

**Hanover (Scotland) Housing Association Limited**



**Financial statements  
for the year ended 31 March 2016**

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

**Registered Address and Head Office:**

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

**Bankers:**

**The Royal Bank of Scotland PLC**  
**Scotland Corporate Service Centre**  
**Drummond House**  
**PO Box 1727**  
**EDINBURGH**  
**EH12 9JN**

**External Auditors:**

**RSM UK Audit LLP (formerly Baker Tilly UK Audit**  
**LLP)**  
**Third Floor, Centenary House**  
**69 Wellington Street**  
**GLASGOW**  
**G2 6HG**

**Internal Auditors:**

**BDO LLP**  
**4 Atlantic Quay**  
**York Street**  
**Glasgow**  
**G2 8JX**

**Solicitors:**

**TC Young**  
**7 West George Street**  
**GLASGOW**  
**G2 1BA**

**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

## Financial Statements for the year ended 31 March 2016

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## **The Board Members**

**Michael Martin** (Chairperson)

**Ann MacDonald** MCIH

**Gary Devlin** ACA CPFA

**Prof Sir Geoffrey Palmer** Kt OBE DSc

**Wilma Dickson** CBE PhD (resigned 2 July 2015)

**Prof Alison Patch**

**Derek Fothergill**

**Neil Rennick** BArch (Hons)

**Oonagh Gil** MRTPI

**Alasdair Rutherford** BSc BA (Hons) MSc PhD (resigned 22 February 2016)

**David Griffin** FRICS (resigned 4 June 2015)

**Alan Savage** (Vice Chairperson)

**Susan Hamilton** MBA CPFA CIRM

**Catherine Wyllie** BA CA

**Anne Hendry** MB ChB FRCP

## **Officers**

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

**Karen McIntosh** FCCA  
Director of Strategic Finance

**Andrew Aitken** FCIPD  
Director of Organisational Services (resigned 19 February 2016)

**Christopher Milburn** MBA MBCS  
Director of Customer Services

**Adam Curry**  
Acting Director of Organisational Services (appointed 4 May 2016)

**David Reid** LLB ACIS  
Company Secretary (retired 21 April 2016)

**Mark Farey** BA (Hons) CIHCM MRICS  
Director of Asset Management

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

The Committee of Management (Board) presents its review and audited financial statements for the year ended 31 March 2016.

### 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 focused on providing housing and related services, mainly, to older people. Since the Association was founded in 1979, it has expanded, organically, to become a national organisation that manages, on behalf of itself and others, over 5,200 properties across 24 Scottish local authorities.

#### Governance and the Board

The Association has 340 (2015: 320) 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.

During the year, following a comprehensive governance review, the Association moved 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.

#### Objectives and Strategy

The strategic business plan for 2016-19 was approved by the Board in May 2016. Our purpose is "to provide simple solutions for life, helping older people feel safe and secure at home and to lead fulfilling and independent lives". At the heart of all corporate objectives are our key principles to: put the customer first in all models of delivery; and engage employees, customers and partners in the development of a hub and spoke concept. This is underpinned by the key strategic objectives of:

1. People, *'To help our customers to live the lives they want by providing them with modern and safe accommodation and supporting services. To promote their wellbeing, enabling them to live as 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 overall ambition of the Association is to grow in order to meet the increasing needs of older people and those in need of our services. Most of our current developments are Sheltered housing

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

where residents live independently with support and assurance provided locally. We are also a leading provider of Very Sheltered housing which provides a greater degree of support, care and catering for residents with greater support needs. Both these forms of housing are extremely popular among our residents and are supported by our Telecare responder service that is available to all residents 24 hours a day.

The external operating environment remains challenging and we recognise the importance of providing innovative and cost effective homes and services that meet our ambitions and at the same time ensuring the long term financial sustainability of the business.

### Market

Scotland's older population is growing and if the current trends continue the over-60/65 age group is forecast to increase by 23% to over one million by 2025. In particular, the fastest increases will be in those aged 75+ who are the most intensive users of health and care services. By 2025 there could be over half a million people aged 75+ living in Scotland, 134,000 more than today – a major target market for the Association. The coming decade will also see an increase in the numbers of old people with multiple conditions such as dementia and learning difficulties.

The 2015 Scottish Government publication "Joint Housing Delivery Plan for Scotland" articulated the national housing policy ambitions for supported independent living in old age. These included the:

- need to expand the range of affordable and easy to adapt mainstream and specialist housing options;
- improve the provision of housing adaptations, support and other low level preventative housing related services; and
- enable the take up of technologies that help older people to live safely and comfortable at home and improve their wellbeing.

Consequently, we are committed to helping to meet the demand for services that cater for the specific needs of frail, older people including those with dementia and we believe that much more innovative housing solutions need to be provided for this group.

### Housing

We are considering new and innovative ways of providing housing and associated services. This, together with a robust 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. We plan to expand Care at Home and integrated care services in 2016 and beyond, as suitable and financially sustainable opportunities arise.

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

### Hanover Telecare

The Telecare service is provided from two monitoring control centres, in Edinburgh and 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 was implemented that aligned with our overall business plan and focused on improving awareness and brand recognition of the Association in the market and of the services it provides.

### Partnering

We 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 factoring 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.

The Public Bodies (Joint Working) Scotland Act 2014 was designed to integrate adult health and social care services and it is hoped that housing will be recognised as a key contributor to the health and wellbeing of the people of Scotland and this may be the beginning of a potentially organic process in the development of new transformational models.

### Housing Support

Local Authorities remain under severe financial pressure and we have seen Housing Support funding being reduced and in some local authority areas completely withdrawn. There is a strong likelihood, with increasing pressure on care budgets, that other local authorities will follow this lead. Following an options appraisal in 2015, we have the decision to proactively, in consultation with residents and in collaboration with local authorities, withdraw housing support services by 2020 across our sheltered housing stock. In those local authorities where housing support has been withdrawn, a new enhanced housing management service has been introduced and to date has been running smoothly.

# Hanover (Scotland) Housing Association Limited

Review by the Board  
Year ended 31 March 2016

## Performance Headlines - 2 year summary

|  | 2016   | 2015       | Movement in |
|--|--------|------------|-------------|
|  | £'000  | £'000      | year        |
| <b>Statement of Comprehensive Income</b> |        | (restated) | £'000       |
| Turnover                                 | 33,707 | 32,820     | 887         |
| Operating Surplus                        | 3,807  | 3,892      | (85)        |
| Adjusted Operating Surplus <sup>1</sup>  | 2,725  | 1,732      | 993         |
| Interest Payable                         | 998    | 899        | 99          |
| Net surplus(deficit)                     | 2,452  | 2,584      | (132)       |

## Statement of Financial Position

|  | 2016    | 2015    | Movement in |
|--|---------|---------|-------------|
|  | £'000   | £'000   | year        |
| Total Fixed Assets net of depreciation | 149,896 | 142,699 | 7,197       |
| Housing Association Grant              | 83,390  | 81,453  | 1,937       |
| Total Pension Liabilities              | 16,258  | 17,623  | (1,365)     |
| Total Loan Debt                        | 20,020  | 17,887  | 2,133       |
| Total Reserves                         | 30,537  | 27,646  | 2,891       |

## Statistical Performance

|   |        |                 |
|---|--------|-----------------|
| Adjusted Operating Surplus as % of Turnover | 2016   | 2015            |
| Interest Cover                              | 6.8%   | (restated) 3.6% |
| Net surplus as a % of turnover              | 230.2% | 132.7%          |
| Gearing (debt as % of reserves plus grant)  | 7.3%   | 7.9%            |
|   | 11.4%  | 10.6%           |

<sup>1</sup> Adjusted operating surplus includes expenditure on capitalised maintenance and net depreciation



# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

### Financial Performance

The purpose of this section is to provide an appropriate assessment of the performance of the Association over 2015-16.

The financial statements reflect the introduction of the Financial Reporting Standard 102 (FRS102) and the Statement of Recommended Practice for Registered Social Landlords 2014 (SORP 2014) for the first time. Prior year comparative figures have been restated accordingly. See note 28 to the financial statements for further detail.

The Board is pleased to report, that despite the ongoing economic challenges, the Association's performance remained strong and returned an operating surplus for the year of £3.81m. We have continued to invest in both our 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 £2.5m.

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 2016.

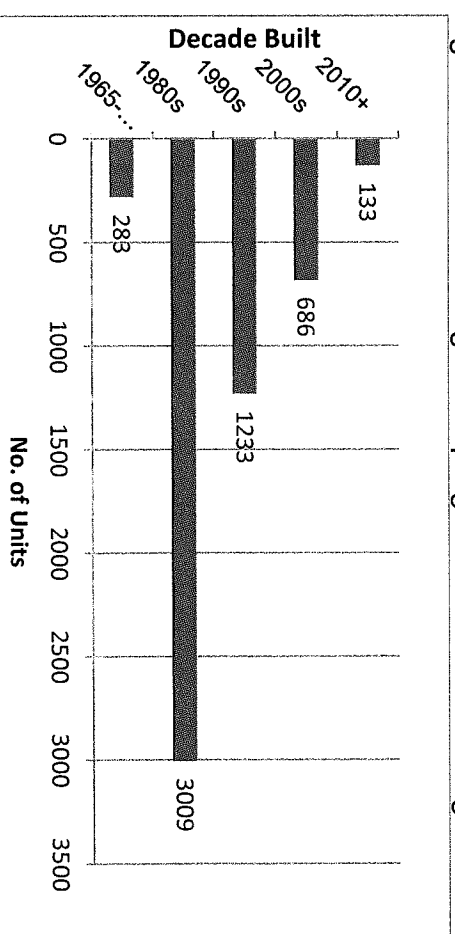
Gearing is measured in terms of net debt compared with net assets and including capital grants received. The current position, at 11.8% (2015: 10.6%), provides considerable comfort in terms of ability to continue borrowing to fund future developments.

The cash outflow in 2015/16 was just over £1.7m, £64k less than the outflow in 2014/15. The cash inflow of £4.6m from operating activities is £1.3m less than the figure for the prior year.

The Board considers the financial results of the Association for the year ended 31 March 2016 to be very positive and demonstrate the financial strength of the organisation.

### Housing Assets

The Association manages over 5,200 properties, of which we own over 4,000. The remainder are managed on behalf of individual owners. Note 22 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 asset management programme from 2016 – 2019. The undernoted table provides detail on the age profile of our stock. It is clear that the majority of our stock is between 25 and 35 years old, resulting in a significant asset management programme of our existing stock.



# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

These housing assets are included on the Statement of Financial Position (SOFp) at £143.7 million (2015 (restated): £136 million), which is gross historical cost less depreciation. Housing Association Grant is now included as deferred income and stands at £83 million (2015 restated: £81 million).

The strong SOFP and growing asset base are key factors that enabled us to raise additional funding through the private placement market of £20m to support our current property development plans. The number of units and the value of our housing stock has generally increased over the past five years, driven mainly by organic growth.

Total expenditure on revenue repairs and maintenance in the year was £5.7m (2015: £4.7m), with a further £3.6m of expenditure on our capital investment programme (2015: £6m). This investment results in our residents benefiting from new kitchens, bathrooms, doors, windows and heating and the completion of a biomass boiler in Kingussie. This is our fourth biomass installation under the Renewable Heat Initiative and all will return income to the Association for the next 20 years.

We received further Scottish Government grants of £331k (2015: £354k) for the adaptation of 161 (2015: 159) existing properties to meet the needs of tenants as they become more frail. The Scottish Government has continued to provide the same level of funding as last year. The Association has, through previous 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. We 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.

Details of fixed assets are set out in Note 9.

### 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. We are well placed to manage a modest development programme due to the low level of debt as a percentage of the value of the business.

### New Properties

During the 12 months ended 31 March 2016, there were no new units completed. The Association closed a 40 unit sheltered development and a 13 unit very sheltered development to enable redevelopment of these sites. Currently work is underway on 5 developments providing 124 new units; with 3 developments, 73 units due for completion before the end of 2016.

The Board welcome the increase in the level of grant funding announced by the Scottish Government that should enable the growth in the delivery of new homes. However, the proposal to cap social housing rent and service charges to the Local Housing Allowance is likely to present significant challenges in the revenue funding of specialist housing and therefore impact on our future development plans. This means that it will be more important to appraise each development on a case by case basis, ensuring that it will not impact on the long term viability of the Association.

# Hanover (Scotland) Housing Association Limited

Review by the Board  
Year ended 31 March 2016

## 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 our long term programme of planned maintenance and covers replacement or repairs to the component parts of our properties which have come to the end of their economic lives. This programme also includes works required by legislation, such as the Energy Efficiency Standards for Social Housing (EESSH) which has a target date for compliance by 2020.

## Employees

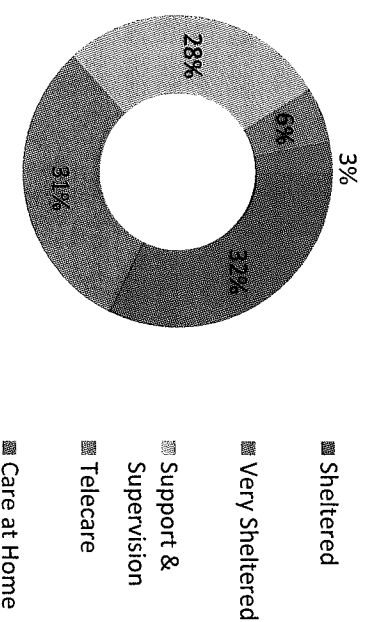
Without a devoted, motivated and well trained workforce we would not be able to meet the needs of our customers. The Association continues to benchmark its working environment to ensure that it provides competitive terms and conditions and a number of additional non financial benefits have been introduced as part of our HR policies.

In 2014-15 the Board agreed a four directorate model to support the focus of a "personalised customer facing journey". In 2015-16, the reorganisation of the Association has progressed well and we are ahead of the planned schedule. The reorganisation is scheduled to be fully implemented by March 2017.

During 2015/16, the average number of staff employed by the Association was 512 (2014/15: 505), a full-time equivalent of 382

(2014/15: 375). The split of staff employed across the services is as shown below.

Figure 1



During 2015-16 the Association was chosen as a finalist in Top Employers for Working Families 2016 in the Large Public Sector category, has been awarded Bronze from Healthy Working Lives. We also achieved re-accreditation in both Investors in People (IIP) Bronze and Investors in Diversity (IID) Stage2. 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 to support the delivery of the strategic objectives of the Association. The ICT team has recently received additional

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## Review by the Board

Year ended 31 March 2016

resources to improve digital inclusion for customers and the project management of new ICT initiatives.

### **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. Unfortunately, in December during the exceptional weather in the North of Scotland one of our developments in Aberdeen was flooded. However due to the Health and Safety procedures and the involvement of devoted staff the evacuation of residents from the development was well managed.

### **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 we are firmly committed to providing equal access to service and employment opportunities. Our policies, procedures and practices ensure that no one is disadvantaged.

### **Accounting Policies**

The principal accounting policies are covered in detail in Note 1 of the Financial Statements on pages 24 to 29.

### **Revenue Reserves**

The revenue reserve represents our accumulated surpluses. In light of the new Accounting Standard FRS102 the target is to increase the revenue reserve each year by at least 10% to ensure that the level is adequate to cover both known and unforeseen

risks. Where possible, the potential cost of known risks is quantified to inform the annual review of the reserves policy. Further details are provided on page 21.

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

### **Treasury Management**

The Association has an active treasury management function which operates in accordance with the Treasury Management Policy. The 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 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. Following the agreement of a new loan facility, as at 31 March 2016, the Association had £20m undrawn loan facilities to finance the new build and asset management programme.

The Association manages interest rate risk by utilising a high proportion of fixed interest debt. At 31 March 2016, 85% of the debt portfolio was at a fixed rate (2015: 79%).

### **Creditor Payment Policy**

This policy complies with the Confederation of British Industry guidelines, 30 days, and Hanover's average payment period is 28 days (2015: 24 days).

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

## **Review by the Board**

Year ended 31 March 2016

### **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 2 - 15. The financial position of the Association, its cash flows, liquidity position and borrowing facilities are described on pages 20 - 23 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 new loan facility with Lloyds Bank for £20m 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 foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **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 EESSH will ensure that our homes will remain modern, warm and comfortable places to live, which are affordable by our residents.

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

### 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>Reduction in income or increased costs outweigh the Association's control</b></p> <p>If there is a reduction in income as a result of Welfare Reforms (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>• Pro-active lobbying for exemption of supported housing for welfare benefits</li> <li>• Efficiency review – to reduce costs and improve procurement</li> <li>• Budget for an operating surplus of 4% over RPI</li> </ul>                |
| <p><b>Reduced demand for our social housing as a result of affordability or changes in demographics</b></p> <p>If housing and /or housing support does not remain affordable to our client group, then this together with other factors, i.e., a 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 and benchmarking</li> <li>• Review and develop asset management strategy</li> <li>• Review and redesign service models to ensure we respond to changes in expectation, demand and affordability</li> <li>• Part of Scottish Government working group on investment reform</li> <li>• Effective procurement</li> </ul> |
| <p><b>Increased competition for our Telecare service</b></p> <p>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>Aspire to be employer of choice</b></p> <p>The risk that we are unable to recruit, develop and retain highest quality staff.</p>   | <ul style="list-style-type: none"> <li>• Restructure leading to more opportunities for progression</li> <li>• Training and development programme for all staff</li> <li>• Staff engagement</li> </ul>   |

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

### 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 the table below. The performance management framework is currently under review with the aim of further strengthening performance management.

| Performance Objective                                   | 2015-16 | 2014-15 | 2013-14 |
|---|---------|---------|---------|
| <b>Financial</b>  |         |         |         |
| Void loss as % of rental and service charge income      | 2.20%   | 2.30%   | 2.10%   |
| Arrears as a % of rent and service charge income        | 0.60%   | 0.60%   | n/a     |
| <b>Housing and Property Services</b>                    |         |         |         |
| Average time to relet properties                        | 52.0    | 53.2    | 54.2    |
| Emergency Repairs - Average time to Complete - hours    | 6.0     | 5.9     | 6.3     |
| Non Emergency Repairs - Average time to Complete - Days | 5.5     | 6.1     | 7.0     |
| Repairs carried out right first time                    | 94.2%   | 93.5%   | 90.7%   |
| Resident satisfaction with repairs and maintenance      | 90%     | 90%     | 90%     |
| <b>Complaints Handling</b>                              |         |         |         |
| Stage 1 complaints resolved in SPSO timescale           | 82.7%   | 86.3%   | 87.0%   |
| Stage 2 complaints resolved in SPSO timescale           | 82.6%   | 80.0%   | 79.7%   |
| <b>Employee Performance</b>                             |         |         |         |
| % of staff turnover                                     | 11.1%   | 14.2%   | 12.4%   |
| % of days lost through staff sickness                   | 3.5%    | 3.3%    | 4.0%    |

# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

### 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 2014. It is responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. It is also responsible for ensuring that the Association's suppliers are paid promptly.

The members of the 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



# Hanover (Scotland) Housing Association Limited

## Review by the Board

Year ended 31 March 2016

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;
3. The Association's internal auditor was appointed in 2015 and the first year of the programme of work, based on the Audit Needs Assessment and an internal risk review, is complete. In addition to individual reports resulting from the ongoing programme of work, the internal auditor prepares an annual report for the Audit Committee each year. These arrangements are considered appropriate to the scale and range of the Association's activities and comply with the requirements contained in the Scottish Housing Regulator's 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.

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

## **Review by the Board**

Year ended 31 March 2016

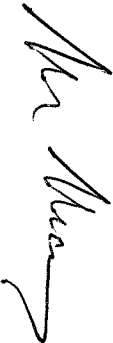
No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in these financial statements or in the auditor's report on the financial statements.

### **Auditors**

A resolution for the reappointment of RSM 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: 7 July 2016

# Hanover (Scotland) Housing Association Limited

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

We have audited the financial statements of Hanover (Scotland) Housing Association for the year ended 31 March 2016 on pages 19 to 47. 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 page 13, 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.

### 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 2016 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 2014.

### Statement on Compliance with Regulatory Standards

In addition to our audit of the Financial Statements, we have reviewed your statement on pages 13 - 15, 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.

## Hanover (Scotland) Housing Association Limited

### Basis of Opinion

We have carried out our review having regard to the requirements to incorporate 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 13 – 15 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.



RSM UK Audit LLP (previously Baker Tilly UK Audit LLP)  
Statutory Auditors  
Chartered Accountants  
Third Floor, Centenary House  
69 Wellington Street  
Glasgow  
G2 6HG  
Date: 12/7/16.

# Hanover (Scotland) Housing Association Limited

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

In addition to our audit of the Financial Statements, we have reviewed your statement on pages 13 - 15 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

### **Basis of Opinion**

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

### **Opinion**

In our opinion the Statement on Internal Financial Control on pages 13 - 15 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.

RSM UK Audit LLP (previously Baker Tilly UK Audit LLP)  
**Statutory Auditors**  
**Chartered Accountants**  
Third Floor, Centenary House  
69 Wellington Street  
Glasgow  
G2 6HG  
Date: 12/7/16

*RSM UK Audit LLP*

# Hanover (Scotland) Housing Association Limited

## Statement of Comprehensive Income For the year ended 31 March 2016

|  | Notes | 2016<br>£'000 | 2015<br>£'000 |
|--|-------|---------------|---------------|
| Turnover                                       | 2     | 33,706        | 32,820        |
| Less: Operating Costs                          | 2     | (29,901)      | (28,932)      |
| <b>Operating Surplus</b>                       |       | <b>3,805</b>  | <b>3,888</b>  |
| (Loss) / Surplus on disposal of assets         |       | (64)          | 35            |
| Interest receivable and other income           | 7     | 52            | 62            |
| Interest payable and financing costs           | 8     | (1,335)       | (1,392)       |
| <b>Surplus before taxation</b>                 |       | <b>2,458</b>  | <b>2,593</b>  |
| Taxation                                       | 20    | (6)           | (9)           |
| <b>Surplus for the year</b>                    |       | <b>2,452</b>  | <b>2,584</b>  |
| Actuarial Gain / (Loss) on pension obligations | 19    | 439           | (669)         |
| <b>Total comprehensive income for the year</b> |       | <b>2,891</b>  | <b>1,915</b>  |

The results for the year relate wholly to continuing activities.

The notes on pages 24 to 47 form part of these financial statements.

# Hanover (Scotland) Housing Association Limited

## Statement of Changes in Reserves

|   | £'000         |
|---|---------------|
| <b>Income and Expenditure Reserve</b>                     |               |
| <b>Balance at 1 April 2014</b>                            | 25,731        |
| Surplus from the Statement of Comprehensive Income        | 2,584         |
| Actuarial loss in respect of Pension Liability            | (669)         |
| <b>Balance as at 31 March 2015</b>                        | <u>27,646</u> |
| <b>Surplus from the Statement of Comprehensive Income</b> |               |
| Actuarial gain in respect of Pension Liability            | 2,452         |
| <b>Balance at 31 March 2016</b>                           | <u>30,537</u> |

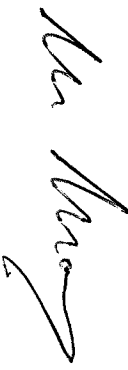
# Hanover (Scotland) Housing Association Limited

## Statement of Financial Position at 31 March 2016

|   | Notes | 2016<br>£'000 | 2015<br>£'000 |
|---|-------|---------------|---------------|
| <b>Fixed Assets</b>                                     |       |               |               |
| <b>Non-Current Assets:</b>                              |       |               |               |
| Intangible assets                                       | 9     | 833           | 626           |
| Housing properties: Cost less depreciation              | 9     | 143,716       | 136,436       |
| Other tangible fixed assets                             | 9     | 5,347         | 5,637         |
| <b>Current Assets</b>                                   |       |               |               |
| Trade and other debtors                                 | 10    | 2,912         | 1,676         |
| Cash and cash equivalents                               | 11    | 3,183         | 4,915         |
|   |       | 6,095         | 6,591         |
| <b>Current Liabilities</b>                              |       |               |               |
| Creditors: Amounts falling due within one year          | 12    | (8,451)       | (7,342)       |
| <b>Net Current Assets</b>                               |       | (2,356)       | (751)         |
| <b>Total Assets less Current Liabilities</b>            |       | 147,540       | 141,948       |
| Creditors: Amounts falling due after more than one year | 13    | (100,741)     | (96,679)      |
| Provisions  | 15    | (14,558)      | (15,470)      |
| Pension Liability                                       | 19    | (1,704)       | (2,153)       |
| <b>Total Net Assets</b>                                 |       | 30,537        | 27,646        |
| <b>Capital and Reserves</b>                             |       |               |               |
| Share Capital   | 14    | -             | -             |
| Income and Expenditure Reserve                          |       | 30,537        | 27,646        |
| <b>Total Reserves</b>                                   |       | 30,537        | 27,646        |

The Board approved and authorised the financial statements for issue on 7 July 2016 and are signed on its behalf by:

Chairperson:  
Mike Martin



Board Member:  
Gary Devlin



Interim Company Secretary:  
Karen McIntosh



The notes on pages 24 to 47 form part of these financial statements.



# Hanover (Scotland) Housing Association Limited

## Cash Flow Statement

For the year ended 31 March 2016

|   | Notes | 2016           | 2015           |
|---|-------|----------------|----------------|
|   |       | £'000          | £'000          |
| <b>Net cash generated from operating activities</b>   | (i)   | 4,641          | 5,942          |
| <b>Cash Flow from Investing Activities</b>            |       |                |                |
| Purchase of tangible fixed assets                     |       | (12,900)       | (7,512)        |
| Proceeds from sale of tangible fixed assets           |       | 68             | 171            |
| Grants received                                       |       | 5,051          | 1,135          |
| HAG repaid  |       | (30)           | (74)           |
| Interest received                                     |       | 52             | 62             |
| <b>Net cash used in investing activities</b>          |       | <u>(7,759)</u> | <u>(6,218)</u> |
| <b>Cash Flow from Financing Activities</b>            |       |                |                |
| Interest paid   |       | (998)          | (899)          |
| New loans   |       | 3,000          | -              |
| Repayments of borrowings                              |       | (616)          | (621)          |
| <b>Net cash from / (used in) financing activities</b> |       | <u>1,386</u>   | <u>(1,520)</u> |
| <b>Net Decrease in cash</b>                           |       | (1,732)        | (1,796)        |
| <b>Opening cash at beginning of year</b>              |       | 4,915          | 6,711          |
| <b>Closing cash at end of year</b>                    |       | <u>3,183</u>   | <u>4,915</u>   |

## Hanover (Scotland) Housing Association Limited

(i) Notes to the Cash Flow Statement for the year ended 31 March 2016  
**Reconciliation of surplus to net cash generated from/(used in) operations**

|  | 2016         | 2015         |
|--|--------------|--------------|
|  | £'000        | £'000        |
| Surplus  | 2,452        | 2,584        |
| Depreciation   | 5,097        | 4,946        |
| Amortisation of Capital Grants                                 | (2,613)      | (2,665)      |
| Loss/(surplus) on disposal of assets                           | 64           | (35)         |
| Changes in resident's funds                                    | 108          | 289          |
| Grant written off to SOCI                                      | -            | (127)        |
| (Decrease)/Increase in pension provision                       | (7)          | 71           |
| Unwinding of discounted liabilities                            | 330          | 493          |
| Pension Past Service Deficit paid in year (inc Growth Plan)    | (1,198)      | (1,163)      |
| Pension provisions remeasurement                               | (42)         | 1,082        |
| Redundancy paid through restructuring provision                | -            | -            |
| Interest receivable  | (52)         | (62)         |
| Interest paid  | 998          | 899          |
| Taxation paid  | 6            | 9            |
| <b>Operating cash flows before movement in working capital</b> | <b>5,143</b> | <b>6,321</b> |
| (Increase) in trade and other debtors                          | (1,487)      | (201)        |
| Increase/(decrease) in trade and other creditors               | 985          | (178)        |
| <b>Cash generated from operations</b>                          | <b>4,641</b> | <b>5,942</b> |

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### 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 in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), the Housing SORP 2014 "Statement of Recommended Practice for Registered Housing Providers" and comply with the Determination of Accounting Requirements 2014, and under the historical cost convention, modified to include certain financial instruments at fair value.

The financial statements are prepared in £ sterling.

b) Accounting judgements and estimations of accounting Preparation of the financial statements requires management to make critical judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts and other factors.

Management reviews its estimates of the useful lives of depreciable assets at each reporting date, using both internal and external advice. See note f) for depreciation information.

Judgements have been made in determining the Association's share of the underlying assets and liabilities of the Lothian Pension Fund (LPF), the valuation prepared by the Scheme

actuary includes estimations in relation to life expectancy, salary growth, inflation and the discount rate on corporate bonds (details as per note 20). The rate used to discount the past service deficit defined benefit obligations to their present value is based upon market yields for high quality corporate bonds with terms consistent with those of the benefit obligations. Our commitment to the SHAPS of £26.3m for the next 11.5 years has been discounted at a rate of 2.29% amounting to a net present value of £14.5m at 31 March 2016.

#### c) Change in Accounting Policy

These financial statements are the first financial statements of Hanover Scotland prepared in accordance with FRS102. The financial statements for the year ended 31 March 2015 were prepared in accordance with previous UK GAAP. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP.

Consequently, the officers have amended certain accounting policies to comply with FRS 102. Comparative figures have been restated to reflect the adjustments made. Reconciliations and descriptions of the effect of the transition to FRS 102 on: (i) reserves at the date of transition to FRS 102; (ii) reserves at the end of the comparative period; and (iii) income or expenditure for the comparative period reported under previous UK GAAP are given in note 28.

#### d) Turnover and Revenue Recognition

Turnover represents rental and service charge income receivable in the period, income from sale of housing properties, fees and revenue based grants receivable from

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

Local Authorities and the Scottish Government, and charges to users of the Hanover Telecare service.

e) Social Housing Grant and Other Grants  
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.

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

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

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

- f) Housing properties and depreciation
- i) Housing properties are properties for the provision of social housing or to otherwise provide social benefit. Housing properties are stated at cost less accumulated depreciation

and impairment losses. 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.

- 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 operating costs within the Statement of Comprehensive Income.

- 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 1f.v.

- iv) Reviews for impairment indicators of housing properties are carried out on an annual basis and any impairment in an income generating unit is recognised by a charge to

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

the Statement of Comprehensive Income. Indicators of impairment can be: contamination of land; a change in government policy that has a material impact on the net income; a change in demand with a material increase in the level of voids; or obsolescence of a property. If there is an indication of impairment, the carrying amount of the asset should be compared to the recoverable amount. If the recoverable amount is lower than the carrying value, the Association will need to record an impairment. The recoverable amount is the higher of value in use of the asset, based on its service potential, and fair value less costs to sell.

v) 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, 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     | 15 years             |
| Boilers             | 15 years             |

vi) The Shared Equity properties 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. The properties are stated at cost less accumulated depreciation'

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

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

g) 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 2016

## h) Intangible Fixed Assets

All intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but maybe shorter depending on the period over which the entity expects to use the assets.

## i) 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.

## j) 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.

## k) 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.

## i) Income and Expenditure 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 (see page 21).

## l) Operating Leases

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the term of the lease.

## m) 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.

## n) 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.

## n) Retirement Benefits

The Association participates in two funded multi-employer defined benefits pension schemes, the Scottish Housing

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

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.

For the SHAPS, contributions are recognised in the statement of comprehensive income in the period to which they relate as there is insufficient information available to use defined benefit accounting. A liability is recognised for contributions arising from an agreement with the multi-employer plan that determines how the Association will fund a deficit. Contributions are discounted when they are not expected to be settled wholly within 12 months of the period end.

Twenty two employees (2015: 17 employees) are members of the LPF administered by The City of Edinburgh Council. For the LPF, the cost of providing benefits is determined using the projected unit credit method. The net defined benefit liability represents the present value of the defined benefit obligation minus the fair value of plan assets out of which obligations are to be settled. Any asset resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the plan.

The rate used to discount the benefit obligations to their present value is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

Last year the Board agreed a Pension Strategy with short, medium and long term outcomes. The overarching principle is a

pension provision that is fair and equitable to all staff across the Association and the long term outcome is one pension scheme for all. The short term outcome was 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 2016 the scheme would be closed and all participating staff would be moved to the Defined Contribution option.

The expected cost to the Association of pensions is charged to the Statement of Comprehensive Income to enable the cost of pensions to be spread over the service lives of the employees.

For defined contribution schemes the amount charged to the Statement of Comprehensive Income is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

o) Financial Instruments  
The Association has elected to apply the provisions of Section 11 "Basic Financial Instruments" and section 12 "Other Financial Instruments Issues" of FRS102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Association becomes a party to the contractual provisions of the instrument, and are offset only when the Association currently has a legal enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### *Financial Assets - Debtors*

Debtors, which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade debtors are subsequently measured at amortised cost being the transaction price less any amounts settled and any impairment losses. Where the arrangement with a trade debtor constitutes a financing transaction, the debtor is initially and subsequently measured at the present value of future payments, discounted at a market rate of interest for a similar debt instrument. A provision for impairment of debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in income and expenditure.

### *Financial Liabilities – Trade Creditors*

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled. Where the arrangement

with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

### *Borrowings*

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges. Commitments to receive a loan are measured at cost less impairment.

### *p) Provisions*

Provisions are recognised when the Association has an obligation at the reporting date as a result of a past event, which it is probable will result in the transfer of economic benefits and that obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.



## Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2016

### 2 Turnover, Operating Costs and Operating Surplus

|                               |                   |                             | 2016                          | 2015                          |
|-------------------------------|-------------------|-----------------------------|-------------------------------|-------------------------------|
|                               | Turnover<br>£'000 | Operating<br>costs<br>£'000 | Operating<br>surplus<br>£'000 | Operating<br>surplus<br>£'000 |
| Notes                         |                   |                             |                               |                               |
| Affordable letting activities | 3a                | 26,939                      | (24,159)                      | 2,780                         |
|                               |                   |                             |                               | 3,571                         |
| Other Activities              | 3b                | 6,767                       | (5,742)                       | 1,025                         |
|                               |                   |                             |                               | 317                           |
| <b>Total for 2016</b>         |                   | <b>33,706</b>               | <b>(29,901)</b>               | <b>3,805</b>                  |
| <b>Total for 2015</b>         |                   | <b>32,820</b>               | <b>(28,932)</b>               | <b>3,888</b>                  |

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2016

## 3a Income and Expenditure from Affordable Letting Activities

|   | General Needs Housing<br>£'000 | Supported Housing Accommodation<br>£'000 | Equity & Ownership Accommodation<br>£'000 | Shared<br>£'000 | Total<br>2016<br>£'000 | Total<br>2015<br>£'000 |
|---|--------------------------------|--|---|-----------------|------------------------|------------------------|
| Rent receivable net of Identifiable Service Charges                     | 678                            | 14,621                                   | 39  | 39              | 15,338                 | 14,993                 |
| Service Charges receivable  | 78                             | 9,004                                    | -   | -               | 9,082                  | 8,809                  |
| Gross income from rents & service charges                               | 756                            | 23,625                                   | 39  | 39              | 24,420                 | 23,802                 |
| Less: Voids   | (6)                            | (593)                                    | -   | -               | (599)                  | (740)                  |
| <b>Net income from rents &amp; service charges</b>                      | <b>750</b>                     | <b>23,032</b>                            | <b>39</b>                                 | <b>39</b>       | <b>23,821</b>          | <b>23,062</b>          |
| Other Revenue Grants  | -                              | 506                                      | -   | -               | 506                    | 485                    |
| Revenue Grants from Scottish Ministers                                  | -                              | -  | -   | -               | -                      | -                      |
| Grant released from deferred income                                     | 108                            | 2,482                                    | 22  | 22              | 2,612                  | 2,792                  |
| <b>Total turnover from affordable letting activities</b>                | <b>858</b>                     | <b>26,020</b>                            | <b>61</b>                                 | <b>61</b>       | <b>26,939</b>          | <b>26,339</b>          |
| Management & maintenance administration costs                           | 153                            | 4,151                                    | 15  | 15              | 4,319                  | 4,654                  |
| Service costs   | 72                             | 9,315                                    | -   | -               | 9,387                  | 9,175                  |
| Planned and cyclical maintenance including major repairs costs          | 70                             | 3,097                                    | -   | -               | 3,167                  | 2,337                  |
| Reactive maintenance costs  | 82                             | 2,489                                    | -   | -               | 2,571                  | 2,029                  |
| Bad debts - rents and service charges                                   | -                              | 43                                       | -   | -               | 43                     | 34                     |
| Depreciation of affordable housing                                      | 182                            | 4,464                                    | 26  | 26              | 4,672                  | 4,539                  |
| Impairment of affordable housing  | -                              | -  | -   | -               | -                      | -                      |
| <b>Operating Costs for affordable letting activities</b>                | <b>559</b>                     | <b>23,559</b>                            | <b>41</b>                                 | <b>41</b>       | <b>24,159</b>          | <b>22,768</b>          |
| <b>Operating Surplus for affordable letting</b>                         | <b>299</b>                     | <b>2,461</b>                             | <b>20</b>                                 | <b>20</b>       | <b>2,780</b>           | <b>3,571</b>           |
| Operating Surplus for affordable letting for previous period of account | 219                            | 3,321                                    | 31  | 31              | 3,571                  | -                      |

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

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

|   | Grants from Scottish Ministers<br>£'000 | Other revenue grants<br>£'000 | Supporting people income<br>£'000 | Other income<br>£'000 | Total turnover<br>£'000 | Operating costs bad debts<br>£'000 | Other operating costs<br>£'000 | 2016 Surplus/(deficit) for the year<br>£'000 | 2015 Surplus/(deficit) for the year<br>£'000 |
|---|---|-------------------------------|-----------------------------------|-----------------------|-------------------------|------------------------------------|--------------------------------|--|--|
| Wider Role Activities   | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Care & Repair of Property                                       | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Investment property activities                                  | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Factoring   | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Support Activities  | -                                       | -                             | 2,384                             | -                     | 2,384                   | -                                  | (1,836)                        | 322  | 315  |
| Care Activities   | -                                       | -                             | -                                 | 571                   | 571                     | -                                  | (452)                          | 119  | (18)   |
| Contracted out services for RSLs                                | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | 5  |
| Contracted out services for other organisations                 | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Developments for sale to RSLs                                   | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Developments & improvements for sale to other organisations     | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Uncapitalised development administration costs                  | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Telecare  | -                                       | -                             | -                                 | -                     | -                       | -                                  | -                              | -  | -  |
| Stage 3 Adaptations   | -                                       | 331                           | -                                 | 1,016                 | 1,016                   | -                                  | (831)                          | 185  | 110  |
| Other Activities*   | -                                       | -                             | -                                 | 629                   | 629                     | -                                  | (230)                          | 399  | (95)   |
| <b>Total from Other Activities</b>                              | -                                       | <b>331</b>                    | <b>2,384</b>                      | <b>4,052</b>          | <b>6,767</b>            | -                                  | <b>(5,742)</b>                 | <b>1,025</b>                                 | <b>317</b>                                   |
| <b>Total from other activities for year ended 31 March 2015</b> | -                                       | <b>354</b>                    | <b>2,544</b>                      | <b>3,583</b>          | <b>6,481</b>            | -                                  | <b>(6,164)</b>                 | <b>317</b>                                   |  |

\* Under other activities -- no single activity exceeds £250k or 5% of turnover.

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2016

## 4 Key Managements' Emoluments

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

|  | 2016  | 2015  |
|--|-------|-------|
|  | £'000 | £'000 |
| Total emoluments for the above key management personnel (excluding pension contributions and benefits in kind) | 362   | 491   |
| The emoluments (excluding pension contributions) of the Chief Executive amounted to :                          | 104   | 102   |

The number of key management personnel, who received emoluments (excluding pension contributions) in excess of £60,000 were within the following ranges:

|                      | No. of Key Mgt Personnel | No. of Key Mgt Personnel |
|----------------------|--------------------------|--------------------------|
| £60,001 to £65,000   | 1                        | -                        |
| £65,001 to £70,000   | 1                        | 2                        |
| £70,001 to £75,000   | 2                        | -                        |
| £95,001 to £100,000  | -                        | -                        |
| £100,001 to £105,000 | 1                        | 2                        |

The Association made pension contributions of £100,516 (2015: £67,783) on behalf of those key management personnel whose

total emoluments, excluding pension contributions, are in excess of £60,000 per annum, including £20,067 to the highest paid.

The Board had a membership of 12 as at 31 March 2016 and a maximum of 13 members during the year. No payment of fees or other remuneration was made to the members during the year.

|  | 2016  | 2015  |
|--|-------|-------|
|  | £'000 | £'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:

|  |   |   |
|--|---|---|
|  | 2 | 3 |
|--|---|---|

## 5 Employee Information

The average monthly full time equivalent number of persons (including key management personnel) employed in the year was:

|  | 2016 | 2015 |
|--|------|------|
|  | No.  | No.  |
| The average number of persons (including key management personnel) employed in the year was: | 382  | 375  |
|  | 512  | 505  |

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

| 5 Employee Information (continued)                            | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Staff costs (including key management personnel's emoluments) | 9,561         | 9,253         |
| Wages and salaries  | 628           | 619           |
| Social security costs   | 601           | 1,572         |
| Pension costs   | 8             | 9             |
| BUPA  | <u>10,798</u> | <u>11,453</u> |

Payments to the value of £77,130 in respect of redundancy costs are included within the totals for staff costs.

| Average FTE Employees per Month | 2016 | 2015 |
|---------------------------------|------|------|
| Apr-15                          | 382  | 381  |
| May-15                          | 381  | 379  |
| Jun-15                          | 381  | 381  |
| Jul-15                          | 379  | 378  |
| Aug-15                          | 382  | 399  |
| Sep-15                          | 385  | 383  |

| 6 Operating Surplus  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Operating surplus is stated after charging/<br>(crediting) |               |               |
| Depreciation   | 5,097         | 4,946         |
| Grant amortisation   | (2,613)       | (2,665)       |

|  |       |       |
|--|-------|-------|
| Repairs: cyclical, planned, day to day                               | 5,738 | 4,366 |
| Auditors' remuneration - external                                    | 24    | 19    |
| Auditors' remuneration - internal                                    | 19    | 15    |
| Hire of plant and machinery - rentals payable under operating leases | 161   | 153   |

| 7 Interest receivable and other income | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Interest receivable on bank deposits   | <u>52</u>     | <u>62</u>     |

| 8 Interest payable and similar charges                                    | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Housing loans:  |               |               |
| On loans from banks and building societies repayable in more than 5 years | 929           | 880           |
| Interest on owner occupier funds  | 10            | 8             |
| Net return on pension assets  | 66            | 11            |
| Unwinding of discounted liabilities-pension provisions                    | 330           | 493           |
|   | <u>1,335</u>  | <u>1,392</u>  |

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2016

## 9 Fixed Assets

|                          | Social Housing Properties |                  |               |                    |         | Total housing | Heritable Office Property | Computer & leased equipment | Total other | Intangible Fixed Assets |
|--------------------------|---------------------------|------------------|---------------|--------------------|---------|---------------|---------------------------|-----------------------------|-------------|-------------------------|
|                          | Held for letting          | Shared ownership | Shared Equity | Under construction |         |               |                           |                             |             |                         |
| Cost                     | £'000                     | £'000            | £'000         | £'000              | £'000   | £'000         | £'000                     | £'000                       | £'000       |                         |
| At 1 April 2015          | 208,940                   | 485              | 1,059         | 1,662              | 212,146 | 6,720         | 1,933                     | 8,653                       | 1,475       |                         |
| Additions in the year    | 3,566                     | -                | -             | 8,991              | 12,557  | 6             | 103                       | 110                         | 234         |                         |
| Transfers in the year    | 28                        | -                | -             | (28)               | -       | -             | -                         | -                           | -           |                         |
| Disposals in the year    | (2,038)                   | (37)             | -             | -                  | (2,075) | (6)           | (966)                     | (972)                       | (611)       |                         |
| At 31 March 2016         | 210,496                   | 448              | 1,059         | 10,625             | 222,628 | 6,720         | 1,070                     | 7,790                       | 1,098       |                         |
| <b>Depreciation</b>      |                           |                  |               |                    |         |               |                           |                             |             |                         |
| At 1 April 2015          | 75,034                    | 167              | 509           | -                  | 75,710  | 1,438         | 1,578                     | 3016                        | 849         |                         |
| Provided during the year | 4,646                     | 7                | 18            | -                  | 4,671   | 142           | 257                       | 399                         | 27          |                         |
| Disposals in the year    | (1,458)                   | (11)             | -             | -                  | (1,469) | (6)           | (966)                     | (972)                       | (611)       |                         |
| At 31 March 2016         | 78,222                    | 163              | 527           | -                  | 78,912  | 1,574         | 869                       | 2,443                       | 265         |                         |
| <b>Net book value</b>    |                           |                  |               |                    |         |               |                           |                             |             |                         |
| at 31 March 2015         | 133,906                   | 318              | 550           | 1,662              | 136,436 | 5,282         | 355                       | 5,637                       | 626         |                         |
| at 31 March 2016         | 132,274                   | 285              | 532           | 10,625             | 143,716 | 5,146         | 201                       | 5,347                       | 833         |                         |

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### 9 Tangible Fixed Assets (continued)

a) The Association has received £330,932 (2015: £354,134) in the year in respect of Housing Association Grant for Adaptations of which £330,932 (2015: £354,134) has been treated as revenue and £nil (2015: £nil) was capitalised in the Statement of Financial Position. No grants were received in the year for Major Repairs.

b) Notwithstanding the Statement of Financial Position, the Association undertook a programme of property valuations in 2015. The average value of each unit was £26,300, using the existing use criteria. This compares to an average net book value of £13,500 per unit.

c) For major repairs during the year the Association spent £5.531m (2015: £6.978m); £3.566m (2015: £4.441m) was capitalised for replacement components; and £1.965m (2015: £0.973m) was expensed through operating costs in the Statement of Comprehensive Income. A further £nil (2015: £1.564m) of additions relate to improvements.

d) Development administration costs capitalised in the year amounted to £159,292 (2015: £292,394).

e) Interest capitalised in the year amounted to £nil (2015: £nil).

f) Shares were held at nil cost from Barclays plc. Market value of 104 shares at 31 March 2016 is £155 (2015: £252). Also 89 shares in Banco Santander were held at nil cost. The market value of these shares at 31 March 2016 is £269 (2015: £448).

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

### 10 Debtors

| 2016  | 2015  |
|-------|-------|
| £'000 | £'000 |
| 2,912 | 1,676 |

Amounts falling due within one year:

|                          |      |      |
|--------------------------|------|------|
| Rental debtors           | 481  | 481  |
| Less: bad debt provision | (30) | (14) |
|                          | 451  | 467  |

|                |       |     |
|----------------|-------|-----|
| HAG receivable | 1,390 | 469 |
|----------------|-------|-----|

|                                |     |     |
|--------------------------------|-----|-----|
| Owners service charge balances | 54  | 79  |
| Other debtors                  | 525 | 387 |

|                                |     |     |
|--------------------------------|-----|-----|
| Prepayments and accrued income | 492 | 274 |
|--------------------------------|-----|-----|

|  |       |       |
|--|-------|-------|
|  | 2,912 | 1,676 |
|--|-------|-------|

### 11 Cash and Cash Equivalents

| 2016  | 2015  |
|-------|-------|
| £'000 | £'000 |
| 3,183 | 4,915 |

Cash and cash equivalents

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2016

|   | 12 Creditors: Amounts Falling Due Within One Year |               | 13 Creditors: Amounts Falling Due After More Than One Year |               |
|---|---|---------------|--|---------------|
|   | 2016<br>£'000                                     | 2015<br>£'000 | 2016<br>£'000  | 2015<br>£'000 |
| Loan repayments: instalments of principal (see note 13) | 621   | 616           |  |               |
| Deferred capital grants (see note 16)                   | 2,723   | 2,613         | 19,399   | 17,271        |
| Owners' funds (see note 13)                             | 359   | 410           | 80,667   | 78,840        |
| Owners service charge balances                          | 123   | 81            | 623  | 516           |
| Corporation Tax   | 6   | 9             | 52   | 52            |
| Other taxation and social security                      | 217   | 194           |  |               |
| Development 'work in progress' accruals                 | 212   | 27            |  |               |
| Accruals and deferred income                            | 1,296   | 1,589         |  |               |
| Rent in advance   | 98  | 101           |  |               |
| Other creditors   | 2,796   | 1,702         |  |               |
|   | <u>8,451</u>                                      | <u>7,342</u>  | <u>100,741</u>   | <u>96,679</u> |



# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

The Association's only debt constitutes the loans as below.

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. Residents funds receive interest of between 1% and 0.5% (2015: 1% and 0.5%).

### Loan instalments are due as follows:

|                            | 2016          | 2015          |
|----------------------------|---------------|---------------|
| Within one year (note 12)  | £'000         | £'000         |
| Between one and two years  | 621           | 616           |
| Between two and five years | 698           | 630           |
| In over five years         | 5,541         | 1,996         |
|                            | 13,160        | 14,645        |
|                            | <u>20,020</u> | <u>17,887</u> |

### Owners' Funds

|  | Balance at<br>31/03/15<br>£'000 | Expenditure<br>in year<br>£'000 | Provided<br>in year<br>£'000 | Balance at<br>31/03/16<br>£'000 |
|--|---------------------------------|---------------------------------|------------------------------|---------------------------------|
| Owners replacement of scheme equipment     | 131                             | (37)                            | 15                           | 109                             |
| Owner occupier repairs                     | 795                             | (425)                           | 503                          | 873                             |
|  | 926                             | (462)                           | 518                          | 982                             |
| split as follows :                         |                                 |                                 |                              |                                 |
| less than one year and included in note 12 | (410)                           |                                 |                              | (359)                           |
| more than one year                         | 516                             |                                 |                              | 623                             |

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

| 14 Share Capital                    | 2016       | 2015       |
|-------------------------------------|------------|------------|
|                                     | No.        | No.        |
| Opening share capital               | 320        | 311        |
| Shares allocated during the year    | 38         | 31         |
| Shares relinquished during the year | (18)       | (22)       |
| Closing share capital               | <u>340</u> | <u>320</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 2016.

| 15 a SHAPS Past Service Deficit Provision | 2016          | 2015          |
|---|---------------|---------------|
|   | £'000         | £'000         |
| Balance at 1 April 2015                   | 15,417        | 15,001        |
| Utilised in the year                      | (1,192)       | (1,157)       |
| Remeasurement                             | (58)          | 1,081         |
| Unwinding of discount                     | 329           | 492           |
|   | <u>14,496</u> | <u>15,417</u> |

The amount held within this provision represents an estimate of the future liability in respect of the Past Service Deficit of the SHAPS Scheme payable over the next 11.5 years.

| 15 b SHAPS Growth Plan Pension Provision | 2016      | 2015      |
|--|-----------|-----------|
|  | £'000     | £'000     |
| Balance at 1 April 2015                  | 53        | 56        |
| Utilised in the year                     | (6)       | (6)       |
| Remeasurement                            | 14        | 2         |
| Unwinding of discount                    | 1         | 1         |
| Balance at end of year                   | <u>62</u> | <u>53</u> |

The amount held within this provision represents an estimate of the future liability in respect of the Past Service Deficit of the SHAPS Growth Plan Scheme payable over the next 9.5 years. This was not provided for in 2015.

Total Provisions (a and b) 14,558 15,470

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### 16 Deferred Capital Grants

2016  
£'000

#### Grant

As at 1 April 2015 141,392  
Grant received in the year 5,051  
Grant repaid / abated in the year (823)  
As at 31 March 2016 145,620

#### Amortisation of Grant

As at 1 April 2015 59,939  
Grant released during the year 2,613  
Disposals / abatements (322)  
As at 31 March 2016 62,230

Net book value at 31 March 2015 81,453

Net book value at 31 March 2016 83,390  
Shown as:  
Amount to be released within one year 2,723  
Amount to be released after more than one year 80,667

### 17 Capital Commitments

Housing expenditure contracted less certified at 31 March 2016 amounted to £10.163m (2015: £6.567m). Expenditure authorised by the Board but not contracted at 31 March 2016 amounted to nil (2015: nil). Furthermore, the Board has authorised expenditure on

capitalised major repairs and replacement components amounting to £3.8m (2015: £4.494m).

In addition, the Board has authorised expenditure on other fixed assets amounting to £507k (2015: £539k), which includes the purchase of computer equipment and software.

The Association has a new loan facility with Lloyds Bank for £20m to finance the new build and asset management programme.

### 18 Leasing Commitments

|                                | 2016       | 2015       |
|--------------------------------|------------|------------|
| Operating leases which expire: |            |            |
| Between two and five years     | £'000      | £'000      |
|                                | <u>184</u> | <u>168</u> |

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

### 19 Pension Commitments

In 2015/16 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 operating costs, 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.

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

The estimate of total contributions payable by the Association in 2016/17 is £1,569k to the SHAPS scheme and £285k to the LPF scheme.

### Scottish Housing Associations Pension Scheme

#### General

The Association participates in the Scottish Housing Associations' Pension Scheme ('the Scheme'). The Scheme is a defined benefit scheme in the UK.

It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation of the scheme was carried out at 30 September 2012. This actuarial valuation showed assets of £394m, liabilities of £698m, and a deficit of £304m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions of £26.304m will be paid to the scheme per annum. These deficit contributions will be paid monthly and will increase by 3% each on 1<sup>st</sup> April. The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities.

Where the scheme is in deficit and where the Association has agreed to a deficit funding arrangement the Association recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate of 2.29% (2015: 2.22%). The discount rate used is the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions. The unwinding of the discount rate is recognised as a finance cost. At 31 March 2016 the present value of the Association's share of the deficit funding was £14.496m. This is held within provisions in the SOPF. This liability will be paid over the next 11.5 years. The amount to be paid in 2016/17 is £1.275m.

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### Growth Plan

The Association participates in the Pensions Trust's Growth Plan (the Plan). This is a multi-employer scheme. The scheme is a defined benefit scheme in the UK. It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The 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.

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

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

A full actuarial valuation for the scheme was carried out at 30 September 2014. This valuation showed assets of £793m, liabilities of £970m and a deficit of £177m. To eliminate this

funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme. The trustees and the participating employers have agreed that additional contributions of £13m will be paid to the scheme per annum. These deficit contributions will be paid monthly and will increase by 3% each on 1<sup>st</sup> April. The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities.

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.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate of 2.07% (2015 1.74%). The discount rate used is the equivalent single discount rate which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions. The unwinding of the discount rate is recognised as a finance cost. At 31 March 2016 the present value of the Association's share of the deficit funding was £62k. This is held within provisions in the SOPF. This liability will be paid over the next 9.5 years. The amount to be paid in 2016/17 is £6k.

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### Lothian Pension Fund

The Association participates in the Lothian Pension Fund ("the Scheme") and had 22 active members at the balance sheet date (17 active members in 2015).

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 20.4% 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 2014 by a professionally qualified actuary using the projected unit method. The results from that valuation have been projected forward to 31 March 2016 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 HRAM model, the proprietary stochastic asset model developed and maintained by Hymans Robertson LLP.

### Principal actuarial assumptions at the balance sheet date

|                           | 2016 | 2015 |
|---------------------------|------|------|
|                           | P.a. | P.a. |
| Pension increase rate     | 2.1% | 2.1% |
| Salary increase rate      | 4.1% | 4.0% |
| Expected return on assets | 4.9% | 3.1% |
| Discount rate             | 3.4% | 3.1% |

### Fair value of employer assets

|          | 2016        | 2015        |
|----------|-------------|-------------|
| Equities | £'000 2,972 | £'000 2,827 |
| Bonds    | 887         | 697         |
| Property | 399         | 328         |
| Cash     | 177         | 246         |

### Total Estimated Employer Assets

|       |       |
|-------|-------|
| 4,435 | 4,098 |
|-------|-------|

### Movement in deficit during the year

|  | 2016          | 2015          |
|--|---------------|---------------|
| Deficit in scheme at beginning of year | £'000 (2,151) | £'000 (1,412) |

### Movements during the year:

|                         |       |       |
|-------------------------|-------|-------|
| Current service cost    | (212) | (193) |
| Contributions paid      | 286   | 134   |
| Other finance costs     | (66)  | (59)  |
| Actuarial Gain / (loss) | 439   | (621) |

### Deficit at the year end

|                |                |
|----------------|----------------|
| <b>(1,704)</b> | <b>(2,151)</b> |
|----------------|----------------|

The amounts recognised in the balance sheet are as follows:

|       |       |
|-------|-------|
| £'000 | £'000 |
|-------|-------|

Present value of funded liabilities (6,118) (6,226)

Fair value of employer assets 4,435 4,098

Present value of unfunded liabilities (1,683) (2,128)

Deficit (21) (23)

Net Liability (1,704) (2,151)

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2016

| <b>Expense recognised in the statement of comprehensive income</b>  | 2016<br>£'000           | 2015<br>£'000           |
|---|-------------------------|-------------------------|
| Current service cost  | (212)                   | (193)                   |
| Losses/(Gains) on Curtailments and Settlements  | -                       | -                       |
| Net interest on net defined benefit obligations   | (66)                    | (11)                    |
|   | <u>(278)</u>            | <u>(204)</u>            |
| The expense is recognised in the following line items in the statement of comprehensive income              |                         |                         |
| Operating Costs   | 2016<br>£'000<br>29,894 | 2015<br>£'000<br>28,910 |
| Interest payable and financing costs  | 1,328                   | 1,391                   |
| <b>The total amount recognised in the statement of comprehensive income in respect of actuarial changes</b> |                         |                         |
| Actuarial gains / (losses)  | 2016<br>£'000<br>439    | 2015<br>£'000<br>(669)  |
| <b>Movements in present value of defined benefit obligation</b>   |                         |                         |
| Opening defined benefit obligation  | £'000<br>6,249          | £'000<br>3,850          |
| Current service cost  | 212                     | 193                     |
| Interest cost   | 195                     | 159                     |
| Contributions by members  | 51                      | 55                      |
| Actuarial (gains) / losses  | (362)                   | 2,195                   |
| Losses/ (gains) on curtailment  | -                       | -                       |
| Estimated unfunded benefits paid  | (1)                     | (1)                     |

| Estimated benefits paid   | (205)          | (202)          |
|---|----------------|----------------|
| <b>Closing defined benefit obligation</b>                         | <b>6,139</b>   | <b>6,249</b>   |
| <b>Movements in the fair value of plan assets are as follows:</b> |                |                |
| Opening fair value of employer assets                             | £'000<br>4,098 | £'000<br>2,438 |
| Expected return on assets   | 129            | 100            |
| Contributions by members  | 51             | 55             |
| Contributions by the employer                                     | 285            | 133            |
| Contributions in respect of unfunded benefits                     | 1              | 1              |
| Actuarial gains/ (losses)   | 77             | 1,574          |
| Estimated unfunded benefits paid                                  | (1)            | (1)            |
| Estimated benefits paid   | (205)          | (202)          |
| <b>Closing fair value of employer assets</b>                      | <b>4,435</b>   | <b>4,098</b>   |

## 20 Taxation

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| <b>UK Corporation Tax Charge</b>                 |              |              |
| Based on the results for the year                | 6            | 9            |
| <b>Total Current tax</b>                         | <u>6</u>     | <u>9</u>     |
| <b>Factors affecting tax charge for the year</b> |              |              |
| Surplus on ordinary activities before taxation   | 2,455        | 2,590        |
| Expected tax charge at 20% (2015: 20%)           | 491          | 518          |
| Exempt charitable activities                     | (485)        | (509)        |
| <b>Current tax charge</b>                        | <u>6</u>     | <u>9</u>     |

# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### 21 Housing Stock

No. No.

The number of units in management as at 31 March 2016, was as follows:

|  | 2016<br>No.  | 2015<br>No.  |
|--|--------------|--------------|
| Rented - General needs housing           | 181          | 181          |
| Rented - Supported housing accommodation | 3894         | 3,935        |
| Shared ownership                         | 23           | 24           |
| Shared equity                            | 88           | 88           |
| Owner occupied                           | 1,096        | 1,095        |
| Totals                                   | <u>5,282</u> | <u>5,323</u> |

The number of units in development as at 31 March 2016, was as follows:

|  | 2016<br>No. | 2015<br>No. |
|--|-------------|-------------|
| Rented - General Needs housing           | 22          | 22          |
| Rented - Supported housing accommodation | 51          | 39          |
|  | <u>73</u>   | <u>61</u>   |

### 22 Average Annual Scottish Secure Tenancy Rents

|  | 2016<br>£    | 2015<br>£    |
|--|--------------|--------------|
| Average annual Scottish secure tenancy rents for housing accommodation | <u>3,735</u> | <u>3,601</u> |
|  | %            | %            |
| Percentage increase/(decrease) from previous year                      | <u>3.5%</u>  | <u>2.6%</u>  |

Number of Scottish secure tenancies 3,932 3,897

### 23 Group Structure

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

### 24 Related Party Transactions

There were no related party transactions in the year.

### 25 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, depending on whether Series 3 liabilities should be included or excluded.

The Board is not aware of any other contingent liabilities as at 31 March 2016 and no other liabilities have emerged since.



# Hanover (Scotland) Housing Association Limited

## Notes to the Financial Statements for the year ended 31 March 2016

### 26 Post Balance Sheet Events

The Board is not aware of any post balance sheet events, which affect the Association as at 31 March 2016.

### 27 First Time Adoption of FRS102

The financial statements have been prepared in accordance with FRS102 for the year ended 31 March 2016. The transition to FRS102 has impacted on the following accounting policies adopted, and statements, and as such the comparative figures have been restated accordingly.

#### 1. Grant Accounting

Previously all capital grants received were netted off against the cost of housing properties. In line with FRS102 and SORP 2014 capital government grants are now treated under the accrual model and as such are shown as deferred income and amortised to income over the useful life of the housing structure and it's individual components (excluding land) on a pro rata basis.

#### 2. Depreciation of Housing Properties

Previously depreciation on housing properties was calculated on the net cost of properties after capital grant. In line with FRS102 and as noted in a) above, grants are no longer netted off against the cost of housing properties and as such depreciation is now calculated on the gross cost of housing properties.

#### 3. SHAPS Pension Scheme

The Association participates in the multi-employer defined benefit Scottish Housing Association Pension Scheme (SHAPS). Under FRS102 a contractual agreement under a multi-employer defined

benefit pension scheme to fund a past deficit should be accrued for as a liability discounted to net present value. As at 31 March 2015 this liability was calculated as amounting to £15.417m. Also at 31 March 2016 the Association's liability in respect of the SHAPS Growth Plan amounted to £53k.

When adopting the policies noted in 1 and 2 above, some small adjustments were required to reconcile the values held in SOFP for housing properties and government grants to the fixed asset register.

#### 4. The Statement of Cash Flows

Under FRS102, the Statement of Cash Flows presents changes in cash and cash equivalents (which include cash in hand, deposits repayable on demand and overdrafts and short-term, highly liquid investments), showing changes arising from operating activities, investing activities and financing activities separately. Under previous UK GAAP, the Cash Flow Statement presented changes in cash (which includes cash in hand, deposits repayable on demand and overdrafts) under the headings of operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources, and financing.

The reconciliation of the reported 2015 financial statements to the restated financial statements under FRS102 is detailed below.

# Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2016

|   | <u>1 April</u><br>2014<br>£'000 | <u>31 March</u><br>2015<br>£'000 |
|---|---------------------------------|----------------------------------|
| Reserves as previously reported under UK GAAP           | 34,684                          | 36,667                           |
| Grant Accounting  | 1.                              | 12,102                           |
| Depreciation  | 2.                              | (5,653)                          |
| SHAPS Pension   | 3.                              | (15,470)                         |
| Reserves reported under FRS102                          | <u>25,731</u>                   | <u>27,646</u>                    |
| <u>Reconciliation of Surplus or Deficit</u>             |                                 | <u>31 March 2015</u><br>£'000    |
| Surplus /(deficit) as previously reported under UK GAAP |                                 | 2,652                            |
| Grant Accounting  | 1.                              | 2,797                            |
| Depreciation  | 2.                              | (2,452)                          |
| SHAPS Pension   | 3.                              | (413)                            |
| Surplus/deficit reported under FRS102                   |                                 | <u>2,584</u>                     |