Hanover (Scotland) Housing Association Limited

Financial Statements
for the year ended 31 March 2021

Hanover (Scotland) Housing Association Limited

Registered Address and Head Office:
Hanover (Scotland) Housing Association Ltd
95 McDonald Road
EDINBURGH
EH7 4NS

External Auditor:
Anderson Anderson & Brown Audit LLP
1 Lochrin Square
92 Fountainbridge
EDINBURGH
EH3 9QA

Internal Auditors:
TIAA
Artillery House
Fort Fareham
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Solicitors:
TC Young
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Bankers:
The Royal Bank of Scotland PLC
Scotland Corporate Service Centre
Drummond House
PO Box 1727
EDINBURGH
EH12 9JN

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 2021

Hanover (Scotland) Housing Association Limited

The Board Members

Michael Martin (Chairperson)

Gary Devlin ACA CPFA

Julia Fitzpatrick MA (Hons) FCIH

Stephen Lithgow (Resigned 24 September 2020)

Fraser Mitchell

Prof Sir Geoffrey Palmer Kt OBE DSc

Joanne Roger

James Rowney MCIBS MBA MRICS

Margaret Whoriskey MBE PhD MPhil BA (Hons)

Catherine Wyllie BA CA (Vice Chairperson)

Dr Louise Reid MA (Hons) MSc

Alan Stewart (co-opted 26 November 2020)

Adele Erwin (co-opted 26November 2020)

Ashley Campbell CIHCM (co-opted 26 November 2020)

Rob Rowe (co-opted 26 November 2020)

Yunis Matter (co-opted 26 November 2020, resigned 16 February 2021)

Officers

Angela Currie CIHCM
Chief Executive (from 11 January 2021)

Adam Curry BA (Hons) ACIPD
Director of Organisational Services

Joanna Voisey
Director of Asset Management (from 22 February 2021)

Donna Henderson ACMA
Director of Strategic Finance
Acting Company Secretary

Christopher Milburn MBA MBCS
Director of Customer Services

Helen Murdoch MBA FCIH MRICS ACIPD
Chief Executive (resigned 09 January 2021)

Mark Farey BA (Hons) CIHCM MRICS
Director of Asset Management (resigned 09 August 2020)

Note that the Chief Executive and the Directors, noted here, are deemed to be the key management personnel of the Association.

Hanover (Scotland) Housing Association Limited

Review by the Board
Year ended 31 March 2021

Report of the Board incorporating the Strategic Report for the period ended 31 March 2021

The Board of Management presents its report and the audited financial statements for the year ended 31 March 2021.

Structure and Activities
Hanover (Scotland) Housing Association Limited (HSHA) (the Association) is incorporated in Scotland and registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 as a mutual society. A Scottish charity and registered social landlord (RSL), the Association is focused on providing housing and related services, mainly to older people. Hanover was founded in 1979, it has expanded both organically and through the transfer of Arklet Housing Association in November 2019, to become a national organisation that manages, on behalf of itself and others, over 5,800 properties across 24 Scottish local authority areas.

Governance and the Board
The Board has overall responsibility for managing the Association and is supported by the Audit Committee and Renumeration 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. At 31 March 2021 there are fourteen Board Members, four of whom are co-opted. This structure strengthens the Board and the control of Hanover's strategic direction and provides a streamlined and efficient governance structure.

There are clear reporting arrangements within the current structure with minutes of the Audit Committee presented to the Board. The Board operates within the agreed rules, polices, financial regulations with delegated authority given to the Chief Executive and Executive Leadership Team. Key reports on financial and corporate performance, updates on priority actions and regular strategic reports are provided to Board to enable them to monitor progress in meeting the agreed objectives.

The Board ensure appropriate levels of assurance and strategic risk management, including seeking external advice where appropriate. Board members are volunteers and are unpaid, except for expenses. We have a Board appraisal process to support skills development and identify succession planning requirements.

The Board successfully recruited four new members this year to fill a number of vacancies following a recruitment campaign. The new members were co-opted on to the Board in November and are now undergoing a detailed induction programme.

The Highlights of 2020-21

Key Personnel Changes
Hanover recruited a new Chief Executive and Director of Asset Management. Both took up their posts in the final quarter of the financial year and these two new members, along with the three other Directors, make up the Executive Leadership Team. The operating model of four directorates remains in place and will be reviewed in the following year ahead as the new Strategy takes shape.

Managing COVID-19
The impact of Covid-19 has been significant for Hanover this year. In April 2020 priorities changed to reflect the need to keep our residents and staff safe as well as to:

- Minimise exposure, build organisational resilience;
- Ensure we followed the latest government guidelines
- Recognise and value our staff and residents;

- Provide a proportionate, agile and flexible approach;
- Operate with effective communications.

Adopting new technology allowed our office based teams to work effectively from home and they continue to do so. Many of our front-line services delivering care and support continued to operate throughout the year and the Board has shown its appreciation and support to those employees in particular.

Supporting our residents through the pandemic was and continues to be a key focus and our teams have worked hard to provide services during this challenging time. Managing the financial impact has been key for the Board and the Executive Leadership Team, particularly given the impact on void rent loss and service charge income loss.

A strategic covid management group continues to meet regularly to ensure that we manage and respond to any cases of the virus, adjust to the various Restrictions Levels imposed by the Scottish Government and communicate effectively to our workforce and residents. The group have developed a sophisticated data management pack and communication framework to monitor and manage our response as the year has progressed.

Recovery & Renewal Planning

We have now begun the process of developing our recovery and renewal plan and Board have discussed this at a recent Strategy Day. In the year ahead our focus will be on identifying and agreeing our new operating model to adopt a flexible, blended model while managing the ongoing risks of void rent loss and catching up on reactive repairs, planned and capital maintenance. An additional three strategy days have been planned with the Board in the lead up to 2022/23 which will see the launch of a new five year business plan.

Progress Towards Strategic Objectives

Our purpose is to help older people feel safe and secure at home and to live fulfilling and independent lives. The current Strategy & Business Plan (2019-22) was approved by the Board in May 2019 and although year two of the plan has been impacted upon by COVID-19 further information on our activities is provided below.

In November 2019 following a transfer of undertakings Arklet Housing Association became part of Hanover and we gained 375 additional homes and 10 employees. Much of our activities in this year has centered around the integration of the organisation. A Partnership Committee was set up to support the Board to ensure that integration was achieved and this has continued to meet quarterly.

A significant amount of work has gone into the review of rents and service charges across the ex-Arklet stock and Hanover stock to ensure a consistent approach. The review work is now complete, and the Board have now approved an implementation plan that spans a five year period.

In terms of progress towards our other key objectives the three strategic areas are set out below.

People

New Build – the ambition of the Association is to grow in order to meet the increasing needs of older people and those in need of our services our development programme was delayed due to the impact of Covid-19. Our plan was to deliver 91 new build units across two new developments with one existing development being demolished and rebuilt. Delays due to the impact of Coivd-19 will mean July 2021 is the new date for the redevelopment at Buckie – Highland Yard (31 units) to be completed. The other two developments currently under construction Elgin – Spynie II (45 units) and Drymen - Conic Way (15 units) are expected to be completed in January 2022 and March 2022 respectively.

Participation & Community Involvement – although traditional engagement activities were negatively impacted this year we quickly set up a system of communicating via telephone. Residents were offered support and assistance through regular social calls and initially 300 residents received a call. This has reduced to around 80 residents who received regular weekly or fortnightly social calls.

Housing

Planned/Cyclical – we are moving to a greater use of procurement frameworks to support effective management of the programme and ensuring value for money is achieved. The initial phase of the procurement service development plan was implemented and a further review is now planned to consider how this can continue to improve.

Void Management – a specific group was established to manage the current number of voids that occurred do to Covid-19 but the group has also engaged in a review of long term voids to produce a proposal for Board on how to address these developments.

Support Services

Care & Support - 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 £2.5 million in 2020-21 (2019-20: £2.3m). We plan to continue to offer integrated care services in the future, as suitable and financially sustainable opportunities arise.

Telecare - successfully retained 100% of their contracts in 2020-21, with growth coming via Arklet as the residents transferred from Bield in August 2020. During 2020-21, Telecare achieved a surplus of £167k, or 11.7% of turnover.

Dementia Strategy – The new dementia strategy was approved by the Board in March 2020 however implementation of this important new strategy was put on hold while we focused on the pandemic but has now been restarted and in the coming year will be a key focus for Hanover.

Performance Management

Hanover continues to closely monitor key performance indicators including those required by the Scottish Housing Regulator to demonstrate assurance on meeting the Scottish Social Housing Charter. We also scrutinize key financial indicators through budget reports and set out our gearing and interest cover to meet our lending covenants and ensure ongoing financial stability

Benchmarking is undertaken and reported to managers and the Board on a quarterly basis to show comparison with the sector and against internal targets.

Our key risks as previously highlighted relate mainly to empty homes. This includes increased void rent loss, increased relet times and a reduction in the related service charge income leading to a large write-off. Rent arrears have also decreased this year. The arrears for 2019/20 included historic Arklet arrears many of which were written off in 2020/21. In terms of service provision, essential reactive repairs have continued but many routine repairs were delayed due to the restrictions. Planned maintenance of our stock has also been delayed and we will do all that we can to catch up with the programme as quickly as possible.

We expect the impact of Covid-19 to have an impact on 2021/22 in both performance and financial terms and have budgeted based on our knowledge and understanding at the time. We will carefully monitor our position and introduce quarterly reforecasting to ensure we fully understand the impact and adapt our operating systems as required through the year.

Summary of Performance Objectives	Actual 2020-21	Actual 2019-20
Housing and Repairs Services		
Average time to re-let properties - days	95.59	41.48
Void loss as % of rental and service charge income	3.62%	2.36%
Arrears as a % of rent and service charge income (net of HB)	1.05%	1.23%
Emergency Repairs - Average time to Complete – hours	3.97	3.72
Non Emergency Urgent Repairs - Average time to Complete – Days	6.45	5.88
Repairs carried out right first time	97.36%	95.76%
Complaints Handling		
Stage 1 complaints responded to in SPSO timescale	99.26%	89.8%
Stage 2 complaints responded to in SPSO timescale	94.06%	93.1%
Employee Performance		
% of staff turnover	11.55	12.36%
% of days lost through staff sickness	5.75%	4.99%
Customer Satisfaction		**2019**
% Tenants satisfied with overall service provided	81.5%	85.1%
% Owners satisfied with overall service provided	65.2%	65.4%

Financial and Non Financial Performance

The purpose of this section is to provide an appropriate assessment of the performance of the Association over 2020-21. The 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 current economic challenges and the ongoing impact of COVID-19, the Association's performance remained strong and returned an operating surplus for the year of £5.9m (2020: £3.4m).

Income from rent and service charges (note 3a) increased by 10.4% mainly due to the full year effect of the inclusion of former Arklet. Turnover increased by 6.0% to £42.7m and operating costs increased by 3.6% to £38.2m. Operating costs include expenditure on care of £2.4m, and maintenance of our properties of £0.9m. Covid-19 restrictions have resulted in less planned and capital investment at £4.7m than had been provided for in the investment plan.

The current gearing positions at 17.7% and 13% (2020: 19.8% and 11%) are shown in the Financial Performance Headlines on page 6 and provide considerable comfort in terms of ability to continue borrowing to fund future developments. Cash outflow in 2020/21 was just over £1.5m. Closing cash balance at the end of the year remains healthy at £4.4m. Cash inflow from operating activities during the year was £8.3m.

There has been a fall in customer satisfaction levels at 81.5% (2019: 85.1%) for tenants and 65.2% (2019: 65.4%) for owners. Although it is difficult to compare the results with previous years due to Covid-19, there has been a declining trend over the three surveys for both tenant and owner satisfaction. A new improvement plan is being developed to address the issues highlighted by the valuable customer feedback. Work will be undertaken with Hanover's scrutiny panel (HEART) to help develop a robust plan that will span a two year period. This work will be led by our Customer Experience Manager and supported by our Senior Management Team.

Hanover (Scotland) Housing Association Limited

Review by the Board
Year ended 31 March 2021

Financial Performance Headlines

Statement of Comprehensive Income	Note	2021 £'000	2020 £'000	2019 £'000
Turnover	2	42,700	40,274	37,833
Operating Surplus after removal of SHAPS remeasurement and repayment during the year		4,654	1,988	888
Adjusted Operating Surplus[1]		7,069	2,915	264
Interest Payable (inc capitalised interest and exc net interest on defined benefit)		1,998	1,915	1,429
Net (deficit) / surplus after removal of SHAPS remeasurement and repayment during the year		2,683	(4,153)	(628)
Statement of Financial Position				
Total Fixed Assets net of depreciation	9	194,488	193,478	168,822
Housing Association Grant	16	102,590	102,117	84,846
Total Pension Liabilities		6,467	2,333	7,738
Total Loan Debt (before deferred charges netted off)		42,064	46,524	35,179
Total Reserves		38,844	40,528	38,800
Statistical Performance		**2021**	**2020**	**2019**
Adjusted Operating Surplus as % of Turnover		16.6%	7.2%	0.7%
Interest Cover		354.4%	154.5%	18.8%
Net (deficit) / surplus as a % of turnover		6.3%	(10.3%)	(1.7%)
Gearing – Financial indebtedness as %age of Net Worth (excl pensions)		17.7%	19.8%	15.0%
Gearing – Financial indebtedness as %age of Historic Cost of Properties		13%	14%	11%

[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 2021

Housing Management
The pandemic has had a signficant impact on the average void re-let period this year at 96 days (2020: 41 days). Void rent and service charge loss of £1,276k (2020: £725k) does not include a service charge write off of £381k deemed irrecoverable. Void loss has increased significantly and remains one of the biggest challenges for 2021/22. Progress will continue to be closely monitored by our Strategic Void Group focused on reducing void numbers for the long and short term.

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 15,189 (2020:17,819) reactive repairs carried out in the year with 97.4% (2020: 95.8%) completed right first time against a target of 98%.

Housing Assets
The Association manages 5,880 properties, of which we own over 4,627. The remainder are managed on behalf of individual owners. Note 23 of the Financial Statements sets out the number of units that are both owned and managed. 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. Within the next five years it is anticipated the investment will be in region of £25m of capital component replacements.

For the next five years a programme of cyclical repairs of £7.2m and planned maintenance of £10.4m are planned. This programme also includes works required by legislation, such as the Energy Efficiency Standards for Social Housing (EESSH) which had a target date for compliance of December 2020. Currently 98% of properties comply with EESSH.

Total expenditure on revenue repairs and maintenance in the year was £4.7m (2020: £6.0m), with a further £0.93m of expenditure on our capital investment programme (2020: £2.4m). Capital and planned investment have been massively impacted by Covid-19 the defferred investment has re-profiled over the next ten years.

We received Scottish Government grants of £236k (2020: £313k) for the adaptation of 104 (2020:95) properties to meet the needs of tenants as they become increasingly frail. There has been a fall in funding during the year due to Covid-19. 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. Post pandemic 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
Developments currently under construction and stopped due to Covid-19 but are expected to complete in 2021/22 and deliver 91 new units are:

Buckie – Highland Yard	31 Units	Completion July 2021
Elgin – Spynie 2	45 Units	Phased Completion June 2022 to January 2022
Drymen – Conic Way	15 Units	March 2022

Currently included in the Stategic Housing Investment Plan and at internal appraisal stage are a number of developments which could potentially start in 2021/22 including:

Elgin – Village Garden	Units 25	August 2021
Prestwick – Glenburn Road	Units 38	September 2021
Bearsden – Bearsden Road	Units 20	November 2021
Troon – Low St Meddans	Units 28	February 2022
New Scone – Stormont Road	Units 42	December 2022
Edinburgh - Sunnyside	Units 16	January 2023

These housing assets are included on the Statement of Financial Position (SOFP) at £187.6 million (2020: £187.5 million), which is gross historical cost less depreciation. Housing Association Grant is included as deferred income and stands at £102.6 million (2020: £102.1 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. This has proved a significantly important factor whilst navigating the Association through a global pandemic whilst ensuring that the safety of our customers and staff is a key priority.

The Association continues to benchmark its working environment to ensure that it provides competitive salary and benefits to its staff. The job market is increasingly competitive and for Hanover to remain an appealing employer of choice that attracts and retains the best people, we continue enhancing our brand, showing that Hanover offers a distinctive employee experience. Over 2021-22 we will continue to improve our system of attraction, recruitment, retention, engagement, and performance.

During 2020/21, the average number of staff employed by the Association was 617 (2019/20: 599), a full-time equivalent of 469 (2019/20: 464).

Pension Strategy

In 2015 the Board approved a Pension Strategy with short, medium and long-term outcomes. The Strategy's overarching principle remains to have an occupational pension scheme which is fair and equitable for all staff, which is viable across all timescales. The major risk in terms of viability involved the increasing funding requirement needed to sustain two Defined Benefit Pension schemes, operated respectively by The Pensions Trust and Lothian Pension Scheme. The increased funding affected ongoing employer contributions and long-term responsibility for historic deficits, respectively. The Association closed The Pensions Trust defined benefit scheme entirely from 1 April 2016. Scheme members had the option to transfer to the same provider's Defined Contribution Scheme or, the Group Personal Pension Scheme (the provision introduced to implement Auto-enrolment legislation).

In late 2019 the Association commenced its statutory consultation with members of the Lothian Pension Fund regarding the closing of that Scheme. Members would have the option in the event of closure to join The Pensions Trust Defined Contribution Scheme or the Group Personal Pension Scheme. Spence and Partners, a consultancy specialising in actuarial and pensions management, was engaged to ensure full and proper conduct of the closure process.

The Triennial Funding Review was released in December 2020, and showed a worsened deficit position from £3.3m to £3.6m. The consultation process was placed on hold due to Covid-19 but recommenced in February and is ongoing and in light of this the cessation payment has not been recognised in 2020/21.

Subject to the completion of continuing consultation, the cessation of the Lothian Pension Fund would fulfil the strategic objective of having only two pension schemes:

- The Pensions Trust defined contribution scheme and,
- For statutory purposes , and for staff who may not wish to or be able to afford the higher rate of contribution in the above scheme, the Group Personal Pension Scheme.

Customer Engagement

The objectives contained in Hanover's Customer Engagement and Customer Scrutiny Strategies are being implemented by the Association. We now have mechanisms in place to ensure that our customers' voices are 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.

Information and Communications Technology (ICT)

The ICT section at the Association plays a crucial role in supporting the organisation and never more so than in the midst of a pandemic when a large portion of staff are working from home. The primary focus of the ICT team is the delivery of the ICT initiatives supporting the delivery of the strategic objectives of the Association. The focus is very much 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. Covid-19 has expediated this, and 2020/21 saw the successful role out of Microsoft Office 365 which kept staff connected via teams during the pandemic. The additional functionality of 365 will continue to be rolled out in 2021/22.

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 residents, although this was impacted by Covid-19 restrictions. This project will also include elements of the analogue to digital migration for the telephone and telecare, providing good analysis prior to the 2025 analogue switch off. 2021/22 will also see the formation of a new Digital Strategy to support the new 5 year Strategy.

Employee Involvement and Health and Safety

Health and Safety for the Association has become systemically important since the COVID-19 pandemic and it will continue to be a key area of operations for the foreseeable future. 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. We have recently been awarded Investors in Diversity status and continue to embed these values across our business.

Accounting Policies
The principal accounting policies are covered in detail in Note 1 of the Financial Statements on pages 25 to 30.

Revenue Reserves
The revenue reserve represents our accumulated surpluses. The long term target is an average of 5.2% growth.

It is important to generate sufficient reserves to pursue the Association's objectives and 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 is provided on page 20.

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 Strategy. The strategy 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 optimising excess cash and liquid resources held.

The Association manages interest rate risk by utilising a high proportion of fixed interest debt. At 31 March 2021, 86% of the debt portfolio was at a fixed rate (2020: 80%).

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

Going Concern
The Board has in the course of 2020-21 reviewed the results for this year and has also reviewed the projections for the next five years. Stress testing and scenario planning has been undertaken and detailed financial forecasts have been provided. Long term financial forecasts have been updated regularly to reflect the changes in the current operating environment due to the impact of Covid-19. A new five year Business Plan is being developed for launch in 2022/23.

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 - 16. The financial position of the Association, its cash flows, liquidity position and borrowing facilities are described on pages 21 - 24 and notes 11 - 13 to the financial statements. The level of cash balances at the end of 2020/21 were less than last year but still considered high at £4.4m and sufficient to meet the current liabilities as they fall due.

A previously agreed term loan £20m was transferred into a new revolving credit facility in 2020/21 to provide increased flexibility on the back of the changing development environment impacted by Coivd-19. This facility remains undrawn but available to meet the development requirements for the next two years. Therefore, the Association continues to operate on a going concern basis.

Hanover (Scotland) Housing Association Limited

Review by the Board
Year ended 31 March 2021

The Association has considerable financial resources together with long-term income from its customers, and the Board believe that the Association is well placed to manage its business risks successfully despite the current uncertain economic outlook. The impact of COVID-19 will be continuously monitored and plans in the short and long term will be adapted to recognise any financial implications.
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 Covid-19, in the context of reductions in public sector spending, and remains committed to investment in the maintenance and upgrading of our customers' homes. 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.

Risks
The Association recognises the critical importance of monitoring and assessing the changes taking place in our operating environment and our risk register and 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 Executive Leadership Team, Audit Committee and our Board. Key risks currently facing the Association are set out below.

Key Risks – Identified as High Risk

Key Risks Identified	Action being taken
Covid-19 If the Association fails to effectively respond to a COVID-19 out-break then the effect to residents and staff, and therefore the business overall, would be severely negatively impacted	• Incident Management Team established • Infectious control policy updated • Raising staff awareness surrounding hand washing etc. • Numerous pieces of work (policy/procedure etc.) have been reviewed, updated and implemented in light of Covid-19 • Working groups, both strategic and operational, implemented and continue to meet on a regular basis • Procedures/processes are fluid and are adapted as we transition through the Covid-19/Lockdown phases • Ongoing Board reporting • Risk Assessments carried out on a variety of areas and will continue to be developed and implemented as the need arises • Centralised stock of PPE established

Review by the Board
Year ended 31 March 2021

Reduction in funding for supported housing If funding for supported housing reduces and there is no suitable alternative design, or if the new design involves significant redundancy costs, then the impact could put the Very Sheltered (VS) developments and care services in jeopardy	• Continued lobbying of the Scottish Government • Active analysis by the Housing Support Strategy Group (HSSG) in regards to funding by way of the RAG traffic light system • Robust internal process in relation to early negotiation clauses within 3yr contracts • Service re-design • 4% return built into business models • Brixx analysis modelling / Project appraisals • Where a request for an increase of service is made (within an existing contract) a full business analysis is undertaken • Proactive Development Strategy in place, the HSSG meet regularly to ensure the implementation of new service design - Board approved timescale for VS decommissioning by April 2022 • Housing with Care model (revised model which operates without Housing Support) at Morris Court, Dalry in place • Actively meeting with LAs • Negotiations underway to agree long term contracts for the continuation of Housing Support funding in some Local Authority areas
Brexit If the economic circumstances of Brexit impact on the UK Government, then there could be significant impact to the Association in relation to: finances (potentially higher prices i.e. tender costs/cost of materials etc) OJEU Procurement	• Inflation scenario testing • G20 updates • Letters sent to contractors requesting information re "Implications of Brexit on your service provision for HSHA" • Regular bullitins and updates from Treasury Advisors

Review by the Board

Year ended 31 March 2021

Statement of Responsibilities of the Board

The Co-operative and Community Benefit Societies Act 2014 requires 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 2019. 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 auditor is 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 auditor.

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 pages 13 -14 of this review.

3. The internal auditor was appointed in 2019 for a three year period The second year of the programme of work, based on the Audit Needs Assessment and an internal risk review, was completed in 2020/21. 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. Within 2021-22 there will be a review of the financial control framework carried out.

Auditor

A resolution for the appointment of Anderson, Anderson & Brown Audit LLP, as auditor of the Association, will be proposed at the Annual General meeting.

On behalf of the Board

Board Member: Michael Martin

Date: 26 August 2021

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 Limited (the Association) for the year ended 31 March 2021 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 2021 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 properly prepared in accordance with the requirements of Co-operative and Community Benefits Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – February 2019, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of the Charities Accounts (Scotland) regulation 2006 (as amended).

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

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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

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 13, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: timing of recognition of income, posting of unusual

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

journals along with complex transactions and manipulating the Company's key performance indicators to meet targets. We discussed these risks with client management, designed audit procedures to test the timing of revenue, tested a sample of journals to confirm they were appropriate and reviewed areas of judgement for indicators of management bias to address these risks.

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.

Andrew Shaw
For and on behalf of Anderson Anderson & Brown Audit LLP,
Statutory Auditor
Eligible to act as auditor in terms of section 1212 of the Companies Act 2006
Chartered Accountants
1 Lochrin Square
92 Fountainbridge
EDINBURGH
EH3 9QA

Date: 30 August 2021

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

In addition to our audit of the Financial Statements, we have reviewed your statement on pages 13 -14 concerning the Association's compliance with the information required by Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

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

Opinion

In our opinion the Statement on Internal Financial Control on pages 13 - 14 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.

Andrew Shaw
For and on behalf of Anderson Anderson & Brown Audit LLP
Statutory Auditor
Chartered Accountants
1 Lochrin Square
92 Fountainbridge
EDINBURGH
EH3 9QA

Date: 30 August 2021

Hanover (Scotland) Housing Association Limited

Statement of Comprehensive Income

For the year ended 31 March 2021

	Notes	2021	2020
		£'000	£'000
Turnover	2	42,700	40,274
Less: Operating Costs	2	(36,859)	(36,760)
Gain / (loss) on disposal of housing property		42	(162)
Operating Surplus		5,883	3,352
Business combination – Excess of fair value of liabilities over the fair value of assets acquired	28	-	(4,223)
Interest receivable and other income	7	3	28
Interest payable and financing costs	8	(1,963)	(1,945)
Surplus / (Deficit) before taxation		3,923	(2,788)
Taxation	21	(5)	(1)
Surplus / (Deficit) for the year		**3,918**	**(2,789)**
Actuarial Gain / (Loss) on pension obligations	20	(5,502)	4,517
Total comprehensive income for the year		**(1,584)**	**1,728**

The results for the year relate wholly to continuing activities.

The notes on pages 25 to 48 form part of these financial statements.

Hanover (Scotland) Housing Association Limited

Statement of Changes in Reserves

	£'000
Income and Expenditure Reserve	
Balance at 31 March 2019	38,800
Deficit from the Statement of Comprehensive Income	(2,789)
Other Comprehensive Income	
Actuarial gain in respect of pension schemes	4,517
Balance at 31 March 2020	40,528
Surplus from the Statement of Comprehensive Income	3,918
Other Comprehensive Income	
Actuarial gain in respect of pension schemes	(5,502)
Balance at 31 March 2021	38,944

Hanover (Scotland) Housing Association Limited
Statement of Financial Position at 31 March 2021

	Notes		2021		2020
Fixed Assets		£'000	£'000	£'000	£'000
Non-Current Assets:					
Intangible assets	9		588		578
Housing properties	9		187,628		187,478
Other tangible fixed assets	9		5,272		5,422
Investment in subsidiary	24		1		1
			193,489		193,479
Current Assets					
Trade and other debtors	10	2,259		2,221	
Cash and cash equivalents	11	4,410		5,932	
		6,669		8,153	
Current Liabilities					
Creditors: Amounts falling due within one year	12	(8,463)		(11,931)	
Net Current (Liabilities) / Assets			(1,794)		(3,778)
Total Assets less Current Liabilities			191,695		189,701
Creditors: Amounts falling due after more than one year	13		(146,284)		(146,840)
Provisions	15		(27)		(32)
Defined benefit pension liabilites	20		(6,440)		(2,301)
Total Net Assets			38,944		40,528
Capital and Reserves					
Share Capital	14		-		-
Income and Expenditure Reserve			38,944		40,528
Total Reserves			38,944		40,528

The Board approved and authorised the financial statements for issue on 26 August 2021 and are signed on its behalf by:

Chairperson: **Mike Martin**

Board Member: **Gary Devlin**

Company Secretary: **Donna Henderson**

The notes on pages 25 to 48 form part of these financial statements.

Statement of Cash Flows
For the year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Net cash generated from operating activities	(i)	8,286	3,824
Cash Flow from Investing Activities			
Purchase of tangible fixed assets	9	(7,010)	(10,095)
Proceeds from sale of tangible fixed assets		86	41
Grants received		3,497	2,713
Proceeds from sale of asset held for resale		-	190
Cost of disposals		-	(21)
Interest received		3	28
Cash acquired on business combination		-	1,825
Net cash used in investing activities		(3,424)	(5,319)
Cash Flow from Financing Activities			
Interest paid		(1,924)	(1,795)
New loans		-	3,000
Repayments of borrowings		(4,460)	(1,211)
Net cash from financing activities		(6,384)	(6)
Net Decrease in cash		(1,522)	(1,501)
Opening cash at beginning of year		5,932	7,433
Closing cash at end of year		4,410	5,932

Notes to the Cash Flow Statement for the year ended 31 March 2021

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

	2021 £'000	2020 £'000
Surplus / (Deficit)	3,918	(2,789)
Business combination – excess of fair value of liabilities over the fair value of assets	-	4,223
Depreciation on Housing Properties	6,303	5,901
Depreciation on Other Fixed Assets	465	445
Amortisation on Intangible Fixed Assets	188	207
Amortisation of Capital Grants	(2,955)	(2,819)
(Gain) / Loss on disposal of assets	(42)	162
Changes in owners' funds	143	(177)
Changes in service and heating charges	108	175
SHAPS Remeasurement	1	(1)
Decrease in pension provision	(1,406)	(1,430)
Deferred Finance Charge write down	26	9
Pension Past Service Deficit paid in year	(7)	(6)
Interest receivable	(3)	(28)
Interest paid	1,963	1,945
Taxation paid	1	1
Operating cash flows before movement in working capital	**8,703**	**5,818**
Increase in trade and other debtors	(60)	(60)
Decrease in trade and other creditors	(357)	(1,934)
Cash generated from operations	**8,286**	**3,824**

(ii) Analysis of net debt

	At 31 March 2020 £'000	Cash Flow £'000	Other Change £'000	At 31 March 2021 £'000
Cash and short term deposits	5,932	(1,522)	-	4,410
Debt due within one year	(4,441)	4,460	(1,313)	(1,294)
Debt due after one year	(41,666)	-	1,287	(40,379)
Total	(40,175)	2,938	(26)	(37,263)

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

	2021 £'000
Decrease in cash and short term deposits in the period	(1,522)
Decrease in loans in the period	4,434
Change in net debt	2,912
Net debt at 1 April 2020	(40,175)
Net debt at 31 March 2021	(37,263)

Notes to the Financial Statements for the year ended 31 March 2021

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 its registered office is 95 McDonald Road, Edinburgh EH7 4NS.

a) Going Concern

Through out the global Covid-19 pandemic, the Association has conducted regular stress testing and forecasting and is confident that there will be no detrimental impact on loan covenants, liquidity or cash flows. Creditors due after more than 1 year were less than the previous year mainly due to the repayment of a £3m revolving credit facility repayment in October 2020, for which there is sufficient cash available to repay. Cash balances at the end of 2020/21 were less than last year but still considered high at £4.4m and sufficient to meet current liabilities due. Therefore the Association continues to operate on a going concern basis.

b) 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 2018 "Statement of Recommended Practice for Registered Housing Providers" and comply with the Determination of Accounting Requirements 2019, and under the historical cost convention.

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

c) Accounting judgements and estimations of accounting

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

Management reviews its estimates of the useful lives of depreciable assets at each reporting date, using both internal and external advice. See note f) 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) and SHAPS (defined benefit), the valuations prepared by the Scheme actuaries includes estimations in relation to life expectancy, salary growth, inflation and the discount rate on corporate bonds (details as per note 20). Variations in these estimations may significantly impact the liability and the annual defined benefit expenses (as analysed in Note 20). The defined benefit pension liabilities as at 31 March 2021 were £1.946m and £4.494m for the LPF and SHAPS respectively. Our commitment to the SHAPS Growth Plan, of £7k (plus 3% increase) per annum over the next 4 years has been discounted at a rate of 0.66%, amounting to a net present value of £27k.

Following SORP 2018 guidance, any gains or losses arising on the disposal of replacement components are recognised within operating surplus. These are disclosed separately from operating costs.

The transfer of Arklet housing properties in 2019-20 was valued on the basis of estimated use value for social housing (EUV-SH) which uses a significant level of estimation by the valuer. These properties will be subject to a triennial revaluation where future variations in rent levels may impact on valuations.

d) Turnover and Revenue Recognition

Turnover represents rental and service charge income receivable, income from the sale of housing properties are recognised in the period in which they are due. Fees and revenue based grants receivable from Local Authorities and Scottish Government, and charges to Hanover Telecare service users are recognised in the period to which services were provided. Grant income is recognised when all conditions have been met and the Association is entitled to the income.

e) Social Housing Grant and Other Grants

For developments under the terms of the Housing (Scotland) Act 2010, Housing Association Grant (HAG) is paid directly to the Association as required to meet its liabilities during the development process.

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

f) Housing properties and depreciation

i) Housing properties are properties for the provision of social housing or to otherwise provide social benefit. Housing properties are stated at cost less accumulated depreciation and impairment losses. Cost includes the cost of acquiring land and buildings, development expenditure and interest charged on the funds used to finance housing projects in the development period less depreciation.

ii) Works to existing properties will generally be capitalised under the following circumstances: where a component of the housing property that has been treated separately for depreciation purposes and depreciated over its useful economic life is replaced or restored; or where the subsequent expenditure provides an enhancement of the economic benefits of the tangible fixed assets in excess of the previously assessed standard of performance. Such enhancement can occur if the improvements result in an increase in rental income, a material reduction in future maintenance costs or a significant extension of the life of the property. Works to existing properties which fail to meet the above criteria are charged to operating costs within the Statement of Comprehensive Income.

iii) The major components are deemed to be: Land, Structure, Roof Structure and Coverings, Bathrooms, Kitchens, Doors, Windows, Lifts, Intercom/Door Entry, Radiators/Pipework, Storage Heating, Boilers and Smoke Alarms. Each component has a substantially different economic life and is depreciated over this individual life. Depreciation rates are shown in note f)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 its service potential, and fair value less costs to sell.

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

Component	Useful Economic Life
Structure	60 years
Roof Structure	60 years
Radiators and Pipework for Commercial Boilers	40 years
Roof Covering	35 years
Windows	30 years
Radiators / Pipework	30 years
External Doors	30 years
Bathrooms	30 years
Kitchens	20 years
Lifts	20 years
Commercial Boilers	20 years
Biomass Boilers	20 years
Boilers	15 years
Storage Heating	15 years
Intercom / Door Entry	15 years
Smoke Alarms	10 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.

ix) Properties, which are no longer in use and are marketed for sale as at 31 March, are held as assets for sale at their estimated realisable sale value net of disposal costs.

x) Gains or losses arising on the disposal of replacement components are recognised within operating surplus. These are disclosed separately from operating costs.

g) Other fixed assets

Other fixed assets purchased that are over the value of £1,000 are capitalised.

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

Office premises	2% - 15%
Garages	7%
Equipment	20% – 25%

h) 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. Intangible assets are depreciated on a straight line basis at 20% per annum. This depreciation charge is included within the Association's operating costs.

i) Transfer of Engagement
The transfer of engagements from Arklet HA in 2019-20 was deemed as a public benefit entity combination carried out at nil consideration. The excess of fair value of the liabilities assumed over the fair value of the assets acquired is recognised as an expense within the Statement of Comprehensive Income in the year of transaction, as it represents the gift of the value of one entity to another.

j) 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.

k) 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.

l) Service equalisation accounts – tenanted properties
The Association maintains Service Charge Equalisation accounts for tenanted properties. These accounts hold the under/over recovery of costs at the tenanted developments and are recognised in debtors / long term creditors respectively.

m) 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.

o) 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 Revenue Reserves page 12).

p) 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.

q) 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.

r) 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.

s) 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. 16 employees (2020:17 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.

The Association is able to identify its share of the scheme assets and liabilities for the Scottish Housing Association Pension Scheme (SHAPS). The scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

As at the year ended 31 March 2021, the net defined benefit pension deficit liability was £4.494m, which has been included within the provisions for pensions liability in the financial statements. In the year ended 31 March 2021, the current service cost and costs from settlements and curtailments are charged against the operating surplus. Past service costs are recognised in the current period within the income and expenditure account. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Refer to Note 20 for more details.

For the Pensions Trust's Growth Plan, 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 estimated future liability for the Past Service Deficit is held as a provision and is shown in note 15.

t) 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 less any amounts settled. Where the arrangement with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

Borrowings

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

Commitments to receive a loan are measured at cost less impairment.

Cash and Cash Equivalents

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

u) 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	2021 Operating Surplus £'000	2020 Operating Surplus £'000
Social Lettings	3a	34,898	(29,425)	5,473	3,171
Other Activities	3b	7,802	(7,434)	368	343
		42,700	**(36,859)**	**5,841**	**3,514**
Gain / (Loss) on disposal of housing property		42	-	42	(162)
Total for 2021		**42,742**	**(36,859)**	**5,883**	**3,352**
Total for 2020		**40,274**	**(36,922)**	**3,352**	

3a Income and Expenditure from Affordable Letting Activities

	General Needs Housing £'000	Supported Housing Accommodation £'000	Shared Equity & Ownership Accommodation £'000	Total 2021 £'000	Total 2020 £'000
Rent receivable net of Identifiable Service Charges	1,923	18,919	89	20,931	18,962
Service Charges receivable	163	11,963	-	12,126	11,258
Gross income from rents & service charges	2,086	30,882	89	33,057	30,220
Less: Voids	(39)	(1,237)	-	(1,276)	(725)
Net income from rents & service charges	**2,047**	**29,645**	**89**	**31,781**	**29,495**
Other Revenue Grants	-	162	-	162	449
Grant released from deferred income	297	2,635	23	2,955	2,818
Total turnover from affordable letting activities	**2,344**	**32,442**	**112**	**34,898**	**32,762**
Management & maintenance administration costs	391	5,609	11	6,011	6,187
Service costs	124	11,739	-	11,863	11,187
Planned and cyclical maintenance including major repairs costs	55	1,503	-	1,558	2,677
Reactive maintenance costs	186	2,971	-	3,157	3,331
Bad debts - rents and service charges	7	526	-	533	308
Depreciation of affordable housing	651	5,614	38	6,303	5,901
Operating Costs for affordable letting activities	**1,414**	**27,962**	**49**	**29,425**	**29,591**
Operating Surplus for affordable letting	**930**	**4,480**	**63**	**5,473**	**3,171**
Operating Surplus for affordable letting for previous period of account	**607**	**2,526**	**38**	**3,171**	

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	2021 Surplus/ (Deficit) for the Year £'000	2020 Surplus/ (Deficit) for the Year £'000
Wider Role Activities	-	-	-	-	-	-	-	-	-
Care & Repair of Property	-	-	-	-	-	-	-	-	-
Investment property activities	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	2,173	2,173	-	(2,173)	-	-
Support Activities	-	-	1,050	-	1,050	-	(1,052)	(2)	(181)
Care Activities	-	-	-	2,452	2,452	-	(2,397)	55	147
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	-	-	-	1,429	1,429	-	(1,262)	167	188
Stage 3 Adaptations	-	182	-	-	182	-	(182)	-	-
Other Activities*	-		-	516	516	-	(368)	148	189
Total from Other Activities	**-**	**182**	**1,050**	**6,570**	**7,802**	**-**	**(7,434)**	**368**	**343**
Total from Other activities for year ended 31 March 2020	**-**	**298**	**1,066**	**6,148**	**7,512**	**-**	**(7,169)**	**343**	

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

4 Key Management's Emoluments

Key management personnel (KMP) 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. The KMP consist of the Chief Executive and the Directors, as noted on page 1.

	2021 £'000	2020 £'000
Total emoluments for the above key management personnel (excluding pension contributions and benefits in kind):	398	414
The emoluments (excluding pension contributions) of the Chief Executive amounted to :	126	116

The emoluments of the Chief Executive represent the total amount paid to the two postholders during the year.

The total emoluments payable to the highest paid member of the key management personnel amounted to :	135	159

The number of key management personnel, who received emoluments (excluding pension contributions) were within the following ranges:	2021 No. of Key Mgt Personnel	2020 No. of Key Mgt Personnel
£60,001 to £70,000	-	-
£70,001 to £80,000	1	1
£80,001 to £90,000	2	2
£90,001 to £100,000	1	-
£100,001 to £110,000	-	-
£110,001 to £120,000	-	1

The Association made pension contributions of £54,477 (2020: £84,056) on behalf of those key management personnel including £34,788 (2020: £43,647) to the highest paid.

The Board had a membership of 14 as at 31 March 2021 and a maximum of 11 members during the year. No payment of fees or other remuneration was made to the members during the year.

	2021 £'000	2020 £'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:	1	2

5 Employee Information

	2021 No.	2020 No.
The average monthly FTE number of persons (including key management personnel) employed in the year was:	469	464
The average number of persons (including key management personnel) employed in the year was:	617	599

Staff costs (including key management personnel emoluments)	2021 £'000	2020 £'000
Wages and salaries	13,243	12,638
Social security costs	1,067	999
Pension costs	825	833
BUPA	15	15
	15,150	14,485

Payments to the value of £24,568 (2020: £32,996), in respect of redundancy costs, are included within the totals for staff costs.

Average FTE Employees per Month

Apr-20	467	Oct-20	465
May-20	477	Nov-20	468
Jun-20	469	Dec-20	468
Jul-20	470	Jan-21	470
Aug-20	469	Feb-21	472
Sep-20	467	Mar-21	470

6 Operating Surplus

	2021 £'000	2020 £'000
Operating surplus is stated after charging/ (crediting) :		
Depreciation (exc Intangible Assets)	6,475	6,346
Amortisation on Intangible Assets	(188)	207
Grant amortisation	(2,955)	(2,819)
Repairs: cyclical, planned, day to day	4,715	6,008
External auditors' remuneration – audit services	39	26
Internal auditors' remuneration	16	19
Hire of plant and machinery - rentals payable under operating leases	102	183

7 Interest Receivable and Other Income

	2021 £'000	2020 £'000
Interest receivable on bank deposits	3	28

8 Interest Payable and Similar Charges

	2021 £'000	2020 £'000
Housing loans:		
On loans from banks and building societies repayable in more than 5 years	1,998	1,906
Less interest capitalised in year	(74)	(120)
	1,924	1,786
Interest on owner occupier funds	-	9
Net return on pension assets	39	150
	1,963	1,945

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 2020	276,406	1,163	1,059	3,591	**282,219**	7,008	1,730	**8,738**	**1,529**
Additions in the year	915	-	-	5,582	**6,497**	-	315	**315**	**198**
Transfers in the year	10	-	-	(10)	**-**	-	-	**-**	**-**
Disposals in the year	(60)	(42)	-	-	**(102)**	-	(236)	**(236)**	**(309)**
At 31 March 2021	277,271	1,121	1,059	9,162	**288,614**	7,008	1,809	**8,817**	**1,418**
Depreciation									
At 1 April 2020	94,019	123	599	-	**94,741**	2,151	1,165	**3,316**	**951**
Provided during year	6,265	20	18	-	**6,303**	151	314	**465**	**188**
Disposals in the year	(39)	(19)	-	-	**(57)**	-	(236)	**(236)**	**(309)**
At 31 March 2021	100,245	125	616	-	**100,987**	2,302	1,243	**3,545**	**830**
Net book value									
at 31 March 2020	182,387	1,040	460	3,591	**187,478**	4,857	565	**5,422**	**578**
at 31 March 2021	177,026	997	443	9,162	**187,628**	4,706	566	**5,272**	**588**

9 Tangible Fixed Assets (continued)

a) The Association has received £181,601 (2020: £298,487) in the year in respect of Housing Association Grant for Adaptations of which £181,601 (2020: £298,487) has been treated as revenue and £nil (2020: £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 £17,613 per unit at 31 March 2021.

c) For major repairs during the year the Association spent £1.96m (2020: £4.07m): £0.93m (2020: £2.16m) was capitalised for replacement components; and £1.03m (2020: £1.91m) was expensed through operating costs in the Statement of Comprehensive Income. A further £0.2m (2020: £0.2m) was capitalised for expenditure on new developments completed in 2019/20 and 2018/19. £Nil (2020: £nil) of additions relate to improvements.

d) Development administration costs capitalised in the year amounted to £232,996 (2020: £171,298).

e) Interest capitalised in the year amounted to £73,639 (2020: £119,509). The interest capitalised was in respect of the interest paid on loans used specifically for new development expenditure. Interest capitalised was 3.7% of total loan interest (2020: 6.3%).

f) Shares were held at nil cost from Barclays plc. Market value of 104 shares at 31 March 2021 is £193 (2020: £86). Also 89 shares in Banco Santander were held at nil cost. The market value of these shares at 31 March 2021 is £223 (2020: £169).

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 £21,423k which is not depreciated.

10 Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Rental debtors	698	619
Less: bad debt provision	-	-
	698	619
HAG receivable	132	188
Owners service charge balances	37	88
Tenants Service Charge Balances	223	132
Tenants Heating Charge Balances	22	28
Other debtors	497	631
Prepayments and accrued income	650	535
	2,259	2,221

11 Cash and Cash Equivalents

	2021 £'000	2020 £'000
Cash and cash equivalents	4,410	5,932

12 Creditors: Amounts Falling Due Within One Year

	2021 £'000	2020 £'000
Loan repayments: instalments of principal (see note 13)	1,294	4,441
Deferred capital grants (see note 16)	2,997	3,050
Owners' funds (see note 13)	559	448
Owners service charge balances	301	321
Corporation Tax	5	1
Other taxation and social security	56	305
Development 'work in progress' accruals	211	199
Accruals and deferred income	2,249	1,250
Rent in advance	300	233
Trade creditors	491	1,683
	8,463	11,931

13 Creditors: Amounts Falling Due After More Than One Year

	2021 £'000	2020 £'000
Loans	40,379	41,666
Deferred capital grants (see note 16)	99,593	99,067
Owners' funds	210	178
Tenants Service Charge Balances	5,055	4,869
Tenants Heating Charge Balances	983	1,007
Other	64	53
	146,284	146,840

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 £391k (2020: £417k) 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 3.52% and 6.64% (2020: between 3.52% and 6.64%).
ii. Residents funds receive interest of 0% (2020: 1% and 0.5%).

	2021	2020
Loan instalments are due as follows:	£'000	£'000
Within one year (note 12)	1,294	4,441
Between one and two years	1,319	4,485
Between two and five years	3,757	3,083
In over five years	35,303	34,098
	41,673	46,107

Owners' Funds	Balance at 31/03/20 £'000	Expenditure in year £'000	Provided in year £'000	Balance at 31/03/21 £'000
Owners replacement of scheme equipment	102	(4)	9	107
Owner occupier repairs	524	(389)	527	662
	626	(393)	536	769
Split as follows :				
Less than one year and included in note 12	(448)			(559)
More than one year	178			210

14 Share Capital

	2021 No.	2020 No.
Opening share capital	374	328
Shares allocated during the year	15	77
Shares relinquished during the year	(24)	(31)
Closing share capital	365	374

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 2021.

15 SHAPS Growth Plan Pension Provision

	2021 £'000	2020 £'000
Balance at start of year	32	39
Utilised in the year	(7)	(6)
Remeasurement	1	(1)
Unwinding of discount	1	-
Balance at end of year	27	32

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 4 years.

16 Deferred Capital Grants

	2021 £'000
Grant	
As at 1 April 2020	174,111
Grant received in the year	3,441
Grant repaid / abated in the year	(24)
As at 31 March 2021	174,528
Amortisation of Grant	
As at 1 April 2020	71,994
Grant released during the year	2,955
Disposals / abatements	(11)
As at 31 March 2021	74,938
Net book value at 31 March 2020	102,117
Net book value at 31 March 2021	102,590
Shown as:	
Amount to be released within one year	2,997
Amount to be released after more than one year	99,593

17 Financial Instruments

As at 31 March 2021, the Association held the following financial assets and liabilities:

	£'000
Financial assets measured at amortised cost	6,233
Financial assets measured at fair value	-
Total financial assets	6,233

	£'000
Financial liabilities measured at amortised cost	51,753
Financial liabilities measured at fair value	-
Total financial liabilities	51,753

18 Capital Commitments

Housing expenditure contracted less certified at 31 March 2021 amounted to £5.06m (2020: £4.66m). Expenditure authorised by the Board but not contracted at 31 March 2021 amounted to £1.51m (2020: £1.62m). Furthermore, the Board has authorised expenditure on capitalised major repairs and replacement components amounting to £0.7m (2020: £4.59m).

In addition, the Board has authorised expenditure on other fixed assets amounting to £0.4m (2020: £1.03m), which includes the purchase of computer equipment and software.

The 2021/22 approved budget provides for restricted planned capital works due to Covid-19. If restrictions continue to ease, the budget will be revised and re-presented to the Board to allow additional works to progress. A £20m revolving credit facility is in place to finance future commitments but remains undrawn at 31 March 2021.

19 Leasing Commitments

	2021 £'000	2020 £'000
Amounts due:		
Within one year	102	130
Between one and five years	28	92
	130	222

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

20 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 2021/22 is £1,246k to the SHAPS scheme and £273k to the LPF scheme.

Scottish Housing Associations Pension Scheme

The Association participates in the Scottish Housing Associations' Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 150 non-associated employers. The Scheme is a defined benefit scheme in the UK.

The Scheme is subject to 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, provide the framework for funding defined benefit occupational pension schemes in the UK.

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2018. This valuation revealed a deficit of £121m. A Recovery Plan has been put in place to eliminate the deficit which will run to either 30 September 2022 or 31 March 2023 (depending on funding levels) for the majority of employers, although certain employers have different arrangements.

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.

For accounting purposes, a valuation of the scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward to the relevant accounting dates, allowing for the different financial assumptions required under FRS102 by a qualified independent actuary, and are used in conjunction with the Association's share of the scheme's total assets to calculate the Association's net deficit at the accounting period start and end dates. The SHAPS net deficit as at 31 March 2021 is £4.494m (2020: £1.053m).

Principal actuarial assumptions at the balance sheet date	**2021**	**2020**
	p.a.	**p.a.**
Discount rate	2.15%	2.39%
Salary growth	3.86%	2.65%
Inflation (RPI)	3.29%	2.65%
Inflation (CPI)	2.86%	1.65%

Fair value of employer assets	**2021**	**2020**
	£'000	**£'000**
Equities	30,748	26,548
Bonds	3,959	4,228
Property	4,121	3,852
Cash	3,668	3,130
Total Estimated Employer Assets	42,496	37,758

Movement in deficit during the year	**2020**
	£'000
Deficit in scheme at beginning of year	(1,053)
Movements during the year:	
Expenses	(39)
Contributions paid	1,226
Other finance costs	(11)
Actuarial (loss) / gain	(4,617)
Deficit at the year end	**(4,494)**

The amounts recognised in the balance sheet are as follows:

	2021 £'000	2020 £'000
Present value of funded liabilities	(46,990)	(38,811)
Fair value of employer assets	42,496	37,758
Net Liability	(4,494)	(1,053)

Expense recognised in the statement of comprehensive income

	2021 £'000
Expenses	(39)
Losses/(Gains) on Curtailments and Settlements	-
Net interest on net defined benefit obligations	(11)
	(50)

The expense is recognised in the following line items in the statement of comprehensive income

	2021 £'000
Current service costs in operating costs	36,859
Net interest in interest payable and financing costs	1,963

The total amount recognised in the statement of comprehensive income In respect of actuarial changes

	2021 £'000
Actuarial losses	(4,617)

Movements in present value of defined benefit obligation	2021 £'000
Opening defined benefit obligation	38,811
Expenses	39
Interest cost	908
Actuarial losses	8,826
Estimated benefits paid	(1,594)
Closing defined benefit obligation	**46,990**

Movements in the fair value of plan assets are as follows:	£'000
Opening fair value of employer assets	37,758
Expected return on assets	897
Contributions by members	-
Contributions by the employer	1,226
Contributions in respect of unfundedbenefits	-
Actuarial gains	4,209
Estimated unfunded benefits paid	-
Estimated benefits paid	(1,594)
Closing fair value of employer assets	**42,496**

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 2017. This valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. 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 £11.24m will be paid to the scheme per annum to 31 January 2025. These deficit contributions will be paid monthly and will increase by 3% each year on 1 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 were 2 active members 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 0.66% (2020: 2.53%). 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 2021 the present value of the Association's share of the deficit funding was £27k. This is held within provisions in the SOFP. This liability will be paid over the next 4 years. The amount to be paid in 2021/22 is £6.8k.

Lothian Pension Fund

The Association participates in the Lothian Pension Fund ("the Scheme") and had 16 active members at the balance sheet date (17 active members in 2020). 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 41.4% during the accounting period and individual members paid contributions between 5.6% and 8.0%.

The last formal valuation of the Association's share of the Scheme assets and liabilities was performed at 31 March 2020 by a professionally qualified actuary using the projected unit method. The results from that valuation have been projected forward to 31 March 2021 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	**2021**	**2020**
	p.a.	**p.a.**
Pension increase rate	2.85%	2.00%
Salary increase rate	3.35%	3.60%
Discount rate	1.95%	2.30%

Fair value of employer assets	**2021**	**2020**
	£'000	**£'000**
Equities	2,907	2,442
Bonds	3,979	3,731
Property	230	271
Cash	536	339
Total Estimated Employer Assets	7,651	6,783

Movement in deficit during the year	**2021**	**2020**
	£'000	**£'000**
Deficit in scheme at beginning of year	(1,248)	(1,806)
Movements during the year:		
Current service cost	(250)	(317)
Contributions paid	464	431
Other finance costs	(27)	(42)
Actuarial (loss) / gain	(885)	486
Deficit at the year end	**(1,946)**	**(1,248)**

Hanover (Scotland) Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2021

The amounts recognised in the balance sheet are as follows:	2021 £'000	2020 £'000
Present value of funded liabilities	(9,577)	(8,011)
Fair value of employer assets	7,651	6,736
	(1,926)	(1,275)
Present value of unfunded liabilities	(20)	(20)
Deficit	(1,946)	(1,295)
Net Liability	(1,946)	(1,295)

Expense recognised in the statement of comprehensive income	2021 £'000	2020 £'000
Current service cost	(250)	(317)
Losses/(Gains) on Curtailments and Settlements	-	-
Net interest on net defined benefit obligations	(27)	(42)
	(277)	(359)

The expense is recognised in the following line items in the statement of comprehensive income	2021 £'000	2020 £'000
Current service cost in operating costs	36,859	36,760
Net interest in interest payable and financing costs	1,963	1,945

The total amount recognised in the statement of comprehensive income In respect of actuarial changes	2021 £'000	2020 £'000
Actuarial (losses) / gains	(885)	439

Movements in present value of defined benefit obligation	2020 £'000	2020 £'000
Opening defined benefit obligation	8,031	8,319
Current service cost	250	317
Interest cost	185	201
Contributions by members	48	55
Actuarial losses / (gains)	1,339	(638)
Losses/ (gains) on curtailment	-	-
Estimated unfunded benefits paid	(1)	(1)
Estimated benefits paid	(255)	(222)
Closing defined benefit obligation	**9,597**	**8,031**

Movements in the fair value of plan assets are as follows:	£'000	£'000
Opening fair value of employer assets	6,783	6,513
Expected return on assets	158	159
Contributions by members	48	55
Contributions by the employer	463	430
Contributions in respect of unfunded benefits	1	1
Actuarial gains	454	(152)
Estimated unfunded benefits paid	(1)	(1)
Estimated benefits paid	(255)	(222)
Closing fair value of employer assets	**7,651**	**6,783**

21 Taxation

	2021	2020
UK Corporation Tax Charge	£000	£000
Based on the results for the year	(5)	(1)
Total Current tax	(5)	(1)
Factors affecting tax charge for the year		
Surplus / (Deficit) on ordinary activities before taxation	3,923	(2,788)
Expected tax (charge) / credit at 19% (2019: 19%)	(745)	530
Adjusted for:		
Net liabilities acquired on a business combination	-	(802)
Exempt charitable activities	740	271
Current tax charge	(5)	(1)

22 Housing Stock

The number of units in management as at 31 March 2021, was as follows:

	2021	2020
	No.	No.
Rented - General needs housing	392	391
Rented - Supported housing accommodation	4,235	4,238
Shared ownership	34	35
Shared equity	105	106
Owner occupied	1,114	1,113
Totals	5,880	5,883

1 shared ownership unit was sold in the year. The sale proceeds were £98k and the gain on disposal was £64k. The gain is recognised within the Statement of Comprehensive Income.

The number of units in development as at 31 March 2021, was as follows:

	2021	2020
	No.	No.
Rented - General Needs housing	64	66
Rented - Supported housing accommodation	27	25
	91	91

23 Average Annual Scottish Secure Tenancy Rents

	2021	2020
	£	£
Average annual Scottish secure tenancy rents for housing accommodation	4,458	4,731
	%	%
Percentage (decrease) / increase from previous year	(5.8%)	14.7%
	No.	No.
Number of Scottish secure tenancies	4,331	4,367

24 Group Structure

Hanover Scotland Housing Asociation has the following wholly owned subsidiary undertaking. As part of the transfer of engagements with Arklet Housing Association in November 2019, Arklet Homes Limited a wholly owned subsidiary was also transferred. The registered office of the subsidiary is Barrland Court, Barrland Drive, Giffnock. Companies House registration number is SC268847.

Period ended 31 March 2021	Reserves	Profit / (Loss)
	£	**£**
Arklet Homes Limited	1,000	-

25 Related Party Transactions

There were no related party transactions in the year.

26 Contingent Liabilities

The Board is not aware of any contingent liabilities as at 31 March 2021 and no other liabilities have emerged since.

27 Post Balance Sheet Events

The Board is not aware of any post balance sheet events, which affect the Association as at 31 March 2021.

28 Transfer of Engagements

On the 7 November 2019 Hanover Scotland Housing Association acquired the assets and liabilities of Arklet Housing Association for £nil consideration.

At 7 November 2019 (the ‘acquisition’ date), the assets and liabilities of Arklet Housing Association were consolidated at their fair values. The excess of fair value of liabilities acquired over the value of the assets acquired of (£4,223k) was recognised in the Statement of Comprehensive Income in 2019-20.