Hanover (Scotland) Housing Association Limited

HANOVER SCOTLAND

Financial statements
for the year ended 31 March 2018

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
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 2018

Hanover (Scotland) Housing Association Limited

The Board Members

Michael Martin (Chairperson)

Gary Devlin ACA CPFA

Derek Fothergill

Oonagh Gil MRTPI

Susan Hamilton MBA CPFA CIRM (resigned 8 June 2017)

Stephen Lithgow (appointed by the Board 30 November 2017)

Ann MacDonald MCIH (resigned 28 September 2017)

Fraser Mitchell (co-opted 30 November 2017)

Prof Sir Geoffrey Palmer Kt OBE DSc

Prof Alison Petch

Neil Rennick BArch (Hons) (resigned 30 November 2017)

James Rowney (elected 28 September 2017)

Alan Savage (Vice Chairperson) (resigned 28 September 2017)

Margaret Whoriskey (co-opted 15 March 2018)

Catherine Wyllie BA CA (Vice Chairperson) (elected 28 September 2017)

Officers

Helen Murdoch MBA FCIH MRICS ACIPD
Chief Executive

Adam Curry BA (Hons) ACIPD
Director of Organisational Services

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

Karen McIntosh FCCA
Director of Strategic Finance

Christopher Milburn MBA MBCS
Director of Customer Services

Claire Kennedy LLB (Hons) DipLP
Company Secretary

Hanover (Scotland) Housing Association Limited

Review by the Board

Year ended 31 March 2018

Report of the Board incorporating the Strategic Report for the period ended 31 March 2018

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 5,400 properties across 24 Scottish local authority areas.

Governance and the Board

The Association is regulated by the Scottish Housing Regulator and managed by an elected Board of Management (the Board). The Association has 320 (2017: 317) members, each of whom holds a single fully-paid £1 share. It is 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.

The Board has overall responsibility for managing the Association and is supported by the Audit Committee, which has specific responsibility for overseeing the integrity of the financial and non financial controls and reporting, including internal and external audit and risk management. This structure strengthens the Board and the control of Hanover's strategic direction and provides a more focused, flexible, streamlined and efficient structure.

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

Strategy and objectives

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.'*

Review by the Board
Year ended 31 March 2018

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 either Sheltered or Enhanced housing where residents live independently with support and assurance provided locally. We are also a leading provider of Very Sheltered and Extra Care 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.

In order to measure progress towards the priority actions in the strategic business plan, a new Corporate Performance Framework was developed in 2017. This reporting mechanism to the Board will not only report on progress on our Strategic Objectives but will provide benchmarking of our key performance compared to other providers in the sector through information from our participation in both Scottish Housing Network and Housemark Scotland.

Market
Scotland's older population is growing and the number of people of pensionable age is projected to increase by 28% compared to 2014 figures, reaching 1.36 million by 2039. In particular, the fastest increases will be in those aged 75+ who are the most intensive users of health and care services. By 2039 there could be over 800,000 people aged 75+ living in Scotland, an 85% increase over the 25 year period from 2014 – housing for the elderly is 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 comfortably 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 reprovisioning 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 contracting environment for care and support remains challenging but despite this the Association secured contract extensions and new contracts for care and support activities, generating income of £1.6 million in 2017-18 (2016-17: £0.9m). We plan to expand further integrated care services in 2018/19 and beyond, as suitable and financially sustainable opportunities arise.

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. Of a recent poll of 2,000 members of the Scottish public, 21% were aware of Hanover. Over the next three years the Marketing Plan will aim to: strengthen and increase awareness of the Hanover brand and reputation; assist in achieving its objectives; and enhance engagement with our staff and customers.

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 heath 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. Initial meetings have been held with several Integrated Joint Boards (IJBs) who have acknowledged the role that housing will play in the delivery of integrated care and support and further discussions are planned over the next year.

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. This funding has reduced from £2m in 2016/17 to £1.7m this year. 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 proactively, in consultation with residents and in collaboration with local authorities, withdrawn most housing support services 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.

The withdrawal of Housing Support funding by some local authorities is now also affecting some of our Very Sheltered stock. In consultation with our residents and through collaboration with local authorities we are redesigning the services provided to ensure that we can continue to provide the high level of services required by our residents and that the service remains financially viable for the long term.

Performance Management

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 through the performance management process, WorkPlanning. The process has evolved over the past year and is based on the principles of setting agile objectives that link to strategic priorities, providing developmental feedback and focussing learning and development on personal and professional growth. Through listening to user feedback, the system has been through continuous improvement to make it more efficient and user friendly. It now incorporates standardised behaviours for much of our development based staff to make the process of measuring and managing behaviours more effective.

The senior management team has developed a series of key performance indicators for Hanover some of which are noted in the table below.

Summary of Performance Objectives	Actual 2017-18	Target 2017-18
Housing and Repairs Services		
Average time to relet properties - days	30.0	25.0
Void loss as % of rental and service charge income	2.0%	2.0%
Arrears as a % of rent and service charge income (net of HB)	0.72%	0.25%
Emergency Repairs - Average time to Complete - hours	3.5	6
Non Emergency Urgent Repairs - Average time to Complete – Days	4.4	6
Repairs carried out right first time	95.1%	98%
Complaints Handling		
Stage 1 complaints responded to in SPSO timescale	91.4%	95%
Stage 2 complaints responded to in SPSO timescale	94.0%	98%
Employee Performance		
% of staff turnover	15.5%	10%
% of days lost through staff sickness	4.1%	5%

Review by the Board
Year ended 31 March 2018

The Association is a member of the Housemark benchmarking club which provides the Association with benchmark reporting that compares overall effectiveness of the services provided compared to a comparator peer group.

Last year Hanover took part in a newly developed Sector Scorecard that measures 15 financial, operational and outcome-based indicators that provides all stakeholders with a holistic overview of performance. Hanover were upper quartile in 4 areas measuring development capacity and outcomes delivered, the highest number of upper quartile placings was 6 out of the 15.

The Sector Scorecard highlighted that the Association is in the lower quartile for operating margin which arguably demonstrates that the Association is balancing viability for Hanover with affordability for our residents.

Financial and Non Financial Performance
The purpose of this section is to provide an appropriate assessment of the performance of the Association over 2017-18.

The Associations key strategic objectives include remaining financially viable, delivering value for money and achieving a financial surplus to meet our long term commitments. 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 £4.5m (2017: £11.9m). In 2016-17 the operating surplus of £11.9m included £7.4m attributable to the re-measurement of the provision on the SHAPS past service. The surplus due to operating activities was £4.5m.

Turnover increased by almost 3% to £36.3m and operating costs increased by 3.6% to £31.9m. Operating costs include expenditure on care (£1.5m) and maintenance of our properties of £4.5m. The total investment on all maintenance including capital replacement was £8.1m.

Income from rent and service charges (note 3a) increased by 4.9% and reflects the rent increases applied in April 2017 together with rent and service charges received on our new build properties completed during the year. Turnover from other activities, excluding the planned withdrawal from housing support increased by £570k.

The funds available to meet interest due on loans were more than adequate and all interest cover covenants have been met. The overall surplus for the year, after interest charges on loans, was £3.3m.

The Statement of Financial Position continues to show a position of overall strength, including an increase in reserves.

Gearing is measured in terms of total gross borrowing compared with net worth. Following the transition to FRS102 in 2016, one of the Association's lenders have agreed new definitions for valuing net worth in the borrowing agreements, the 2017 figures have been restated. The current position at 13.4% (2017 restated: 11.8%), provides considerable comfort in terms of ability to continue borrowing to fund future developments. The pre FRS102 calculation (20.4%) has also been noted until all banks have revised the basis of calculation, this figure also provides comfort in ability to continue borrowing.

Review by the Board
Year ended 31 March 2018

The cash outflow in 2017/18 was just over £4.3m utilising the high cash balance held at the end of March 2017. The cash inflow of £5.8m from operating activities is £0.8m less than the figure for the prior year.

The Board considers the financial results of the Association for the year ended 31 March 2018 to be very positive and demonstrate the financal strength of the organisation.

Financial Performance Headlines

	2018	2017	2016
Statement of Comprehensive Income	**£'000**	**£'000**	**£'000**
Turnover	36,289	35,269	33,706
Operating Surplus after removal of SHAPS remeasurement and repayment during the year	3,204	3,296	3,805
Adjusted Operating Surplus[1]	2,144	1,419	2,351
Interest Payable (inc capitalised interest)	1,114	1,116	939
Net surplus	1,993	2,083	2,452
Statement of Financial Position			
Total Fixed Assets net of depreciation	162,631	158,756	149,896
Housing Association Grant	82,770	83,706	83,390
Total Pension Liabilities	6,887	7,668	16,262
Total Loan Debt (before deferred charges netted off)	27,943	28,641	20,271
Total Reserves	44,298	41,463	30,537
Statistical Performance	**2018**	**2017**	**2016**
Adjusted Operating Surplus as % of Turnover	5.9%	4.0%	7.0%
Interest Cover	192.5%	127.2%	250.4%
Net surplus as a % of turnover	5.5%	5.9%	7.3%
Gearing restated post FRS102 agreement	13.4%	11.8%	
Gearing pre FRS102	20.4%	17.8%	15.0%

[1] Adjusted operating surplus includes expenditure on capitalised maintenance and net of property depreciation and grant amortisation

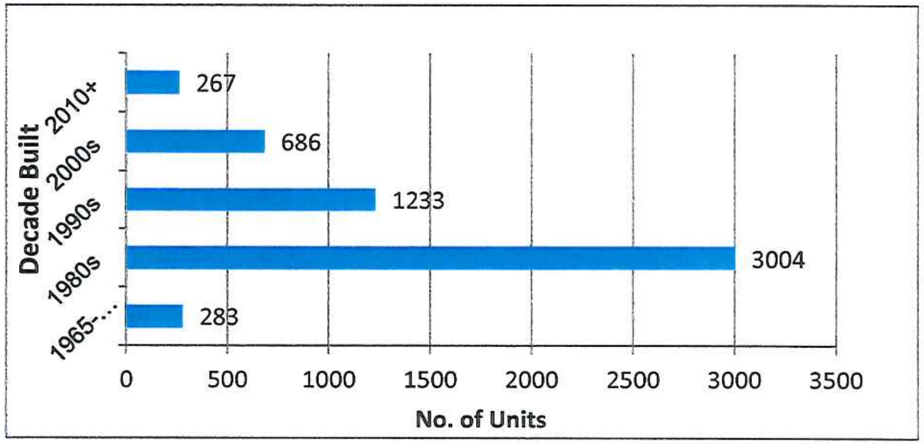
Review by the Board
Year ended 31 March 2018

Housing Management
The average void re-let period this year was 30 days (2017: 30 days) with a void rent and service charge loss of £648k (2017: £422k). Although the loss on voids has risen substantially this year £98k is in respect of properties being held for redevelopment and/or remodelling.

Maintenance
The Association seeks to maintain its properties to the highest standard. Reactive maintenance is carried out in accordance with our published response targets. There were 15,705 (2017:15,592) reactive repairs carried out in the year with 95.1% (2017: 95.7%) completed right first time against a target of 98%. This equates to an average of 3.85 (2017: 3.83) repairs per property at an average cost of £170 (2017: £167) per reactive repair.

Housing Assets
The Association manages over 5,400 properties, of which we own over 4,200. The remainder are managed on behalf of individual owners. Note 21 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. The majority of our stock is between 25 and 35 years old, and has reached an age profile that now requires significant investment to maintain it to modern standards. Over the next five years, the Association is planning to invest £30 million on major repairs and component replacement in its stock.

Programmes of cyclical repairs and planned maintenance are carried over a long planning cycle and cover 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.



Total expenditure on revenue repairs and maintenance in the year was £4.5m (2017: £5m), with a further £3.6m of expenditure on our capital investment programme (2017: £3.9m). This investment results in our residents benefitting from new kitchens, bathrooms, doors, windows and heating systems.

We received Scottish Government grants of £328k (2017: £355k) for the adaptation of 105 (2017:139) properties to meet the needs of tenants as they become more frail. The level of funding from the

Scottish Government to meet adaptations has fallen slightly. 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 intend to increase our efforts in demonstrating to others the benefits of this funding in an attempt to persuade the Scottish Government to increase and not to reduce this valuable resource.

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 Development

The strong Statement of Financial Position and growing asset base are key factors that enabled us to raise additional funding in October 2015 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 have generally increased over the past five years, driven mainly by organic growth.

During the 12 months ended 31 March 2018, the Association completed 3 new developments totalling 61 new units. Of these, the Association delivered another innovative development of 30 flats with high quality Extra Care services. Currently work is underway on 3 further developments providing 82 new units; with 2 developments, 38 units due for completion by March 2019.

The Board welcomed the announcement by the UK Government in October 2017 that the Local Housing Allowance (LHA) cap would not be applied to supported housing. The previous proposal to cap social housing rent and service charges to the LHA was likely to present significant challenges in the revenue funding of specialist housing and therefore impact on our future development plans. Whilst the application of the LHA cap has been removed the Board await further annoucements on future revenue funding for supported accommodation. 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.

These housing assets are included on the Statement of Financial Position (SOFP) at £156.5 million (2017: £152.7 million), which is gross historical cost less depreciation. Housing Association Grant is included as deferred income and stands at £82.8 million (2017: £83.7 million).

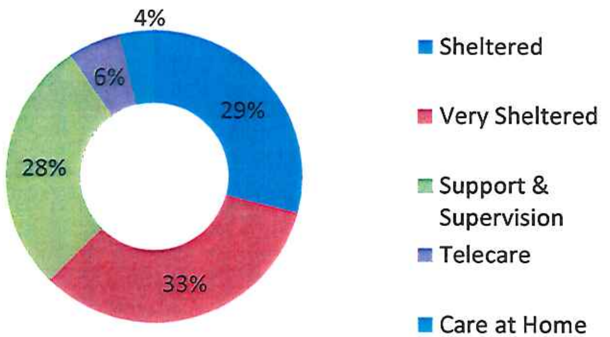
Details of fixed assets are set out in Note 9.

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. This was in evidence by the Association completing a Job Evaluation and Market Comparability exercise during 2016-17 with a marginal impact on staff costs.

During 2017/18, the average number of staff employed by the Association was 567 (2016/17: 540), a full-time equivalent of 427 (2016/17: 400). The split of staff employed across the services is as shown below. The increase in staff are providing services in the very sheltered and care sector.

Figure 1



During the year Hanover worked with HiveHR on developing a new staff enagagement survey "The Voice". It was launched in February 2018 and is aimed at understanding how engaged staff feel with Hanover. This major consultation process will reveal opinions on how meaningful is work to individuals, how positive is the work environment, is there trust in leadership, are there opportunities to grow capabilities. After analysing the results, action plans will focus activities on areas that would benefit from greater staff involvement. There will be a tie in with our IIP assessment and the combined results will inform our approach to leadership and management development, staff empowerment and organisational development.

Pension Strategy

In November 2015, 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 had 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. In May 2016, the Board agreed to close the Lothian Pension Fund to new entrants. The default pension scheme for all new staff is the SHAPS Defined Contribution scheme or the Scottish Widows Group Personal Pension for auto enrolment to meet the Association's legislative requirements for pension provision.

Customer Engagement

Hanover's Board approved a new Customer Engagement Strategy in December 2016 and a Customer Scrutiny Strategy in November 2017. The objectives detailed in these strategies are being implemented and have relaunched our customer engagement and scrutiny activities. We now have mechanisms in place to ensure that our customer's voice is heard and that customers have opportunities to participate in a variety of ways. The creation of our Hanover HEART scrutiny panel has enabled increased tenant interaction with our Board. We also operate a well-established volunteering programme to assist in providing vulnerable customers with access to a range of additional services, such as befriending. Our Volunteer Coordinator has also been successful in obtaining grant funding for some of the social activities we are running for the benefit of our customers.

Information and Communications Technology (ICT)

The 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 Strategy is focused on 'Digital by Default' initiatives to ensure that wherever possible the Association leverages the benefits of the use of ICT alongside improved 'Digital Inclusion' for both customers and staff. This will ensure that the engagement of stakeholders with Hanover is facilitated and barriers are removed. Digital Inclusion work includes the on-going roll out of WiFi to communal areas on our developments which is encouraging the use of new technology amongst our customers. A programme of work has also been undertaken to provide an increasing number of staff with the facilities required to enable them to work from home, which provided particularly useful during the inclement weather at the end of February 2018.

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. The Association has detailed policies on health and safety including evacuation plans for our offices and developments and provides staff training on these areas.

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 28 to 33.

Revenue Reserves

The revenue reserve represents our accumulated surpluses. In light of the 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. The Statement of Changes to Reserves are provided on page 23.

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. The Association has £8m 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 2018 57% of the debt portfolio was at a fixed rate (2017: 58%).

Creditor Payment Policy
This policy's intention is to comply with the Confederation of British Industry guidelines, 30 days.

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 - 17. The financial position of the Association, its cash flows, liquidity position and borrowing facilities are described on pages 24 - 27 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 undrawn loan facilities 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.

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
Failure to comply with General Data Protection Regulation (GDPR) If the Association fails in compliance with the new General Data Protection Regulations coming into force in May 2018 then this could have a significant reputational and financial impact on the Association.	• Ensuring key decision makers and staff are aware of the changes in the law • Carrying out an information audit across the organisation • Awareness and training sessions with Data Protection specialists to identify any changes required in current procedures, practices and processes • Create an action plan and implement by the end of the year
Reduction in income or increased costs outwith the Association's control If there is a reduction in income as a result of: Welfare Reforms creating affordability issues for our customers; Supported Housing not being exempt from capping of Housing Benefit; reductions in Housing Support from Local authorities; or increased costs, then this could increase pressure on the Association's viability.	• Provide a Welfare Benefits Service to ensure customers access full benefit entitlements • Pro-active lobbying for exemption of supported housing for welfare benefits • Understanding the potential impact via financial modelling of the capping housing benefit for supported housing • Review and redesign service models to ensure we respond to changes in expectation, demand and affordability • Housing Support exit strategy in place • Maximise income generation • Efficiency review – reduce costs and improve procurement
Failure to protect the Association against Cyber crime / Ransomware If Hanover failed to protect itself in the use of Information and Communications Technology then the Association may be at risk from the loss of data and/or systems that could have a significant reputational and financial impact.	• ICT systems and data are regularly backed up and copied offsite • Anti-virus, firewalls and email filtering software in place and updated regularly • Penetration testing of our internet footprint to provide assurance on the security and accessibility from external sources • Mandatory staff training and awareness of ICT security across the organisation • Implementation of ICT audit recommendations

Review by the Board
Year ended 31 March 2018

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 reasonable, and not absolute, assurance against material financial mis-statement or loss or failure to meet objectives. Key elements of the Association's systems include ensuring that:

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority which allow the monitoring of controls and restrict the unauthorised use of the Association's assets;
- experienced and suitably qualified staff take responsibility for the important business functions and annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the Management Team and Board to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;
- monthly management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, with significant variances from budget being investigated as appropriate;
- Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the Board;
- the Audit Committee receives reports from management and from the external and internal auditors, to provide reasonable assurance that control procedures are in place and are being followed, and that a general review of the major risks facing the Association is undertaken;
- formal procedures have been established for instituting appropriate action to correct any weakness identified through internal and external audit reports;
- and significant risks are identified, evaluated and managed, as previously outlined on page 14 of this review.

3. The Association's internal auditor was appointed in 2015 and the second 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. 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

[redacted]

Date: 12 July 2018

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

Opinion

We have audited the financial statements of Hanover (Scotland) Housing Association (the Association) for the year ended 31 March 2018 which comprise the statement of comprehensive income, statement of financial position, statement of changes in reserves, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;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 – December 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of the Board

As explained more fully in the Board's Responsibilities Statement set out on page 15, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities.This description forms part of our auditor's report.

Use of our report

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

[redacted]

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

Date: [redacted]

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 15 -17 concerning the Association's compliance with the information required by the Regulatory Standards for systemically important RSLs 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 15 -17 has provided the disclosures required by the relevant Regulatory Standards for systemically important RSLs 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.

[redacted]

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

Date: [redacted]

Hanover (Scotland) Housing Association Limited

Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Turnover	2	36,289	35,269
Less: Operating Costs	2	(31,853)	(30,744)
SHAPS Remeasurement of provision	15	44	7,360
Operating Surplus		4,480	11,885
(Loss) / Surplus on disposal of assets		(87)	69
Interest receivable and other income	7	4	19
Interest payable and financing costs	8	(1,127)	(1,297)
Surplus before taxation		3,270	10,676
Taxation	20	(1)	(4)
Surplus for the year		**3,269**	**10,672**
Actuarial (Loss) / Gain on pension obligations	19	(447)	267
Total comprehensive income for the year		**2,822**	**10,939**

The results for the year relate wholly to continuing activities.

The notes on pages 28 to 50 form part of these financial statements.

Statement of Changes in Reserves

	£'000
Income and Expenditure Reserve	
Balance at 1 April 2016	30,537
Surplus from the Statement of Comprehensive Income	10,672
Actuarial gain in respect of Pension Liability	267
Balance as at 31 March 2017	41,476
Surplus from the Statement of Comprehensive Income	3,269
Actuarial loss in respect of Pension Liability	(447)
Balance at 31 March 2018	44,298

Hanover (Scotland) Housing Association Limited

Statement of Financial Position at 31 March 2018

	Notes		2018		2017
Fixed Assets		£'000	£'000	£'000	£'000
Non-Current Assets:					
Intangible assets	9		635		791
Housing properties: Cost less depreciation	9		156,590		152,732
Other tangible fixed assets	9		5,406		5,233
Current Assets			162,631		158,756
Trade and other debtors	10	2,608		1,649	
Cash and cash equivalents	11	1,969		6,299	
		4,577		7,948	
Current Liabilities					
Creditors: Amounts falling due within one year	12	(8,604)		(8,259)	
Net Current Liabilities			(4,027)		(311)
Total Assets less Current Liabilities			158,604		158,445
Creditors: Amounts falling due after more than one year	13		(107,419)		(109,301)
Provisions	15		(5,068)		(6,284)
Pension Liability	19		(1,819)		(1,384)
Total Net Assets			44,298		41,476
Capital and Reserves					
Share Capital	14		-		-
Income and Expenditure Reserve			44,298		41,476
Total Reserves			44,298		41,476

The Board approved and authorised the financial statements for issue on 12 July 2018 and are signed on its behalf by:

Chairperson: [redacted]
Mike Martin

Board Member: [redacted]
Gary Devlin

Company Secretary: [redacted]
Claire Kennedy

The notes on [redacted]ese financial statements.

Statement of Cash Flows
For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Net cash generated from operating activities	(i)	5,790	6,596
Cash Flow from Investing Activities			
Purchase of tangible fixed assets		(9,853)	(14,289)
Proceeds from sale of tangible fixed assets		60	148
Grants received		1,421	3,249
HAG repaid		(23)	(54)
Interest received		4	19
Net cash used in investing activities		(8,391)	(10,927)
Cash Flow from Financing Activities			
Interest paid		(1,031)	(922)
New loans		-	9,000
Repayments of borrowings		(698)	(631)
Net cash from / (used in) financing activities		(1,729)	7,447
Net (Decrease) / Increase in cash		(4,330)	3,116
Opening cash at beginning of year		6,299	3,183
Closing cash at end of year		1,969	6,299

Notes to the Cash Flow Statement for the year ended 31 March 2018

(i) Reconciliation of surplus to net cash generated from/(used in) operations

	2018 £'000	2017 £'000
Surplus	3,269	10,672
Depreciation on Housing Properties	5,191	4,915
Depreciation on Other Fixed Assets	317	255
Amortisation on Intangible Fixed Assets	213	203
Amortisation of Capital Grants	(2,683)	(2,899)
Loss/(surplus) on disposal of assets	87	(69)
Changes in resident's funds	(161)	(80)
SHAPS Remeasurement	(44)	(7,360)
(Decrease)/Increase in pension provision	(48)	(109)
Unwinding of discounted liabilities	60	319
Deferred Finance Charge write down	9	-
Pension Past Service Deficit paid in year (inc Growth Plan)	(1,232)	(1,233)
Interest receivable	(4)	(19)
Interest paid	1,067	978
Taxation paid	1	4
Operating cash flows before movement in working capital	**6,042**	**5,577**
(Increase) / Decrease in trade and other debtors	(501)	1,264
Increase / (Decrease) in trade and other creditors	249	(245)
Cash generated from operations	**5,790**	**6,596**

(ii) Analysis of net debt

	At 31 March 2017 £'000	Cash Flows £'000	Other Change £'000	At 31 March 2018 £'000
Cash and short term deposits	6,299	(4,330)	-	1,969
Debt due within one year	(689)	689	(755)	(755)
Debt due after one year	(27,709)	-	755	(26,954)
Total	(22,099)	(3,641)	-	(25,740)

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

	2018 £000
Decrease in cash and short term deposits in the period	(4,330)
Decrease in loans in the period	689
Change in net debt	(3,641)
Net debt at 1 April 2017	(22,099)
Net debt at 31 March 2018	(25,740)

1 Accounting Policies

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014, is registered in Scotland with the Financial Conduct Authority and is classed as a public benefit entity under FRS102. The Association's registered housing association number is 124 and it's registered office is 95 McDonald Road, Edinburgh EH7 4NS.

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.

The financial statements are prepared in £ sterling and are rounded to the nearest £'000 unless otherwise stated.

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 e)v 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 19). 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 total deficit contributions, of £1.225m (plus 3% increase) per annum for the next 4 years has been discounted at a rate of 1.51%, amounting to a net present value of £5.016m at 31 March 2018. Our commitment to the SHAPS Growth Plan, of £7k (plus 3% increase) per annum over the next 7.5 years has been discounted at a rate of 1.71%, amounting to a net present value of £52k.

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

d) 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. These are held as deferred capital grants.

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.

e) 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 e)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 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 it's 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
External Doors	30 years
Storage Heating	15 years
Boilers	15 years
Commercial Boilers	20 years
Radiators and Pipework for Commercial Boilers	40 years

vi) The Shared Equity properties reflect 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. Shared Equity and Shared Ownership properties are depreciated over 60 years.

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.

f) 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%

g) Intangible Fixed Assets

All intangible assets are 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 can be shorter depending on the period over which the entity expects to use the assets. Generally intangible assets are depreciated on a straight line basis at 20% per annum. This depreciation charge is included within the Association's operating costs.

h) 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.

i) 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 based on current repairs and 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) 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.

k) 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 12).

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.

o) Retirement Benefits

The Board made the decision that from 1 April 2016 the Scottish Housing Associations' Pension Scheme (SHAPS), which was a defined benefit scheme, would be closed for Association staff and all participating staff would be moved to the SHAPS defined contribution option.

Retirement benefits to employees are funded by contributions from employers and employees in the 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.

In respect of the previous SHAPS defined benefit option, 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.

22 employees (2017:22 employees) are members of the Lothian Pension Fund (LPF), administered by The City of Edinburgh Council. In May 2016, the Board agreed to close the LPF to new entrants. The LPF is a defined benefit scheme, providing benefits based on final pensionable pay.

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.

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.

Termination benefits are recognised in the Statement of Comprehensive Income, when the relevant staff members have been notified and there is an obligation for the Association to pay out the relevant termination benefits.

p) 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.

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 les 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash at bank and in hand and short term deposits maturing within one year

q) 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.

2 Turnover, Operating Costs and Operating Surplus

	Notes	Turnover £'000	Operating costs £'000	2018 Operating surplus £'000	2017 Operating surplus £'000
Social Lettings	3a	29,090	(25,162)	3,928	3,914
Other Activities	3b	7,199	(6,691)	508	611
Total for 2018		**36,289**	**(31,853)**	**4,436**	**4,525**
Total for 2017		**35,269**	**(30,744)**	**4,525**	

3a Income and Expenditure from Affordable Letting Activities

	General Needs Housing £'000	Supported Housing Accommodation £'000	Shared Equity & Ownership Accommodation £'000	Total 2018 £'000	Total 2017 £'000
Rent receivable net of Identifiable Service Charges	838	15,822	35	16,695	15,977
Service Charges receivable	88	9,798	-	9,886	9,363
Gross income from rents & service charges	926	25,620	35	26,581	25,340
Less: Voids	(28)	(620)	-	(648)	(422)
Net income from rents & service charges	**898**	**25,000**	**35**	**25,933**	**24,918**
Other Revenue Grants	-	475	-	475	502
Revenue Grants from Scottish Ministers	-	-	-	-	-
Grant released from deferred income	147	2,514	21	2,682	2,899
Total turnover from affordable letting activities	**1,045**	**27,989**	**56**	**29,090**	**28,319**
Management & maintenance administration costs	224	5,123	7	5,354	4,800
Service costs	60	10,005	-	10,065	9,722
Planned and cyclical maintenance including major repairs costs	51	1,767	-	1,818	2,349
Reactive maintenance costs	91	2,600	-	2,691	2,603
Bad debts - rents and service charges	-	43	-	43	16
Depreciation of affordable housing	265	4,902	24	5,191	4,915
Impairment of affordable housing	-	-	-	-	-
Operating Costs for affordable letting activities	**691**	**24,440**	**31**	**25,162**	**24,405**
Operating Surplus for affordable letting	**354**	**3,549**	**25**	**3,928**	**3,914**
Operating Surplus for affordable letting for previous period of account	**363**	**3,522**	**29**	**3,914**	

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

	Grants from Scottish Ministers £'000	Other revenue grants £'000	Supporting people income £'000	Other Income £'000	Total turnover £'000	Operating Costs bad debts £'000	Other operating costs £'000	2018 Surplus/ (deficit) for the year £'000	2017 Surplus/ (deficit) for the year £'000
Wider Role Activities	-	-	-	-	-	-	-	-	-
Care & Repair of Property	-	-	-	-	-	-	-	-	-
Investment property activities	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	2,045	2,045	-	(2,045)	-	-
Support Activities	-	-	1,700	-	1,700	-	(1,685)	15	165
Care Activities	-	-	-	1,605	1,605	-	(1,450)	155	29
Contracted out services for RSLs	-	-	-	-	-	-	-	-	-
Contracted out services for other organisations	-	-	-	-	-	-	-	-	-
Developments for sale to RSLs	-	-	-	-	-	-	-	-	-
Developments & improvements for sale to other organisations	-	-	-	-	-	-	-	-	-
Uncapitalised development administration costs	-	-	-	-	-	-	-	-	-
Telecare	-	-	-	1,138	1,138	-	(918)	220	239
Stage 3 Adaptations	-	328	-	-	328	-	(328)	-	-
Other Activities*	-	-	-	383	383	-	(265)	118	178
Total from Other Activities	**-**	**328**	**1,700**	**5,171**	**7,199**	**-**	**(6,691)**	**508**	**611**
Total from other activities for year ended 31 March 2017	**-**	**355**	**2,021**	**4,574**	**6,950**	**-**	**(6,339)**	**611**	

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

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.

	2018 £'000	2017 £'000
Total emoluments for the above key management personnel (excluding pension contributions and benefits in kind):	384	304
The emoluments (excluding pension contributions) of the Chief Executive amounted to :	109	106
The total emoluments payable to the highest paid member of the key management personnel amounted to :	134	130

The number of key management personnel, who received emoluments (excluding pension contributions) in excess of £60,000 were within the following ranges:	2018 No. of Key Mgt Personnel	2017 No. of Key Mgt Personnel
£60,001 to £70,000	1	1
£70,001 to £80,000	3	2
£80,001 to £90,000	-	-
£90,001 to £100,000	-	-
£100,001 to £110,000	1	1

The Association made pension contributions of £54,314 (2017: £50,563) on behalf of those key management personnel whose total emoluments, excluding pension contributions, are in excess of £60,000 per annum, including £24,221 to the highest paid.

The Board had a membership of 11 as at 31 March 2018 and a maximum of 11 members during the year. No payment of fees or other remuneration was made to the members during the year.

	2018 £'000	2017 £'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	2

5 Employee Information

	2018 No.	2017 No.
The average monthly FTE number of persons (including key management personnel) employed in the year was:	427	400
The average number of persons (including key management personnel) employed in the year was:	567	540

5 Employee Information (continued)

	2018 £'000	2017 £'000
Staff costs (including key management personnel emoluments)		
Wages and salaries	11,068	10,202
Social security costs	870	786
Pension costs	686	594
BUPA	18	10
	12,642	11,592

Payments to the value of £20,131 (2017: £18,309) in respect of redundancy costs are included within the totals for staff costs.

Average FTE Employees per Month

Apr-17	415	Oct-17	429
May-17	417	Nov-17	433
Jun-17	420	Dec-17	435
Jul-17	427	Jan-18	433
Aug-17	430	Feb-18	431
Sep-17	426	Mar-18	433

6 Operating Surplus

	2018 £'000	2017 £'000
Operating surplus is stated after charging/ (crediting) :		
Depreciation (exc Intangible Assets)	5,472	5,170
Amortisation on Intangible Assets	206	203
Grant amortisation	(2,683)	(2,899)
Repairs: cyclical, planned, day to day	4,509	4,952
Auditors' remuneration - external	22	21
Auditors' remuneration - internal	24	30
Hire of plant and machinery - rentals payable under operating leases	186	185

7 Interest Receivable and Other Income

	2018 £'000	2017 £'000
Interest receivable on bank deposits	4	19

8 Interest Payable and Similar Charges

	2018 £'000	2017 £'000
Housing loans:		
On loans from banks and building societies repayable in more than 5 years	1,105	1,106
Less interest capitalised in year	(83)	(194)
	1,022	912
Interest on owner occupier funds	9	10
Net return on pension assets	36	56
Unwinding of discounted liabilities-pension provisions	60	319
	1,127	1,297

9 Fixed Assets

	Social Housing Properties								
	Held for letting £'000	Shared Ownership £'000	Shared Equity £'000	WIP Properties/ Components £'000	Total housing £'000	Heritable Office Property £'000	Computer & leased equipment £'000	Total other £'000	Intangible Fixed Assets £'000
Cost									
At 1 April 2017	224,005	384	1,059	9,046	**234,494**	6,720	739	**7,459**	**1,176**
Additions in the year	3,690	-	-	5,616	**9,306**	-	490	**490**	**57**
Transfers in the year	12,118	-	-	(12,118)	**-**	-	-	**-**	**-**
Disposals in the year	(1,532)	(29)	-	(51)	**(1,612)**	-	-	**-**	**-**
At 31 March 2018	238,281	355	1,059	2,493	**242,188**	6,720	1,229	**7,949**	**1,233**
Depreciation									
At 1 April 2017	81,074	143	545	-	**81,762**	1,716	510	**2,226**	**385**
Provided during the year	5,167	6	18	-	**5,191**	142	175	**317**	**213**
Disposals in the year	(1,345)	(10)	-	-	**(1,355)**	-	-	**-**	**-**
At 31 March 2018	84,896	139	563	-	**85,598**	1,858	685	**2,543**	**598**
Net book value									
at 31 March 2017	142,931	241	514	9,046	**152,732**	5,004	229	**5,233**	**791**
at 31 March 2018	153,385	216	496	2,493	**156,590**	4,862	544	**5,406**	**635**

9 Tangible Fixed Assets (continued)

a) The Association has received £327,901 (2017: £354,608) in the year in respect of Housing Association Grant for Adaptations of which £327,901 (2017: £354,608) has been treated as revenue and £nil (2017: £nil) was capitalised in the Statement of Financial Position. No grants were received in the year for Major Repairs.

b) Not withstanding 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 £17,449 per unit.

c) For major repairs during the year the Association spent £4.65m (2017: £5.23m): £3.57m (2017: £3.91m) was capitalised for replacement components; and £1.08m (2017: £1.32m) was expensed through operating costs in the Statement of Comprehensive Income. A further £nil (2017: £nil) of additions relate to improvements.

d) Development administration costs capitalised in the year amounted to £192,479 (2017: £158,580).

e) Interest capitalised in the year amounted to £82,925 (2017: £193,736). The interest capitalised was in respect of the interest paid on loans used specifically for new development expenditure. Interest capitalised was 7.5% of total loan interest (2017:17.5%)

f) Shares were held at nil cost from Barclays plc. Market value of 104 shares at 31 March 2018 is £218 (2017: £230). Also 89 shares in Banco Santander were held at nil cost. The market value of these shares at 31 March 2018 is £404 (2017: £428).

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

h) Included in fixed assets is land of £19m, which is not depreciated.

10 Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Rental debtors	503	378
Less: bad debt provision	-	-
	503	378
HAG receivable	624	316
Owners service charge balances	57	51
Other debtors	929	611
Prepayments and accrued income	495	293
	2,608	1,649

11 Cash and Cash Equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents	1,969	6,299

12 Creditors: Amounts Falling Due Within One Year

	2018 £'000	2017 £'000
Loan repayments: instalments of principal (see note 13)	755	689
Deferred capital grants (see note 16)	2,695	2,669
Owners' funds (see note 13)	403	399
Owners service charge balances	122	96
Corporation Tax	1	4
Other taxation and social security	267	253
Development 'work in progress' accruals	188	337
Accruals and deferred income	1,321	1,183
Rent in advance	148	131
Trade creditors	2,704	2,498
	8,604	8,259

13 Creditors: Amounts Falling Due After More Than One Year

	2018 £'000	2017 £'000
Loans	26,954	27,709
Deferred capital grants (see note 16)	80,075	81,037
Owners' funds	338	503
Other	52	52
	107,419	109,301

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

The Association's only debt constitutes the loans as below.
Deferred finance costs of £234k (2017: £243k) have been offset against the loans.
Loans are secured by fixed charges on the Association's properties and interest is repayable at:

i. Fixed rates between 4.63% and 6.51%.
ii. Residents funds receive interest of between 1% and 0.5% (2017: 1% and 0.5%).

	2018	2017
Loan instalments are due as follows:	£'000	£'000
Within one year (note 12)	755	689
Between one and two years	773	764
Between two and five years	5,318	5,577
In over five years	20,863	21,368
	27,709	28,398

Owners' Funds	Balance at 31/03/17 £'000	Expenditure in year £'000	Provided in year £'000	Balance at 31/03/18 £'000
Owners replacement of scheme equipment	145	(22)	33	156
Owner occupier repairs	757	(635)	463	585
	902	(657)	496	741
Split as follows :				
Less than one year and included in note 12	(399)			(403)
More than one year	503			338

14 Share Capital

	2018 No.	2017 No.
Opening share capital	317	340
Shares allocated during the year	36	38
Shares relinquished during the year	(33)	(61)
Closing share capital	320	317

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 2018.

15 a SHAPS Past Service Deficit Provision

	2018 £'000	2017 £'000
Balance at 1 April 2017	6,225	14,496
Utilised in the year	(1,225)	(1,227)
Remeasurement	(43)	(7,362)
Unwinding of discount	59	318
Balance at end of year	5,016	6,225

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 4 years.

15 b SHAPS Growth Plan Pension Provision

	2018 £'000	2017 £'000
Balance at 1 April 2017	59	62
Utilised in the year	(7)	(6)
Remeasurement	(1)	2
Unwinding of discount	1	1
Balance at end of year	52	59

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 7.5 years.

Total Provisions (a and b)	5,068	6,284

16 Deferred Capital Grants

	2018 £'000
Grant	
As at 1 April 2017	147,861
Grant received in the year	1,830
Grant repaid / abated in the year	(186)
As at 31 March 2018	149,505
Amortisation of Grant	
As at 1 April 2017	64,155
Grant released during the year	2,683
Disposals / abatements	(103)
As at 31 March 2018	66,735
Net book value at 31 March 2017	83,706
Net book value at 31 March 2018	82,770
Shown as:	
Amount to be released within one year	2,695
Amount to be released after more than one year	80,075

17 Capital Commitments

Housing expenditure contracted less certified at 31 March 2018 amounted to £3.16m (2017: £4.12m). Expenditure authorised by the Board but not contracted at 31 March 2018 amounted to £5k (2017: £9.75m). Furthermore, the Board has authorised expenditure on capitalised major repairs and replacement components amounting to £3.53m (2017: £3.95m).

In addition, the Board has authorised expenditure on other fixed assets amounting to £834k (2017: £890k), which includes the purchase of computer equipment and software.

The Association has a loan facility with Lloyds Bank for £20m to finance the new build and asset management programme. £8m of this facility was not utilised as at 31 March 2018.

18 Leasing Commitments

	2018 £'000	2017 £'000
Amounts due:		
Within one year	127	190
Between one and five years	68	129
	195	319

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

19 Pension Commitments

The Board made the decision that from 1 April 2016 the Scottish Housing Associations' Pension Scheme (SHAPS) , which was a defined benefit scheme, would be closed for Association staff and all participating staff would be moved to the SHAPS defined contribution option. In May 2016, the Board agreed to close the Lothian Pension Fund (LPF) to new entrants. This is a defined benefit scheme, 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.

The estimate of total contributions payable by the Association in 2018/19 is £1,651k to the SHAPS scheme and £379k to the LPF scheme.

Scottish Housing Associations Pension Scheme

General

As noted above the Association now participates in the SHAPS defined contribution option. Prior to 1 April 2016, the Association participated in the Scottish Housing Associations' Pension defined benefit scheme ('the Scheme'). The Scheme was a defined benefit scheme in the UK.

It was not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounted 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 2015. This actuarial valuation showed assets of £616m, liabilities of £814m, and a deficit of £198m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid to the scheme per annum of £25.74m to 28 February 2022, £727k to 30 June 2025, and £1.24m to 31 October 2026. These deficit contributions will be paid monthly and will increase by 3% each on 1st 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 1.51% (2017: 1.06%). 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 2018 the present value of the Association's share of the deficit funding was £5.02m. This is held within provisions in the SOFP. This liability will be paid over the next 4 years. The amount to be paid in 2018/19 is £1.26m.

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 £12.95m will be paid to the scheme per annum to 30 September 2025 and £55k per annum to 30 September 2028. These deficit contributions will be paid monthly and will increase by 3% each on 1st 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 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 1.71% (2017: 1.32%). 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 2018 the present value of the Association's share of the deficit funding was £52k. This is held within provisions in the SOFP. This liability will be paid over the next 7.5 years. The amount to be paid in 2018/19 is £7k.

Lothian Pension Fund

The Association participates in the Lothian Pension Fund ("the Scheme") and had 22 active members at the balance sheet date (22 active members in 2017). The Board decided that from May 2016 the Scheme would be closed to new entrants.

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 23.9% 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 2018 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	2018	2017
	p.a.	p.a.
Pension increase rate	2.4%	2.2%
Salary increase rate	4.1%	3.1%
Expected return on assets	-0.3%	22.6%
Discount rate	2.6%	2.7%

Fair value of employer assets	2018	2017
	£'000	£'000
Equities	4,305	3,764
Bonds	631	1,292
Property	402	393
Cash	402	169
Total Estimated Employer Assets	5,740	5,618

Movement in deficit during the year	2018	2017
	£'000	£'000
Deficit in scheme at beginning of year	(1,384)	(1,704)
Movements during the year:		
Current service cost	(284)	(213)
Contributions paid	332	322
Other finance costs	(36)	(56)
Actuarial (loss) / gain	(447)	267
Deficit at the year end	**(1,819)**	**(1,384)**

The amounts recognised in the balance sheet are as follows:	£'000	£'000
Present value of funded liabilities	(7,538)	(6,979)
Fair value of employer assets	5,740	5,618
	(1,798)	(1,361)
Present value of unfunded liabilities	(21)	(23)
Deficit	(1,819)	(1,384)
Net Liability	(1,819)	(1,384)

Expense recognised in the statement of comprehensive income	2018 £'000	2017 £'000
Current service cost	(284)	(213)
Losses/(Gains) on Curtailments and Settlements	-	-
Net interest on net defined benefit obligations	(36)	(56)
	(320)	(269)

The expense is recognised in the following line items in the statement of comprehensive income	2018 £'000	2017 £'000
Operating Costs	31,810	30,744
Interest payable and financing costs	1,127	1,310

The total amount recognised in the statement of comprehensive income In respect of actuarial changes	2018 £'000	2017 £'000
Actuarial (losses) / gains	(447)	267

Movements in present value of defined benefit obligation	£'000	£'000
Opening defined benefit obligation	7,002	6,139
Current service cost	284	213
Interest cost	187	209
Contributions by members	57	55
Actuarial (gains) / losses	252	600
Losses/ (gains) on curtailment	-	-
Estimated unfunded benefits paid	(1)	(1)
Estimated benefits paid	(222)	(213)
Closing defined benefit obligation	**7,559**	**7,002**

Movements in the fair value of plan assets are as follows:	£'000	£'000
Opening fair value of employer assets	5,618	4,435
Expected return on assets	151	153
Contributions by members	57	55
Contributions by the employer	331	321
Contributions in respect of unfunded benefits	1	1
Actuarial (losses) / gains	(195)	867
Estimated unfunded benefits paid	(1)	(1)
Estimated benefits paid	(222)	(213)
Closing fair value of employer assets	**5,740**	**5,618**

20 Taxation

	2018 £000	2017 £000
UK Corporation Tax Charge		
Based on the results for the year	1	4
Total Current tax	1	4
Factors affecting tax charge for the year		
Surplus on ordinary activities before taxation	3,269	3,316
Expected tax charge at 19% (2017: 20%)	621	663
Exempt charitable activities	(620)	(659)
Current tax charge	1	4

21 Housing Stock

The number of units in management as at 31 March 2018, was as follows:

	2018 No.	2017 No.
Rented - General needs housing	216	203
Rented - Supported housing accommodation	3,988	3,945
Shared ownership	20	21
Shared equity	88	88
Owner occupied	1,099	1,098
Totals	5,411	5,355

One shared ownership unit was sold in the year. The sale proceeds were £49k and the gain on disposal was £22k.

The number of units in development as at 31 March 2018, was as follows:

	2018 No.	2017 No.
Rented - General Needs housing	38	13
Rented - Supported housing accommodation	-	48
	38	61

22 Average Annual Scottish Secure Tenancy Rents

	2018 £	2017 £
Average annual Scottish secure tenancy rents for housing accommodation	3,994	3,880
	%	%
Percentage increase/(decrease) from previous year	2.5%	3.5%
	No.	No.
Number of Scottish secure tenancies	4,040	4,031

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 2015. As of this date the estimated employer debt for The Association was £36,539,958. It has also been notified of the estimated employer debt on withdrawal from the Growth Plan as at 30 September 2015 was £93,600 based on the financial position of the Plan.

The Board is not aware of any other contingent liabilities as at 31 March 2018 and no other liabilities have emerged since.

26 Post Balance Sheet Events

In April 2018 the Association entered into detailed discussions with Arklet Housing Association about a potential formal partnership between the two organisations.

The Board is not aware of any other post balance sheet events, which affect the Association as at 31 March 2018.