	-	-	-	5	1
Agency/management services for RSLs	-	-	-	5	5	-	-	-	-
Other agency/management services	-	-	-	-	-	-	-	-	-
Developments for sale to RSLs	-	-	-	-	-	-	-	-	-
Developments & improvements for sale to non RSLs	-	-	-	-	-	-	-	-	-
Telecare	-	354	-	1,014	1,014	-	(904)	110	130
Stage 3 Adaptations	-	-	-	-	354	-	(354)	-	-
Other Activities*	-	-	-	458	458	-	(553)	(95)	178
<b>Total from Other Activities</b>	<b>-</b>	<b>354</b>	<b>2,544</b>	<b>3,583</b>	<b>6,481</b>	<b>-</b>	<b>(6,164)</b>	<b>317</b>	<b>713</b>
<b>Total from other activities for year ended 31 March 2014</b>	<b>-</b>	<b>276</b>	<b>2,657</b>	<b>3,602</b>	<b>6,535</b>	<b>-</b>	<b>(5,822)</b>	<b>713</b>	

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

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## 4 Directors' Emoluments

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

	2015 £'000	2014 £'000
Total emoluments (excluding pension contributions and benefits in kind)	491	445
The emoluments (excluding pension contributions) of the highest paid director amounted to :	102	102

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	-	-
£65,001 to £70,000	-	1
£70,001 to £75,000	2	3
£95,001 to £100,000	-	-
£100,001 to £105,000	2	1

The Association made pension contributions of £67,783 (2014: £113,161) on behalf of those directors whose total emoluments, excluding pension contributions, are in excess of £60,000 per annum, including £17,364 to the highest paid.

The Board had a membership of 15 as at 31 March 2015 and a maximum of 15 members during the year. No payment of fees or other remuneration was made to the members during the year.

	2015 £'000	2014 £'000
Total expenses reimbursed to the Chief Executive insofar as not chargeable to UK Income Tax:	1	1

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

	3	2
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## 5 Employee Information

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

	2015 No.	2014 No.
The average number of persons employed in the year was:	375	376
	505	505

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

	2015 £'000	2014 £'000		2015 £'000	2014 £'000
<b>5 Employee Information (continued)</b>				6,207	6,393
Staff costs (including directors' emoluments)	9,253	9,146	Repairs: cyclical, planned, day to day		
Wages and salaries	619	635	Auditors' remuneration - external	19	22
Social security costs	1,652	936	Auditors' remuneration - internal	15	25
Pension costs	9	9	Hire of plant and machinery - rentals payable under operating leases	153	164
BUPA	<u>11,533</u>	<u>10,726</u>	<b>7 Interest receivable and other income</b>		
				62	92

Payments to the value of £104,457 in respect of redundancy costs are included within the totals for staff costs.

	2015 £'000	2014 £'000		2015 £'000	2014 £'000
<b>Average FTE Employees per Month</b>			<b>8 Interest payable and similar charges</b>		
Apr-14	378	374	Housing loans:		
May-14	377	374	On loans from banks and building societies repayable in more than 5 years	880	887
Jun-14	376	377	Interest charged on finance leases	-	2
Jul-14	373	373		<u>880</u>	<u>889</u>
Aug-14	375	375	Net return on pension assets	11	38
Sep-14	375	377	Interest on owner occupier funds	8	7
				<u>899</u>	<u>934</u>

## 6 Operating Surplus

Operating surplus is stated after charging/  
(crediting)

Proceeds from HSHA Charitable Trust on dissolution

Depreciation

	2015 £'000	2014 £'000
	-	(36)
	2,494	2,260

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## 9 Tangible Fixed Assets

Cost	Housing Properties				Total housing £'000	Fixed Asset Investment Shared Equity £'000	Heritable office property £'000	Computer & leased equipment £'000	Total Other £'000	Grand total £'000
	Held for letting £'000	Shared ownership £'000	Under construction £'000	Under construction £'000						
At 1 April 2014	204,035	571	848	848	205,454	1,059	6,731	3,095	9,826	216,339
Additions in the year	6,004	-	1,427	1,427	7,431	-	(11)	320	309	7,740
Transfers in the year	385	-	(385)	(385)	-	-	-	-	-	-
Disposals in the year	(1,464)	(86)	(228)	(228)	(1,778)	-	-	(12)	(12)	(1,790)
At 31 March 2015	208,960	485	1,662	1,662	211,107	1,059	6,720	3,403	10,123	222,289

## Housing Association Grant (HAG)

At 1 April 2014	130,888	396	-	-	131,284	1,008	-	-	-	132,292
Received in the year	-	-	1,008	1,008	1,008	-	-	-	-	1,008
Transfers in the year	-	-	-	-	-	-	-	-	-	-
Repaid and abated in the year	(857)	(74)	-	-	(931)	-	-	-	-	(931)
At 31 March 2015	130,031	322	1,008	1,008	131,361	1,008	-	-	-	132,369

## Other grants

At 1 April 2014	9,238	-	-	-	9,238	-	-	-	-	9,238
Received in the year	127	-	-	-	127	-	-	-	-	127
At 31 March 2015	9,365	-	-	-	9,365	-	-	-	-	9,365

## Depreciation

At 1 April 2014	20,361	3	-	-	20,364	-	1,295	2,170	3,465	23,829
Provided during the year	2,087	-	-	-	2,087	-	143	264	407	2,494
Disposals in the year	(551)	-	-	-	(551)	-	-	(12)	(12)	(563)
At 31 March 2015	21,897	3	-	-	21,900	-	1,438	2,422	3,860	25,760

## Net book value

at 31 March 2014	43,548	172	848	848	44,568	51	5,436	925	6,361	50,980
at 31 March 2015	47,667	160	654	654	48,481	51	5,282	981	6,263	54,795

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## 9 Tangible Fixed Assets (continued)

a) The Association has received £354,134 (2014: £383,847) in the year in respect of Housing Association Grant for Adaptations of which £354,134 (2014: £276,383) has been treated as revenue and £nil (2014: £107,463) was 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 £11,779 per unit.

c) For major repairs during the year the Association spent £6.978m (2014: £4.753m); £4.441m (2014: £3.194m) was capitalised for replacement components; and £0.973m (2014: £1.405m) was expensed through the Income and Expenditure account. A further £1.564m (2014: £154k) of additions relate to improvements.

d) Development administration costs capitalised in the year amounted to £292,394 (2014: £219,987).

e) Interest capitalised in the year amounted to £nil (2014: £22,500) 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 2015 is £252 (2014: £243). Also 89 shares in Banco Santander were held at nil cost. The market value of these shares at 31 March 2015 is £448 (2014: £508).

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 (2014: £nil), depreciation on those assets is £217,182 (2014: £217,182).

i) Included within Housing Properties held for letting is an investment property with a net book value of £15,660 (2014: £18,495).

10 Debtors	2015	2014
	£'000	£'000

Amounts falling due within one year:

Rental debtors	481	511
Less: bad debt provision	<u>(14)</u>	<u>(17)</u>
	467	494
Development funding receivable	469	-
Major repairs / Adaptations HAG receivable	-	140
Owners service charge balances	79	89
Other debtors	387	302
Prepayments and accrued income	<u>274</u>	<u>450</u>
	<u>1,676</u>	<u>1,475</u>





# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## 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% (2014: 1% and 0.5%).

### Loan instalments are due as follows:

	2015	2014
Within one year (note 12)	£'000	£'000
Between one and two years	616	602
Between two and five years	630	616
In over five years	1,996	1,943
	<u>14,645</u>	<u>15,328</u>
	<u>17,887</u>	<u>18,489</u>

### Lease instalments are due as follows:

	2015	2014
Within one year (note 12)	£'000	£'000
Between one and two years	-	19
Between two and five years	-	-
In over five years	-	-
	<u>-</u>	<u>19</u>

### Owners' Funds

Owners replacement of scheme equipment  
Owner occupier repairs

	Expenditure in year	Provided in year	Balance at 31/03/15
	£'000	£'000	£'000
	(33)	15	131
	<u>(374)</u>	<u>696</u>	<u>795</u>
	<u>(407)</u>	<u>711</u>	<u>926</u>
			<u>(410)</u>
			<u>516</u>

split as follows :  
less than one year and included in note 12  
more than one year

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## 14 Share Capital

	2015	2014
	No.	No.
Opening share capital	311	258
Shares allocated during the year	31	60
Shares relinquished during the year	(22)	(7)
Closing share capital	<u>320</u>	<u>311</u>

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 2015.

## 16 Designated Reserves – Rented Developments

	2015	2014
	£'000	£'000
Balance at beginning of year	3,081	3,743
Transfer (to) Revenue Reserve for the year	(388)	(783)
Transfer from Revenue Reserve for the year	193	121
Balance at end of year	<u>2,886</u>	<u>3,081</u>

## 17 Designated Reserves – SHAPS Past Service Deficit

	2015	2014
	£'000	£'000

Balance at beginning of year  
Transfer from Revenue Reserve for the year

Balance at beginning of year	15,200	5,200
Transfer from Revenue Reserve for the year	-	10,000

Balance at end of year

Balance at end of year	<u>15,200</u>	<u>15,200</u>
------------------------	---------------	---------------

The amount held within this reserve represents an estimate of the future liability in respect of the Past Service Deficit of the SHAPS Scheme payable over the next 12.5 years.

Total Designated Reserves

Total Designated Reserves	<u>18,086</u>	<u>18,281</u>
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## 15 Designated Reserves – Major Repairs

	2015	2014
	£'000	£'000

Balance at beginning of year  
Transfer (to) Revenue Reserve for the year  
Transfer from Revenue Reserve for the year  
Balance at end of year

Balance at beginning of year	-	9,337
Transfer (to) Revenue Reserve for the year	-	(9,337)
Transfer from Revenue Reserve for the year	-	-
Balance at end of year	<u>-</u>	<u>-</u>

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

In addition, the Board has authorised expenditure on other fixed assets amounting to £539k (2014: £504k), which includes the purchase of computer equipment and software.

18	Reconciliation of Movements in Revenue Reserve	2015	2014
		£'000	£'000
	Balance at beginning of year	17,816	15,621
	Surplus for the year	2,652	2,131
	Transfer from designated reserve (note 15)	-	9,337
	Transfer from/(to) designated reserve (note 16)	195	662
	Transfer (to) designated reserve (note 17)	-	(10,000)
	Transfer from Pensions Reserve (note 19)	71	65
	Revenue reserve at end of year	<u>20,734</u>	<u>17,816</u>

## 21 Leasing Commitments

	2015	2014
	£'000	£'000
Operating leases which expire: Between two and five years	<u>168</u>	<u>169</u>

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

## 22 Pension Commitments

19	Pension Reserve	2015	2014
		£'000	£'000
	Balance at beginning of year	(1,413)	(1,257)
	Transfer to Revenue Reserve (note 18)	(71)	(65)
	Actuarial (Loss)	(669)	(91)
	Balance at end of year	<u>(2,153)</u>	<u>(1,413)</u>

In 2014/15 certain employees have elected to contribute to the Scottish Housing Associations' Pension Scheme (SHAPS) or the Lothian Pension Fund (LPF), both of which are defined benefit schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Association 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 Association. The contributions are determined by a qualified actuary on the basis of triennial valuations.

## 20 Capital Commitments

Housing expenditure contracted less certified at 31 March 2015 amounted to £5.559m (2014: £0.143m). Expenditure authorised by the Board but not contracted at 31 March 2015 amounted to £4.226m). Furthermore, the Board has authorised expenditure on capitalised major repairs and replacement components amounting to £4.494m (2014: £5.148m).

The estimate of total contributions payable by the Association in 2015/16 is £1,526k to the SHAPS scheme and £290k to the LPF scheme.

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

## Scottish Housing Associations Pension Scheme

### General

The Association participates in the Scottish Housing Associations' 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 2012 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £394 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £304 million, equivalent to a past service funding level of 56.4%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2014. 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 £539 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £281 million, equivalent to a past service funding level of 66%.

The Association has also been notified by The Pensions Trust of a liability to be paid for the next twelve and a half years in respect of the past service deficit in the Scottish Housing Associations' Pension Scheme. The amount to be paid in 2015/16 is £1,232,665 this figure is due to increase by 3% per annum based on the current past service deficit. An estimate for this future liability has been made and £15.2m was transferred in 2013/14 from Revenue Reserves to Designated Reserves to provide for this (Note 17). This amount may be subject to change following the results of the next valuation, which is 30 September 2015.

### Growth Plan

The 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.

The 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. The 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

## Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

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.

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 The Association. The Association continues to offer membership of the Plan to its employees.

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

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

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

Inflation: Consumer Prices Index (CPI) 2.4

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

The Scheme Actuary has prepared a funding position update as at 30 September 2013. The market value of the Plan's assets at that date was £772 million and the Plan's Technical Provisions (i.e. past service liabilities) was £927.5 million. The update, therefore, revealed a shortfall of assets compared with the value of liabilities of £155.5 million, equivalent to a funding level of 83%.

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

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

respect of the September 2011 valuation was forwarded to the Pensions Regulator on 2 October 2012, as is required by legislation.

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

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a 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.

## Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

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 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
- The cost of withdrawal if we exclude Series 3 liabilities from the calculation is £112,331

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 to be paid in 2015/16 is £6,413, amounts will be paid for eight years commencing 1 April 2015, and will increase by 3% per annum.

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

The Association participates in the Lothian Pension Fund ("the Scheme") and had 17 active members at the balance sheet date (18 active members in 2014).

The Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme. The Association paid contributions at the rate of 17.1% during the accounting period and individual members paid contributions between 5.5% 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 results from that valuation have been projected forward to 31 March 2015 using approximate methods.

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 HIRAM model, the proprietary stochastic asset model developed and maintained by Hymans Robertson LLP.



# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

<b>Movement in deficit during the year</b>		2015	2014
		£'000	£'000
Deficit in scheme at beginning of year		(1,412)	(1,257)
<b>Movements during the year:</b>			
Current service cost		(193)	(136)
Contributions paid		133	128
Other finance costs		(10)	(56)
Actuarial (loss)		(669)	(91)
<b>Deficit at the year end</b>		<b>(2,151)</b>	<b>(1,412)</b>

## Principal actuarial assumptions at the balance sheet date

	2015	2014
	p.a.	p.a.
Pension increase rate	2.1%	2.6%
Salary increase rate	4.0%	4.9%
Expected return on assets	3.1%	6.1%
Discount rate	3.1%	4.1%

## Expected return on assets by category

category	2015	2014
Equities	3.1%	6.6%
Bonds	3.1%	3.9%
Property	3.1%	4.8%
Cash	3.1%	3.7%
	£'000	£'000

## Actual Return on Assets

	418	137
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## Fair value of employer assets

	2015	2014
	£'000	£'000
Equities	2,827	1,878
Bonds	697	219
Property	328	195
Cash	246	146

Total Estimated Employer Assets

	4,098	2,438
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## The amounts recognised in the balance sheet are as follows:

	2015	2014
	£'000	£'000
Present value of funded liabilities	(6,226)	(3,830)
Fair value of employer assets	4,098	2,438
Present value of unfunded liabilities	(2,128)	(1,392)
Deficit	(23)	(20)
Net Liability	(2,151)	(1,412)

## Analysis of the amount charged to operating surplus

	2015	2014
	£'000	£'000
Current service cost	(193)	(136)
Past service income /(cost)	-	-
Contributions	133	128
Losses/(Gains) on Curtailments and Settlements	-	(19)
Total operating (loss)/gain	(60)	(27)

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

	2015	2014	
<b>Analysis of amount charged to other finance costs</b>			Estimated benefits paid
Expected return on employer assets	£'000	£'000	
Interest cost on pension scheme liabilities	148	122	
Total	<u>(159)</u>	<u>(160)</u>	<u>(202)</u>
			<u><b>6,249</b></u>
			<u><b>3,850</b></u>
<b>Analysis of the amount recognised in statement of recognised gains and losses</b>			<b>Closing defined benefit obligation</b>
Actuarial (losses)	2015	2014	
Actuarial (losses) recognised in STRGL	£'000	£'000	
	(669)	(91)	
	<u>(669)</u>	<u>(91)</u>	
			<b>Changes in the fair value of plan assets are as follows:</b>
			Opening fair value of employer assets
			Expected return on assets
			Contributions by members
			Contributions by the employer
			Contributions in respect of unfunded benefits
			Actuarial gains/ (losses)
			Estimated unfunded benefits paid
			Estimated benefits paid
			<b>Closing fair value of employer assets</b>
			<u><b>4,098</b></u>
			<u><b>2,438</b></u>

	2015	2014	
<b>Cumulative actuarial losses</b>			
<b>Changes in the present value of the defined benefit obligations are as follows:</b>			
Opening defined benefit obligation	2015	2014	
Current service cost	£'000	£'000	
Interest cost	3,850	3,543	
Contributions by members	193	136	
Actuarial losses	159	160	
Losses/ (gains) on curtailment	55	48	
Estimated unfunded benefits paid	2,195	106	
	-	19	
	<u>(1)</u>	<u>(1)</u>	
			<u><b>(1,839)</b></u>
			<u><b>(1,170)</b></u>
			<b>Fair Value of Employer Assets</b>
			Present Value of Defined Benefit Obligation
			Surplus/ (Deficit)
			Experience Gains/ (Losses) on Assets
			Experience Gains/ (Losses) on Liabilities

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2015

	2012	2011	Shared ownership	24	27
	£'000	£'000	Shared equity	88	88
Fair Value of Employer Assets	1,977	2,029	Owner occupied	1,095	1,055
Present Value of Defined Benefit Obligation	(3,121)	(2,728)	Totals	5,323	5,285
Surplus/ (Deficit)	(1,144)	(699)			
Experience Gains/ (Losses) on Assets	(73)	(35)			
Experience Gains/ (Losses) on Liabilities	(288)	1			

The number of units in development as at 31 March 2015, was as follows:

	2015	2014
	No.	No.
Rented - General Needs housing	22	22
Rented - Supported housing accommodation	39	39
	<u>61</u>	<u>61</u>

## 23 Taxation

### UK Corporation Tax Charge

Based on the results for the year

	2015	2014
	£000	£000
Total Current tax	<u>9</u>	<u>1</u>

### Factors affecting tax charge for the year

Surplus on ordinary activities before taxation	<u>2,661</u>	<u>2,132</u>
Expected tax charge at 20% (2014: 20%)	532	426
Exempt charitable activities	<u>(523)</u>	<u>(425)</u>
Current tax charge	<u>9</u>	<u>1</u>

## 24 Housing Stock

The number of units in management as at 31 March 2015, was as follows:

	2015	2014
	No.	No.
Rented - General needs housing	181	181
Rented - Supported housing accommodation	3935	3,934

## 25 Average Annual Scottish Secure Tenancy Rents

	2015	2014
	£	£
Average annual Scottish secure tenancy rents for housing accommodation	<u>3,601</u>	<u>3,510</u>
Percentage increase/(decrease) from previous year	<u>2.6%</u>	<u>4.0%</u>

	No.	No.
Number of Scottish secure tenancies	<u>3,897</u>	<u>3,901</u>

## **Hanover (Scotland) Housing Association Limited**

**Notes to the Financial Statements** For the year ended 31 March 2015

### **26 Group Structure**

The Association is registered in Scotland and does not form part of a group.

Until 19 March 2014, the Association was the parent of Hanover (Scotland) Housing Association Charitable Trust (the Trust), which was a company registered in Scotland with charitable aims. However, on 19 March 2014 OSCR approved the dissolution of the Trust. The Registrar of Companies was advised and the dissolution process was accordingly completed. The assets of the Trust were then transferred to the Association on 25 March 2014.

### **27 Related Party Transactions**

Mr Gary Devlin, Board member was also appointed as a partner in Scott Moncrieff, the Association's internal auditor, from 1 March 2015. The appointment of Scott Moncrieff was on an arms length basis and predates Mr Devlin's appointment as a partner in Scott Moncrieff. There were no other related party transactions in the year.

### **28 Contingent Liabilities**

The 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 2014. As of this date the estimated employer debt for The Association was £35,702,640. 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 the 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. An estimate of £15.2m for this future liability over the next twelve and a half years has been made. 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 included in the balance sheet.

With the introduction of component accounting, Housing Association Grant received to fund developments had been allocated across the components. Therefore the grant, which relates to 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 £4.269m.

The Board is not aware of any other contingent liabilities as at 31 March 2015 and no other liabilities have emerged since.

**Hanover (Scotland) Housing Association Limited**  
Notes to the Financial Statements For the year ended 31 March 2015

**29 Post Balance Sheet Events**

As part of the organisational design the Board structure was reviewed and it was agreed, in May 2015, to move to a single Board supported by two Sub Committees; Audit & Risk and Remuneration. This new structure strengthens the Board and the control of Hanover's strategic direction and provides a more focused, flexible, streamlined and efficient structure.

The Board is not aware of any other post balance sheet events, which affect the Association as at 31 March 2015.

