HANOVERSCOTLAND

***Quality** independent living*

financial statements

for the year ended 31 March 2011

Financial Statements for the year ended 31 March 2011

Committee of Management

Isobel Fowler BSc DAcad FRSAMD FRSA
(Chairperson) (elected 24 September 2010)

Douglas Boyd OBE CA FRSAMD (retired 24 September 2010)

Annie Burnett OBE BA

Sarah Davidson (retired 24 September 2010)

Wilma Dickson CBE PhD (elected 24 September 2010)

Graham Duncan RIBA ARIAS MRTPI FRSA

David Essery CB

Michael Keohane FCIBS

Patricia MacCormick

Donna Mackay MA Hons

Michael Martin (co-optee)

Anne McCamley BA LLB NP

Robin McGregor LLB(Hons) DipLP NP CA (elected 24 September 2010)

Hugh Mitchell FCMA FCCA

Geoffrey Palmer OBE DSc

Alison Petch (co-opted 24 September 2010)

Stanley Thomson

Barbara Walton BSc CA (elected 24 September 2010)

Brian Watt MD FRCPath FRCPE

Roger Williams (co-opted 24 September 2010)

Officers

Helen Murdoch MBA FCIH MRICS AIPD
Chief Executive

Andrew Aitken FCIPD
Director of Human Resources

Gregor Booth BA Hons
Director of Housing & Care Services

Colin Gibson FCMA ACIH
Director of Finance &
Risk Management Services

Bruce Laing BSc MRICS
Director of Property & Development

Chris Milburn BA (Hons) MBCS
Director of Business and Communications

David Reid LLB ACIS
Company Secretary

Review by the Management Committee at 31 March 2011

The Committee of Management presents its review and audited financial statements for the year ended 31 March 2011.

Review of the Business

Structure and Activities

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

The main trading entity within the group is:

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

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

The Charitable Trust is a company registered in Scotland with charitable aims, details of which are provided within the Report and Financial Statements of the Trust. This company had net outgoing resources of £6,021 (2010: £3,692 incoming) in the year and net assets at 31 March 2011 of £117,837 (2010: £123,989).

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

Equality and Diversity

The Association has a legal and moral obligation as a good and socially responsible service provider and employer to be fair and equitable in the treatment of its customers, employees and others. With an increasingly diverse market place the Association is firmly committed to providing equal access to service and employment opportunities. Our policies, procedures and practices ensure that no one is disadvantaged because of, for example, their age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex and sexual orientation (the nine protective characteristics of the Equality Act).

Target Market and Products

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

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

The over-65 age group is forecast to continue growing to such an extent that it will outnumber those under 16 by 2014. In particular, throughout the first half of the 21st century, the number of people aged over 80 is expected to rise substantially – a major target market for the Association. In considering this, it needs to be borne in mind that there is an increasing number of older people with long-term conditions such as dementia. Consequently, Hanover is committed to helping to meet the demand for services that cater for the specific needs of frail, older people and believes that much more innovative housing solutions need to be provided for people with dementia. The Association is currently running a Care at Home pilot. SMART technology and Hanover's Telecare service continue to present new opportunities. The new second Telecare centre in Glasgow, scheduled to open in May 2011, will help to provide a stable platform from which new opportunities can be developed.

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

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

Partnering

The Association has always worked on the basis that strong partnerships are very important for every stage of the planning and delivery of housing and related services. Hanover believes that this can only be undertaken after a thorough needs analysis and strategic planning with reassurance at the outset that appropriate funding will be provided. The most recent partnering initiatives involve the signing of a joint agreement, with Bield and Trust Housing Associations, to provide better services to older people.

Housing Support

This local authority funding is provided to HSHA to finance tenant support services. The Association has made significant progress in reducing previous substantial deficits through negotiations with the Local Authorities and, funding levels continue to meet the cost of providing these services. The Association is still concerned that cutbacks in public sector spending may result in future provision for people in need falling short of requirements. The Committee of Management has agreed that the Association should continue to work with Local Authorities to resolve any imbalance which may arise. The position will continue to be closely monitored and a working group has been set up to develop a future strategy.

Development grant

HSHA continues to develop new properties. For HSHA, as for most other RSLs that develop properties, a key issue is the availability of capital grant funding from The Housing & Investment Division of the Scottish Government and other providers. New developments are usually financed through a mixture of such funding plus loans raised from commercial banks. HSHA has traditionally achieved high levels of grant allocation. These grant allocations underpin HSHA's development programme. Cutbacks in public sector spending have resulted in further reductions of grant levels which are not sustainable in the long term.This combined with more difficult lending conditions will require fresh thinking to continue a sustainable development programme.

Housing Stock

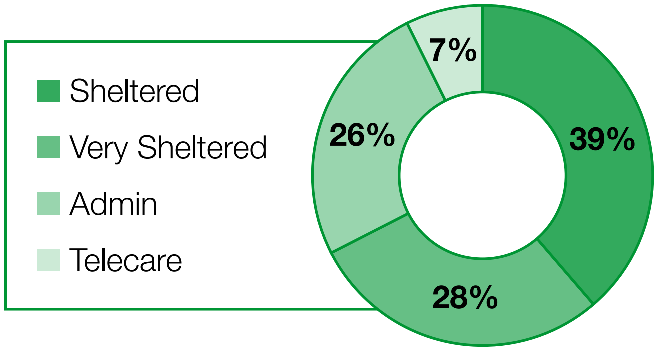
The Association manages over 5,200 properties, of which it owns over 4,200. The remainder is managed on behalf of individual owners. Note 22 of the Financial Statements sets out the number of units that are both owned and managed.

Organisation Structure

During 2010 the Association went through major organisational change. This has now had time to become established and the Association is better focussed and prepared for future challenges.

Employees

During 2010/11, the average number of full-time equivalent staff employed by the Association was 357 (2009/10: 360), as shown in **figure 1**.



Without a committed, motivated and well trained workforce the Association would not be able to meet the needs of our customers. Last year the Association completed a review of market comparator rewards. It has benchmarked its working environment to ensure that it provides competitive terms and conditions. A number of additional benefits, such as career breaks and annual leave purchase, have been introduced to provide further working options wherever possible.

Average FTE Employees per Month

Apr-10	352.0	Oct-10	357.2
May-10	354.6	Nov-10	358.2
Jun-10	357.4	Dec-10	359.6
Jul-10	355.8	Jan-11	360.2
Aug-10	356.1	Feb-11	361.3
Sep-10	354.1	Mar-11	361.3

figure 1

Levels of staff turnover, sickness absence, ethnic mix, gender and age profile are closely monitored and benchmarked against available statistics on a regular basis. The Association's staff turnover rate has improved and is in line with industry averages for the public sector. The Association is further committed to providing a safe and healthy environment for its workforce and is currently reviewing a number of health and safety procedures. The Association is committed to ensuring the wellbeing of all members of staff while at work and has several policies covering areas such as flexible working, equal opportunities and dignity at work.

The Association was named among the top 25 'Best Workplaces in Scotland 2011' by the Great Places to Work Institute.

The scheme honours and recognises organisations that have achieved outstanding effectiveness in HR and people excellence. This is the first time the Best Workplaces Programme has been run in Scotland and Hanover were placed 17th in the rankings announced at an awards ceremony in Glasgow on 31 March.

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

Information and Communications Technology (ICT)

ICT is seen as an important business enabler within the Association, eliminating unnecessary paperwork; ensuring commonality of data across the different areas of the business; providing consistent business processes across the dispersed organisation; and allowing staff at all levels to access the information relevant to them, as and when they need it.

Over the last decade, the Association has spent significant resources on new comprehensive housing management software covering all elements of the business. During the year the Association continued development of its new intranet facility, The Hub, extending and expanding this new facility, which provides a means of coordinating and standardising the delivery of critical business information to staff.

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

HSHA Key Performance Indicators

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

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

The new partnership initiative for reactive repairs, combined with improved reporting is expected to bring actual performance above target and this is currently under review.

Risks

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

Key Risks – identified as High Risk

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

Indicator	Internal Target	2010/11	2009/10
Arrears	less than 1.4%	1.4%	1.6%
Void loss percentage	less than 3.2%	2.35%	2.8%
Surplus as percentage of turnover	greater than 4%	9.02%	11.7%
Percentage repairs completed within target timescales	greater than 95%	93.6%	94.8%

figure 2: key performance indicators

2. The reduction in grant levels and availability of private finance could threaten the future development programme.
3. The Association may be unable to recover full costs, with particular reference to housing support funding from local authorities.
4. The current public sector spending cuts could have an adverse impact on the Association's business model.
5. The increase in older or frailer people requiring services that may not be affordable for Government or Local Authorities may lead to a Government policy shift in future provision of housing and services for older persons.

Appropriate steps have been taken to monitor and minimise the impact of these risks. Risk management review is a standing item on the agenda of all the Committees. The key risks facing the Association will be re-considered at the strategy conference being held in August this year.

Capital Structure

The group contains entities with differing legal forms (Industrial & Provident Society and a company limited by guarantee), neither of which is able to raise equity funding. Consequently, the group finances its operations by a combination of Government and other grants, housing loans from commercial banks and retained surpluses. Neither member of the Hanover (Scotland) group pays dividends.

Housing Assets

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

These housing assets are included on the balance sheet at £33.4 million (2009/10, £32.4 million), which is gross historical cost less depreciation and Housing Association Grant. The Committee of Management believes that the current market value of these properties is still significantly in excess of their net book value, see note 9b. This assessment is based on valuations of elements of the portfolio undertaken during 2006, combined with the Association's planned maintenance programme. Valuations will now be updated during 2012.

Impairment Review

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

New Properties

During the 12 months ended 31 March 2011, HSHA completed three new developments. There are no projects due for completion in 2011/12, however others are in preparation for 2012/13 and beyond.

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

Accounting Policies

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

Rent Policy

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

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

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

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

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

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

Reserves Policy

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

Designated Reserves

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

The current 30 year planned maintenance projections show a peak requirement of £4.3m in 2011/12 and again in 2022/23 at today's values. Designated Reserves to meet this commitment currently stand at £9.8m and are believed to be sufficient to fund the future planned maintenance programme. The Association will maintain designated reserves for any other identifiable need as necessary such as the asset management review.

Revenue Reserves

The Association's revenue reserve should be set at a level which is adequate to cover both known and unforeseen risks. A figure of 6 months working capital is £4m. A further amount of between £3.5m and £4m is recommended for known risks such as those mentioned previously. Current Revenue Reserves of £9.8m, are adequate to meet this commitment. Where possible, the potential cost of known risks are quantified to inform the annual review of the reserves policy. Further details are provided at Notes 1 h), 16 and 17.

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

Treasury Management Policy

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

In this way, the Association manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held. At 31 March 2011, the Association had £3m undrawn loan facilities, plus £2m available from its revolving credit facility.

The Association's Treasury Management Policy aims to manage liquidity, funding, investment and the Association's financial risk, including risk from volatility in interest rates and counterparty credit risk. The objective is to manage risk on a cost effective basis. The Treasury Management Policy is regularly reviewed and approved by the Committee of Management. The Association manages interest rate risk by utilising a high proportion of fixed interest debt, which the Committee of Management currently believes to be in the region of 75 per cent. At 31 March 2011, 68 per cent of the debt portfolio was at a fixed rate (2010:72 per cent).

Creditor Payment Policy

The Association's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The average payment period is 22 days (2010: 22 days).

Maintenance Policies

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

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

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

Employee Involvement and Health and Safety

The Association encourages employee involvement in all major initiatives and holds an annual review day for staff to discuss major issues affecting the Association. The Health and Safety manager reports to the Committee of Management through the HR sub-committee, three times during the year.

Balance Sheet Debt and Liquidity

The Balance Sheet continues to show a position of overall strength, including an increase in reserves. Liquidity is measured in terms of cash available to meet short term liabilities and this was considered adequate at 31 March 2011.

Gearing is measured in terms of net debt compared with net assets and including capital grants received. The current position, at 12.4 per cent (2009/10: 13.1 per cent), provides considerable comfort in terms of ability to continue borrowing to fund future developments.

Fixed Assets

Details of fixed assets are set out in Note 9.

Going Concern

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

Cash Flow

The net cash inflow in 2010/11 was just over £1.5m, which was £0.5m more than in 2009/10. The net cash inflow of £4.6m from operating activities is the same as the prior year, reflecting the stability of the underlying rental stream.

Turnover and Operating Surplus

Performance in the period

The results for the year to 31 March 2011 show turnover up from £25.9m in 2009/10 to £26.8m. The increase reflects the inflationary increases in charges, combined with additional revenue from new properties.

The Association's operating surplus for the year was £3.1m (2010: £3.7m). This is £1.9m greater than the budgeted surplus of £1.2m and represents almost 12% of turnover, this position is mainly due to underspends on the planned maintenance programme and savings on overheads. This is slightly less than that achieved in the year ended 31 March 2010.The funds available to meet interest due on loans were more than adequate and all interest cover covenants have been met. The surplus for the year, after interest charges on loans, was just over £2.4m, before transfers to designated reserves of £1.1m.

Total expenditure on repairs and maintenance in the year was £5.4m (2010: £4.5m). This includes a sum of £0.426m on the adaptation of 204 existing properties to meet the needs of tenants as they become more frail. These adaptations, previously funded by government grant, have been the subject of public sector cutbacks. Hanover is working with others to demonstrate the benefits of this funding in an effort to persuade the new Scottish Government to reverse this decision.

The Committee of Management considers the financial results of the Association for the year ended 31 March 2011 to be satisfactory.

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

New Accounting Standards

Preparation has been undertaken during the year for the introduction of component accounting. This and International Financial Reporting Standards will have a significant impact on the way the financial statements are presented in future. This will not, however, have any impact on the underlying financial performance of the Association.

Outlook

The Association continues to meet the challenges of reductions in public sector spending combined with higher than average long term maintenance expenditure. These challenges will be considered in detail at a two day strategy conference, to be held in August this year. On the basis of the assumptions used in the projections of income and expenditure, longer term plans over the next 30 years offer a satisfactory picture of viability. The Association believes it is well placed to meet future challenges.

The Committee of Management

The Association has 214 members, each of whom holds a single fully-paid £1 share. From their number, the Committee of Management is elected and members who served on it in the year are listed on page 2. Members are appointed with reference to experience, skills and qualifications and any potential skills gaps are taken into account when seeking new members.
The Committee of Management is supported by six Sub-Committees; Property and Development, Housing and Care Services, Business and Communications, Human Resources, Finance and Audit. Decisions are made by officers of the Association and Committees by reference to the scheme of sub-committees and delegation.

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

Statement of Responsibilities of the Committee of Management

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

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

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

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

Statement on Internal Financial Control

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

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

2. It is the Committee of Management's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable, and not absolute, assurance against material financial mis-statement or loss or failure to meet objectives. Key elements of the Association's systems include ensuring that:

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority which allow the monitoring of controls and restrict the unauthorised use of the Association's assets;
- experienced and suitably qualified staff take responsibility for the important business functions and annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the Management Team and Committee of Management to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;
- quarterly management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, with significant variances from budget being investigated as appropriate;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the Committee of Management;
- 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 7 of this review.

3. The Association's internal auditor was appointed in 2008 and a programme of work, based on the Audit Needs Assessment and an internal risk review is now complete. The Association's new internal auditor was appointed in 2011 and a new programme of work, based on the Audit Needs Assessment and an internal risk review, will be prepared and started during the forthcoming year. In addition to individual reports resulting from the ongoing programme of work, the internal auditor prepares an annual report for the Audit Committee each year. These arrangements are considered appropriate to the scale and range of the Association's activities and comply with the requirements contained in the Scottish Housing Regulator's Guidance and the SFHA's publication Raising Standards in Housing.
4. The effectiveness of the Association's system of internal financial control has been reviewed by the Audit Committee. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in these financial statements or in the auditor's report on the financial statements.

Auditors

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

On behalf of the Committee of Management

Chairperson: A Isobel Fowler

Date: 30 June 2011

Independent Auditor's report on Corporate Governance

Corporate Governance

In addition to our audit of the financial statements, we have reviewed the Committee of Management's statement on pages 13 to 14 concerning the Association's compliance with the information required by the section on Internal Financial Control within SFHA's publication Raising Standards in Housing.

Basis of Opinion

We carried out our review having regard to the Bulletin 2006/5 issued by the Auditing Practices Board. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non compliance.

Opinion

In our opinion the statement on internal financial control on pages 13 to 14 has provided the disclosures required by the section on Internal Financial Control within SFHA's publication Raising Standards in Housing and is consistent with the information which came to our attention as a result of our audit work on the financial statements.

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

Date: 7 July 2011

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

We have audited the financial statements of Hanover (Scotland) Housing Association for the year ended 31 March 2011 on pages 18 to 41. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The report is made solely to the Association's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the Committee of Management and Auditors

As explained more fully in the Committee of Management's Responsibilities on page 12, the Committee of Management are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Schedule 7 of the Housing (Scotland) Act 2001 and the Registered Social Landlords (Accounting Requirements) (Scotland) Order 2007.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 requires us to report to you if, in our opinion:

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

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

Date: 7 July 2011

Income and Expenditure Account

For the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Turnover	2	26,817	25,852
Less: Operating costs	2	(23,694)	(22,179)
Operating surplus		3,123	3,673
Surplus on sale of assets		198	267
Interest receivable and other income	7	59	65
Interest payable and similar charges	8	(963)	(984)
Surplus on ordinary activities before taxation		2,417	3,021
Tax on surplus on ordinary activities	21	(1)	–
Surplus on ordinary activities after taxation	17	2,416	3,021

The results for the year relate wholly to continuing activities.

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

Balance Sheet as at 31 March 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Fixed Assets					
Tangible fixed assets:					
Housing properties: Cost less depreciation			180,916		179,133
Grants			(147,525)		(146,753)
	9		33,391		32,380
Fixed Asset Investment	9		51		51
Other tangible fixed assets	9		6,376		6,350
	9		39,818		38,781
Current Assets					
Stock	10	35		31	
Debtors	11	2,549		2,441	
Cash at bank and in hand	12	7,800		6,282	
		10,384		8,754	
Current Liabilities					
Creditors: Amounts falling due within one year	13	(7,190)		(6,718)	
Net Current Assets			3,194		2,036
Total Assets less Current Liabilities			43,012		40,817
Creditors: Amounts falling due after more than one year	14		(23,406)		(23,627)
Net Assets			19,606		17,190
Capital and Reserves					
Share Capital	15		–		–
Designated Reserves	16		9,837		8,780
Revenue Reserve	17		9,769		8,410
			19,606		17,190

The Committee approved and authorised the financial statements for issue on 30 June 2011.

Chairperson: Dr A Isobel Fowler Chairperson Finance Committee: Robin McGregor Company Secretary: David G Reid

Cash Flow Statement

For the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Net cash inflow from operating activities	(i)	4,607	4,618
Returns on investments and servicing of finance			
Interest received		59	65
Interest paid loans		(956)	(975)
Interest paid finance lease		(7)	(9)
Net cash outflow from investments and servicing of finance		(904)	(919)
Taxation			
Corporation tax paid		(1)	–
Net cash outflow from taxation		(1)	–
Capital expenditure			
Payments to acquire and develop housing properties		(3,123)	(4,264)
HAG and other grants received		1,566	1,926
Payments to acquire other fixed assets		(363)	(204)
Net receipts from shared ownership property sales		217	73
HAG repaid on shared ownership property sales		(62)	(41)
Proceeds from sale of other fixed assets		166	450
Net cash outflow from investing activities		(1,599)	(2,060)
Net Cash inflow before financing and management of liquid resources	(ii)	2,103	1,639
Management of liquid resources			
Financing			
Finance lease obligations		(30)	(28)
(Loans repaid)		(555)	(544)
Net cash (outflow) from financing	(iii)	(585)	(572)
Increase in cash	(iii)	1,518	1,067

Notes to the Cash Flow Statements for the year ended 31 March 2011

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

	2011 £'000	2010 £'000
Operating surplus	3,123	3,673
Depreciation	780	749
(Increase) in stocks	(4)	(5)
(Increase) in debtors	(128)	(61)
Increase in creditors	430	82
Movements in residents' funds	406	180
Net cash inflow from operating activities	4,607	4,618

(ii) Analysis of net debt

	At 31-Mar 2010 £'000	Cash flows £'000	Other changes £'000	At 31-Mar 2011 £'000
Cash and short term deposits	6,282	1,518	–	7,800
	6,282	1,518	–	7,800
Debt due within one year	(585)	585	(608)	(608)
Debt due after one year	(20,382)	–	608	(19,774)
Total	(14,685)	2,103	–	(12,582)

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

	2011 £'000
Increase in cash and short term deposits in the period	1,518
Decrease in loans in the period	585
Change in net debt	2,103
Net debt at 1 April 2010	(14,685)
Net debt at 31 March 2011	(12,582)

1 Accounting Policies

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

a) Basis of accounting

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

b) Turnover

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

c) Housing properties, Housing Association Grant and depreciation

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

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

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

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

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

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

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

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

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

d) Other fixed assets

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

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

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

e) Stock

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

f) Residents' Fund for replacement of scheme equipment

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

g) Residents' Fund for repairs – owner occupiers

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

h) Reserves

i) Designated Reserve – Major repairs and remodelling reserve

An annual amount is transferred to the reserve in accordance with estimates required to fund future major repairs. Currently the Association anticipates annual spend of between £2.5m and £4.3m to meet the current programme of major repairs. The current 30 year planned maintenance projections show a peak requirement of £4.3m in 2011/12 and again in 2022/23. Designated Reserves to meet this commitment currently stand at £9.8m and are believed to be sufficient to fund the future planned maintenance programme (see note 16).

ii) Revenue Reserve

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

i) Leasing

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

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

j) Taxation Policy

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

k) Value Added Tax

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

l) Liquid Resources

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

m) Pensions

The Association participates in the Scottish Housing Association Pension Scheme (SHAPS) defined benefits pension scheme and retirement benefits to employees are funded by contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating associations as a whole. The Association is currently undertaking a review of the pension provision due to the escalating costs that has a bearing on the affordability to both the organisation and employees. Three employees are members of the Lothian Pension Fund administered by The City of Edinburgh Council.

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

n) Group Accounts

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

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

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

2 Turnover, Operating Costs and Operating Surplus

	Notes	Turnover £'000	Operating costs £'000	2011 Operating Surplus £'000	2010 Operating Surplus £'000
Social Lettings	3a	20,683	(17,641)	3,042	3,599
Other Activities	3b	6,134	(6,053)	81	74
Total for 2011		26,817	(23,694)	3,123	3,673
Total for 2010		25,852	(22,179)	3,673	

3a Particulars of Income and Expenditure from Lettings

	General Needs Housing £'000	Supported Housing Accommodation £'000	Shared Ownership Accommodation £'000	Total 2011 £'000	Total 2010 £'000
Income from lettings					
Rent receivable net of Identifiable Service Charges	436	12,147	50	12,633	12,177
Service charges receivable	41	8,086	–	8,127	8,093
Gross income from rents & service charges	477	20,233	50	20,760	20,270
Less: Voids	(5)	(486)	–	(491)	(520)
Net income from rents & service charges	472	19,747	50	20,269	19,750
Revenue Grants from Local Authorities and Other Agencies	–	414	–	414	442
Total turnover from social letting activities	472	20,161	50	20,683	20,192
Management & maintenance administration costs	172	3,308	9	3,489	3,397
Service costs	36	8,289	–	8,325	8,292
Planned and cyclical maintenance including major repairs costs	245	3,070	–	3,315	2,602
Reactive maintenance costs	120	1,934	–	2,054	1,875
Bad debts – rents and service charges	–	15	–	15	13
Depreciation of social housing	46	397	–	443	414
Operating costs for social letting activities	619	17,013	9	17,641	16,593
Operating surplus for social letting	(147)	3,148	41	3,042	3,599
Operating surplus for social letting for previous period of account	176	3,382	41	3,599	

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	2011 Surplus/ (deficit) for the year £'000	2010 Surplus/ (deficit) for the year £'000
Wider Role Activities	–	–	–	–	–	–	–	–	–
Care and Repair of Property	–	–	–	–	–	–	–	–	–
Factoring	–	–	–	1,536	1,536	–	(1,536)	–	–
Development and construction of property activities	–	–	–	–	–	–	–	–	–
Support activities	–	–	2,569	–	2,569	–	(2,569)	–	–
Care activities*	–	–	–	242	242	–	(276)	(34)	(38)
Agency/management services for RSLs	–	–	–	–	–	–	–	–	–
Other agency/management services	–	–	–	–	–	–	–	–	–
Developments for sale to RSLs	–	–	–	–	–	–	–	–	–
Developments & improvements for sale to non RSLs	–	–	–	–	–	–	–	–	–
Telecare	–	–	–	1,204	1,204	–	(1,128)	76	120
Stage 3 Adaptations**	–	426	–	–	426	–	(426)	–	–
Other activities	–	–	–	157	157	–	(118)	39	(8)
Total from other activities	–	426	2,569	3,139	6,134	–	(6,053)	81	74
Total from other activities for year ended 31 March 2010	–	–	2,588	3,072	5,660	(1)	(5,585)	74	

* Care Activities in 2009/10 had been misprinted under Developments & improvements for sale to non RSLs.
** Stage 3 Adaptations in 2009/10 totalling £536k of income and expenditure with a nil effect was omitted from this statement.

4 Directors' Emoluments

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

	2011 £'000	2010 £'000
Total emoluments (excluding pension contributions and benefits in kind):	296	153
The emoluments (excluding pension contributions) of the highest paid director amounted to:	98	88

The number of directors (including the highest paid Director) who received emoluments (excluding pension contributions) in excess of £60,000 were within the following ranges:	No. of Directors	No. of Directors
£60,001 to £65,000	2	1
£65,001 to £70,000	–	–
£70,001 to £75,000	1	–
£75,001 to £80,000	–	–
£80,001 to £85,000	–	–
£85,001 to £90,000	–	1
£90,001 to £95,000	–	–
£95,001 to £100,000	1	–

The Association made pension contributions of £44,929 (2010: £22,732) on behalf of those directors whose total emoluments, excluding pension contributions, are in excess of £60,000 per annum, including £14,373 to the highest paid director.

The Committee of Management had a maximum membership of 15 as at 31 March 2011 and had between 14 and 15 members during the year. In accordance with the Rules of the Association the co-optees are not included in the expression 'Committee Members' or 'members of the Committee'. No payment or fees or other remuneration was made to the members during the year.

	2011 £'000	2010 £'000
Total expenses reimbursed to the Chief Executive insofar as not chargeable to UK Income Tax:	1	1
Total expenses incurred on behalf of Committee Members who were neither officers nor employees of the Association amounted to:	15	17

5 Employee Information

	2011 No.	2010 No.
The average full time equivalent number of persons employed in the year was:	357	360
The average number of persons employed in the year was:	494	489

	£'000	£'000
Staff costs (including directors' emoluments)		
Wages and salaries	8,633	8,252
Social security costs	610	537
Pension costs	712	664
BUPA	8	8
	9,963	9,461

6 Operating Surplus

	2011 £'000	2010 £'000
Operating surplus is stated after charging:		
Depreciation	780	749
Repairs: cyclical, planned, day to day	6,476	5,479
Auditors' remuneration – external	18	19
Auditors' remuneration – internal	15	19
Auditors' remuneration – non audit services	4	4
Hire of plant and machinery – rentals payable under operating leases	156	163

7 Interest Receivable and Other Income

	2011 £'000	2010 £'000
Interest receivable on bank deposits	59	65

8 Interest Payable and Similar Charges

	2011 £'000	2010 £'000
Housing loans:		
On loans from banks and building societies repayable in more than 5 years	951	970
Interest charged on finance leases	7	9
	958	979
Interest on owner occupier funds	5	5
	963	984

9 Tangible Fixed Assets

	Housing Properties								
	Held for letting £'000	Shared ownership £'000	Under construction £'000	Total housing £'000	Fixed Asset Investment Shared Equity £'000	Heritable office property £'000	Computer & leased equipment £'000	Total other £'000	Grand total £'000
Cost									
At 1 April 2010	178,482	935	2,963	182,380	1,059	6,561	2,059	8,620	192,059
Additions in the year	71	–	3,052	3,123	–	152	211	363	3,486
Transfers in the year	5,255	–	(5,255)	–	–	–	–	–	–
Disposals in the year	(712)	(185)	–	(897)	–	–	(226)	(226)	(1,123)
At 31 March 2011	183,096	750	760	184,606	1,059	6,713	2,044	8,757	194,422
Housing Association Grant (HAG)									
At 1 April 2010	136,089	601	1,004	137,694	1,008	–	–	–	138,702
Received in the year	–	–	1,546	1,546	–	–	–	–	1,546
Transfers in the year	2,550	–	(2,550)	–	–	–	–	–	–
Repaid and abated in the year	(712)	(62)	–	(774)	–	–	–	–	(774)
At 31 March 2011	137,927	539	–	138,466	1,008	–	–	–	139,474
Other grants									
At 1 April 2010	9,059	–	–	9,059	–	–	–	–	9,059
Received in the year	–	–	–	–	–	–	–	–	–
Transfers in the year	–	–	–	–	–	–	–	–	–
At 31 March 2011	9,059	–	–	9,059	–	–	–	–	9,059
Depreciation									
At 1 April 2010	3,244	3	–	3,247	–	736	1,534	2,270	5,517
Provided during the year	443	–	–	443	–	133	204	337	780
Disposals in the year	–	–	–	–	–	–	(226)	(226)	(226)
At 31 March 2011	3,687	3	–	3,690	–	869	1,512	2,381	6,071
Net book value									
at 31 March 2010	30,090	331	1,959	32,380	51	5,825	525	6,350	38,781
at 31 March 2011	32,423	208	760	33,391	51	5,844	532	6,376	39,818

9 Tangible Fixed Assets (continued)

a) The Association has received £426,113 in the year in respect of Housing Association Grant for Adaptations which has been treated as revenue and not capitalised in the Balance Sheet. No grants were received in the year for Major Repairs.

b) Notwithstanding the Balance Sheet position, the Association undertook a programme of property valuations in 2006. The average value of each unit was £16,300, using the existing use criteria. This compares to an average net book value of £8,116 per unit.

c) Development administration costs capitalised in the year amounted to £254,067 (2010: £233,352) for which Housing Association Grants amounting to £29,300 (2010: £64,022) were received in the year.

d) Interest capitalised in the year amounted to £17,000 (2010: £32,000) assumed interest rate of 4.8%.

e) Shares were held at nil cost from Barclays plc. Market value of 104 shares at 31 March 2011 is £289 (2010: £375).

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

g) Within Computer and Leased Equipment are assets owned under a Finance lease with a net book value of £65,155 (2010: £108,591), depreciation on those assets is £152,028 (2010: £108,591).

h) Included within Housing Properties held for letting is an investment property with a net book value of £20,729.

10 Stocks

	2011 £'000	2010 £'000
Fuel oil stocks	16	11
Sundry stocks	8	8
Food stocks	11	12
	35	31

11 Debtors

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Rental debtors	293	313
Less: bad debt provision	(9)	(9)
	284	304
Development funding receivable	–	20
Major repairs/Adaptations HAG receivable	81	49
Service equalisation balances	1,334	1,276
Other debtors	557	562
Prepayments and accrued income	293	230
	2,549	2,441

12 Cash at Bank and in Hand

	2011 £'000	2010 £'000
Cash at bank and in hand	7,800	6,282

Kaupthing, Singer and Friedlander went into administration on 8 October 2008. At that time, correspondence received from the administrator Ernst and Young, stated that the Association should receive at least 50p in the £1. As at 31 March 2011, £193,706 has been received from the administrators with a further £18,274 received since, this equates to 58p in the £.

13 Creditors: Amounts Falling Due Within One Year

	2011 £'000	2010 £'000
Loan repayments: instalments of principal (see note 14)	576	555
Finance lease obligations (see note 14)	32	30
Residents' funds (see note 14)	674	655
Service equalisation balances	3,381	2,814
Corporation tax	1	–
Other taxation and social security	235	235
Development 'work in progress' accruals	176	182
Accruals and deferred income	649	853
Rent in advance	105	89
Other creditors	1,361	1,305
	7,190	6,718

14 Creditors: Amounts Falling Due After More Than One Year

	2011 £'000	2010 £'000
Loans	19,686	20,262
Residents' funds	3,580	3,193
Finance lease obligation	88	120
Other	52	52
	23,406	23,627

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

i. Fixed rates between 4.59% and 5.46%.

ii. Finance Lease charged at 6%

iii. Residents funds receive interest of between 1% and 0.5% (2010: 1% and 0.5%).

	2011 £'000	2010 £'000
Instalments are due as follows:		
Within one year (note 13)	608	585
Between one and two years	626	603
Between two and five years	1,910	1,837
In over five years	17,238	17,942
	20,382	20,967

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

Residents' Funds	**Balance at 31/03/10 £'000**	**Expenditure in year £'000**	**Provided in year £'000**	**Balance at 31/03/11 £'000**
Replacement of scheme equipment	3,551	(341)	622	3,832
Owner occupier repairs	297	(334)	459	422
	3,848	(675)	1,081	4,254
split as follows:				
less than one year and included in note 13	(655)			(674)
more than one year	3,193			3,580

15 Share Capital

	2011 No.	**2010 No.**
Opening share capital	184	177
Shares allocated during the year	44	22
Shares relinquished during the year	(14)	(15)
Closing share capital	214	184

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 2011.

16 Designated Reserves – Major Repairs

	2011 £'000	**2010 £'000**
Balance at beginning of year	8,780	7,284
Transfer (to) Revenue Reserve for the year	(2,433)	(1,660)
Transfer from Revenue Reserve for the year	3,490	3,155
Balance at end of year	9,837	8,780

17 Reconciliation of Movements in Revenue Reserve

	2011 £'000	**2010 £'000**
Revenue reserve at beginning of year	8,410	6,885
Surplus for the year	2,416	3,021
Transfer (to) designated reserve (note 16)	(1,057)	(1,496)
Revenue reserve at end of year	9,769	8,410

18 Capital Commitments

Housing expenditure contracted less certified at 31 March 2011 amounted to £0.287m (2010: £1.343m). Expenditure authorised by the Committee of Management but not contracted at 31 March 2011 amounted to £nil (2010: £nil).

All of the amounts contracted for at 31 March 2011 have received approval from the Scottish Government for HAG funding, other grant providers and private finance.

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

In addition, the Committee of Management has authorised expenditure on other fixed assets amounting to £252,326 (2010: £231,062), which includes the purchase of computer equipment and software.

19 Leasing Commitments

	2011 £'000	2010 £'000
Operating leases which expire:		
Between two and five years	176	130

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

20 Pension Commitments

General

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

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to an individual participating employer as the Scheme is a multi-employer arrangement where the assets are co-mingled for investment purposes, benefits are paid from the total Scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the Scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, so that the Scheme can meet its pension obligations as they fall due.

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

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £335 million and indicated an increase in the shortfall of approximately £162 million of assets compared to liabilities, equivalent to a past service funding level of 67.4%

Growth Plan

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

Hanover (Scotland) Housing Association offers the Plan as an AVC investment option for members of the SHAPS Pension Scheme. The members pay contributions at a rate of their choice. Hanover (Scotland) Housing Association does not pay any contributions to the Plan.

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

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

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

The rules of the Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities, known as Technical Provisions.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

As at the balance sheet date there were 4 active members of the Plan employed by Hanover (Scotland) Housing Association. The Association continues to offer membership of the Plan to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Plan is a multi-employer scheme where the Plan assets are co-mingled for investment purposes and benefits are paid from the total Plan assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The valuation results at 30 September 2008 have now been completed and been formalised. The valuation of the Plan was performed by a professionally qualified Actuary using the Projected Unit Method. The market value of the Plan's assets at the valuation date was £742 million and the Plan's Technical Provisions (i.e. past service liabilities) were £771 million. The valuation therefore revealed a shortfall of £29 million of assets compared with the value of liabilities, equivalent to a funding level of 96%.

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

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

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

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

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

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

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

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

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

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

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

21 Taxation

	2011 £'000	2010 £'000
UK Corporation Tax		
Based on the results for the year	1	–
Adjustment in respect of previous periods	–	–
Total Current Tax	1	–

	2011 £'000	2010 £'000
Factors affecting tax charge for the year		
Surplus on ordinary activities before taxation	2,417	3,021
Expected tax charge at 21% (2010: 21%)	507	604
Exempt charitable activities	(506)	(604)
Adjustment to tax charge in respect of previous period	–	–
Current Tax charge	1	–

22 Housing Stock

The number of units in management as at 31 March 2011, was as follows:

	2011 No.	2010 No.
Rented – General needs housing	181	167
Rented – Supported housing accommodation	3,933	3,910
Shared ownership	32	36
Shared equity	88	88
Owner occupied	1,006	1,002
Totals	5,240	5,203

The number of units in development as at 31 March 2011, was as follows:

	2011 No.	2010 No.
Rented – General needs housing	–	10
Rented – Supported housing accommodation	–	26
	–	36

23 Average Annual Scottish Secure Tenancy Rents

	2011 £	2010 £
Average annual Scottish secure tenancy rents for housing accommodation	3,072	2,998
	%	**%**
Percentage increase from previous year	2.50%	6.30%
	No.	**No.**
Number of Scottish secured tenancies	3,860	3,801

24 Group Structure

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

- Hanover (Scotland) Housing Association Charitable Trust, a company registered in Scotland with charitable aims. This company had net outgoing resources of £6,021 (2010: £3,692 incoming) in the year and net assets at 31 March 2011 of £117,837 (2010: £123,989).

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

25 Related Party Transactions

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

To facilitate the development of a new National Common Housing Register, Hanover purchased a £1 share in a limited company (Housing Options Scotland Limited) with Bield and Trust Housing Associations. In 2005 each committed a £30,000 contribution towards the development costs of the software. Mrs Helen Murdoch, Chief Executive, was a director of the company. The company was dissolved on 18 June 2010.

During the year, Hanover (Scotland) Housing Association Ltd incurred expenditure on behalf of Hanover (Scotland) Housing Association Charitable Trust, a company limited by guarantee controlled by the Association, totalling £6,235. This was then invoiced from Hanover (Scotland) Housing Association Ltd to the Hanover (Scotland) Housing Association Charitable Trust. At the year end £1,350 was due to Hanover (Scotland) Housing Association Ltd from the General Fund of the Charitable Trust.

There were no other related party transactions in the year.

25 Contingent Liabilities

Hanover (Scotland) Housing Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme (formerly the SFHA Pension Scheme) based on the financial position of the Scheme as at 30 September 2010. As of this date the estimated employer debt for Hanover (Scotland) Housing Association was £25,144,628.

The Committee of Management is not aware of any other contingent liabilities as at 31 March 2011 (2010: Nil) and no other liabilities have emerged since.

26 Post Balance Sheet Events

The Committee of Management is not aware of any post balance sheet events as at 31 March 2011.

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