Hanover (Scotland) Housing Association Limited

Financial Statements
for the year ended 31 March 2020

Hanover (Scotland) Housing Association Limited

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

Bankers:
The Royal Bank of Scotland PLC
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EDINBURGH
EH12 9JN

External Auditors:
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EH3 9QG

Internal Auditors:
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Artillery House
Fort Fareham
Newgate Lane
Fareham
PO14 1AH

Solicitors:
TC Young
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GLASGOW
G2 1BA

Registered Housing Association No. 124
Financial Conduct Authority No. 1983 R (S)
Scottish Charity Registration SC014738
Registered Property Factor No PF000340

Hanover (Scotland) Housing Association Limited

Financial Statements for the year ended 31 March 2020

Hanover (Scotland) Housing Association Limited

The Board Members

Michael Martin (Chairperson)

Gary Devlin ACA CPFA

Julia Fitzpatrick M.A (Hons) FCIH (co-opted November 2019)

Stephen Lithgow BA (Hons) BSc (Hons) MSc

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 (Appointed September 2019)

Prof Alison Petch (resigned 26/09/2019)

Mr Iain Wallace (co-opted in November 2019 resigned 19/03/2020)

Officers

Helen Murdoch MBA FCIH MRICS ACIPD
Chief Executive

Adam Curry BA (Hons) ACIPD
Director of Organisational Services

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

Donna Henderson ACMA
Director of Strategic Finance
Acting Company Secretary (from 9 March 2020 to date)

Christopher Milburn MBA MBCS
Director of Customer Services

Margaret Wallace MA (Hons) CA
Interim Director of Strategic Finance (Appointed 11 September 2019, resigned 6 March 2020)

Karen McIntosh FCCA
Director of Strategic Finance
Acting Company Secretary (resigned 24 September 2019)

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 2020

Report of the Board incorporating the Strategic Report for the period ended 31 March 2020

Structure and Activities
Hanover (Scotland) Housing Association Limited (HSHA) (the Association) is a registered society in terms of the Co-operative and Community Benefit Societies Act 2014. A Scottish charity and registered social landlord (RSL), the Association is focused on providing housing and related services, mainly to older people. 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 Association is regulated by the Scottish Housing Regulator and managed by an elected Board of Management (the Board). The Association has 374 (2019: 328) members, each of whom holds a single fully-paid £1 share. It is from this number, its governing body, the Board is elected and members who served on it, in the year, are listed at page 1. The Board brings together a broad range of skills, experience and strengths to ensure good governance.

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

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

The Highlights of 2019-20
The year saw a number of highlights for Hanover as we continued to celebrate our 40th anniversary, since 1979 the organisation has moved from managing 7 developments to a total of 223 today.

In June our development at Kesson Court in Elgin won the Saltire Housing Design Award, the CIOB Good Building Award and the Saltire Medal.

In November 2019 we launched our Connected Communities report with a reception at the Scottish Parliament and later that month we also completed our successful merger with Arklet Housing Association.

COVID-19 The Strategic Approach
With the arrival of the pandemic in March 2020 the strategic priorities for the Association have changed. The safety of our residents and staff is the Board's primary concern. To facilitate the long term safety of staff and residents key strategic principles have been established and are now in place to guide us:

- Minimise exposure, build organisational resilience;
- Follow the latest government guidelines;
- Ensure the health and safety of our staff and residents;
- Value our staff and residents;
- Provide a proportionate, agile and flexible approach;
- Operate with effective communications.

The journey to a normal situation will be long and complex and to get to the 'new normal' we are phasing each stage of the journey. Technology, our people and our finances are the key components in getting the Association through these difficult and unprecedented times and they will continue to provide the backbone in supporting Hanover for a considerable time.

To help focus on working through the pandemic the business has been categorised into three classes of priority:

- Business critical
- Business essential
- Business desirable

All energies were initially focused in ensuring all the business critical tasks were completed and these included Care Services, Enhanced Services, Telecare Services, IT, Finance and Management team. This was successfully achieved and business essential tasks are now being reintroduced; these include Board Meetings, year end audit, voids and allocations and maintenance and development programmes. Business operations deemed business desirable will be undertaken once business critical and essential operations are achieved and a 'new normal' is established.

A strategic planning team is in place to stabilise the business critical areas to ensure there is capacity and that contingency plans are in place. With an uncertain path to the 'new normal' each phase is being carefully planned. Whilst there may be some relaxation of current restrictions soon, getting the economy up and running and people back to work will need to be done with continued social distancing and the continuance of safety rules.

The Board's expectations have to be proportionate to the pressures which may be experienced. Equally our services must be sensitive to the needs of our residents, supporting them, along with our partners in the best way we can.

Strategy and objectives

The strategic business plan for 2019-22 was approved by the Board in May 2019. Although the business plan and objectives remains the same the impact of COVID-19 will affect the timescales and potentially the delivery of the strategy and the objectives. Our purpose is "to help older people feel safe and secure at home and to live fulfilling and independent lives". At the heart of all corporate objectives are our key principles to: put the customer first in all models of delivery; and engage employees, customers and partners in the development of a hub and spoke concept. This is underpinned by the key strategic objectives of:

1. People; *'To help our customers to live the lives they want by providing them with modern and safe accommodation and supporting services. To promote their wellbeing, enabling them to live as healthy, independent and secure lives as possible and encourage and assist their participation and involvement as they choose in their communities.'*

2. Housing; '*To provide quality, well maintained, safe, sustainable and affordable housing for people wishing to live in the rented or owner-occupied sectors.'*

3. Support Services; *'To provide a range of quality, innovative, flexible and affordable support and care services to reflect what our customers want and need, to achieve best value and independent living.'*

The overall ambition of the Association is to grow in order to meet the increasing needs of older people and those in need of our services. Most of our current developments are either Amenity or Enhanced housing where residents are provided with support and assurance in order to sustain tenancies and live independently.

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

The external operating environment remains challenging especially in light of the recent COVID-19 pandemic but we continue to recognise the importance of providing innovative and cost effective homes and services that meet our ambitions and at the same time ensuring the long term financial sustainability of the business.

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

Market
Scotland's older population is growing and the number of people of pensionable age is projected to increase by 28% compared to 2014 figures, reaching 1.36 million by 2039. In particular, the fastest increases will be in those aged 75+ who are the most intensive users of health and care services. By 2039 there could be over 800,000 people aged 75+ living in Scotland, an 85% increase over the 25 year period from 2014 – 2039 housing for the elderly is a major target market for the Association. The coming decade will also see an increase in the numbers of old people with multiple conditions such as dementia and learning difficulties. Clearly COVID-19 is having an impact on this sector of society but it is hoped that with the control measuers in place, this won't be significant.

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

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

In 2018 the Scottish Government publication "Age, Home and Community: the next phase", continued with this vision that older people in Scotland should live full and positive lives in homes that meet their needs.

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

Housing
We are considering new and innovative ways of providing housing and associated services. This, together with a robust asset management strategy of remodelling and/or re-provisioning of our housing stock and re-design of housing support services will ensure that the future needs and aspirations of customers continue to be met.

Care at Home and Integrated Services
The 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 £2.3 million in 2019-20 (2018-19: £2.1m). We plan to continue to offer integrated care services in the future, as suitable and financially sustainable opportunities arise.

Hanover Telecare
The Telecare service is provided from three monitoring control centres, in Edinburgh, Glasgow and Elgin. This allows the Association to proactively market various additional services, for example, an Out of Hours Repairs service and Lone Worker monitoring, in addition to being able to demonstrate a more resilient Telecare service, for both individual and corporate customers. Due to COVID-19 the Telecare Service is being delivered by staff working from home, this has been very successful and the service will continue to be delivered this way until lockdown measures have been relaxed.

The Association now has the expertise and technology to develop new services, allowing us to enter new markets and strengthen our brand.

Communications Strategy
In order to ensure that our customers and potential customers are fully aware of the services that Hanover provides, Hanover's Board agreed a three year Communications Strategy in 2017. The Strategy is closely aligned with Hanover's values and aims to support and enable us to achieve our overall objectives, fulfil our purpose and commitments and deliver the priority actions in our business plan.

The specific aims set out in the strategy are to:

- Contribute to building Hanover's reputation
- Increase awareness of the Hanover brand
- Assist in achieving Hanover's commitments and priority actions
- Assist in achieving the objectives of the Hanover Business Plan
- Enhance engagement with our staff and customers

Partnering
We continue to work constructively with others where this can improve our efficiency and effectiveness and help us to achieve our strategic objectives. Therefore, partnership working might take place across the range of our activities including: construction of new properties; modernisation and/or remodelling of existing developments; management of our properties; delivery of key services, including factoring services and the development of new services, including Telecare initiatives and Care at Home.

We have already put in place a number of joint initiatives with Bield, Trust and other Housing Associations reguarding progressing key areas to support black and minority ethnic older people. This has allowed us to pool resources, reduce costs and lead the field in innovation.

The Public Bodies (Joint Working) Scotland Act 2014 has led to the integration of adult health and social care services across Scotland. This is resulting in an organic evolution of services and has contributed to the development of new transformational models of care. Meetings have been held with several Integrated Joint Boards (IJBs), who have acknowledged the role that housing will play in the delivery of integrated care and support. This has led in Moray to the development of two new developments delivering innovative services integrating health and social care. Specifically, one of our new Housing with Care developments, Varis Court in Forres, has NHS staff working out of part of the development and has generated a lot of interest in the housing, social care and health sectors in the UK, as an exemplar of how health and social integration may unfold.

Housing Support

Following an options appraisal in 2015, we have proactively, in consultation with residents and in collaboration with local authorities, withdrawn most housing support services across our sheltered housing stock. As a result the funding for Housing Support has reduced from £1.3m in 2018/19 to £1.1m this year. In those local authorities where housing support has been withdrawn, a new enhanced housing management service has been introduced.

Local Authorities remain under financial pressure and the withdrawal of Housing Support funding by some local authorities is now also affecting some of our Very Sheltered stock. In consultation with our residents and through collaboration with local authorities we are redesigning the services provided to ensure that we can continue to provide the high level of services required by our residents and that the service remains financially viable for the long term. For as long as is necessary and definitely in the short to medium term the impact of COVID-19 and social distancing will be factored into the way in which our services are delivered.

Performance Management

A strong performance management framework is in place and is directly linked to our strategic objectives. All parts of the business work to key performance indicators through the performance management process, WorkPlanning. The process is based on the principles of setting agile objectives that link to strategic priorities, providing developmental feedback and focussing learning and development on personal and professional growth. Through listening to user feedback, the system has been through continuous improvement to make it more efficient and user friendly. It now incorporates standardised behaviours for much of our development based staff to make the process of measuring and managing behaviours more effective.

The senior management team has developed a series of key performance indicators for Hanover some of which are noted in the table below. There are many areas that have remained broadly similar with the exception of voids. The Association is working on new processes to improve the re-let times and reduce void loss. This is unlikely to be achieved in the short term with the Association following the government guidelines on voids and allocations which will ultimately impact on the time taken to relet void properties.

Summary of Performance Objectives	**Actual 2018-19**	**Actual 2019-20**
Housing and Repairs Services		
Average time to re-let properties - days	35.99	41.48
Void loss as % of rental and service charge income	2.12%	2.36%
Arrears as a % of rent and service charge income (net of HB)	0.67%	1.11%
Emergency Repairs - Average time to Complete - hours	3.61	3.72
Non Emergency Urgent Repairs - Average time to Complete – Days	5.16	5.88
Repairs carried out right first time	96.4%	95.76%
Complaints Handling		
Stage 1 complaints responded to in SPSO timescale	91%	89.8%
Stage 2 complaints responded to in SPSO timescale	97.6%	93.1%
Employee Performance		
% of staff turnover	13.4%	12.36%
% of days lost through staff sickness	4.35%	4.99%

Financial and Non Financial Performance

The purpose of this section is to provide an appropriate assessment of the performance of the Association over 2019-20.

The Association's key strategic objectives include remaining financially viable, delivering value for money and achieving a financial surplus to meet our long term commitments.

The Board is pleased to report, that despite the ongoing economic challenges and the initial impact of COVID-19, the Association's performance remained strong and returned an operating surplus for the year of £3.4m (2019: £2.2m).

Income from rent and service charges (note 3a) increased by 8.4% and reflects the transfer of engagements from Arklet, the rent increases applied in April 2019 together with rent and service charges received on our new build properties completed during the year. Turnover from other activities, excluding the planned withdrawal from housing support increased by £157k.

Turnover increased by 6.45% to £40.3m and operating costs increased by 3.5% to £36.8m. Operating costs include expenditure on care of £2.1m, and maintenance of our properties of £6m. The total investment on all maintenance including capital replacement was £8.4m.

Following a strategic options review, Arklet's Board decided it was in the best interest of the tenants and key stakeholders to seek a formal partnership in order to ensure that going forward rents were affordable and required future investment in the properties could be met.

Hanover and Arklet have combined by way of a transfer of engagements. The accounting treatment for this type of business combination required that the Arklet assets and liabilities are transferred to Hanover at fair value. For Arklet there has been an excess of liabilities over assets at fair value. This excess was due to the Arklet housing properties being transferred at fair value rather than historical cost. This has resulted in a net liability of £4.2m being charged as an expense within the Statement of Comprehensive Income. The overall effect of this has resulted in a deficit of £2.8m for 2020/21 before actuarial gain on pension obligations. A dormant subsidiary of Arklet, Arklet Homes Ltd was also transferred. There have been no transactions through the subsidiary in over 8 years. Group accounts have not been prepared.

The Statement of Financial Position continues to show a position of overall strength. Fixed Assets have increased to £193.5m with the former Arklet Housing Association stock accounting for £21.2m of the increase.

There has been a change in the treatment of service charge equalisation accounts whereby the surpluses and deficits are now carried forward as debtors and creditor balances. This represents the correction of a treatment applied in previous years and is explained in note 1 and has resulted in a prior period adjustment with the effect outlined in note 30. This has reduced the reserves balance brought forward at 1 April 2018 by £4,162k. The actuarial gain on the Association's pension obligations was £4.52m this year.

The current gearing positions at 19.8% and 14% (2019: 15.0% and 11%) are shown in the Financial Performance Headlines on page 8 and provide considerable comfort in terms of ability to continue borrowing to fund future developments. Cash outflow in 2019/20 was just over £1.5m. Closing cash balance at the end of the year remains healthy at £5.9m. Cash inflow from operating activities during the year was £3.8m.

The Board considers the financial results of the Association for the year ended 31 March 2020 to be positive and demonstrate the financial strength of the organisation.

Review by the Board
Year ended 31 March 2020

Financial Performance Headlines

Statement of Comprehensive Income	Note	2020 £'000	2019 Restated £'000	2018 Restated £'000
Turnover	2	40,274	37,833	36,289
Operating Surplus after removal of SHAPS remeasurement and repayment during the year		1,988	888	3,204
Adjusted Operating Surplus[1]		2,915	264	2,129
Interest Payable (inc capitalised interest and exc net interest on defined benefit)		1,915	1,429	1,114
Net (deficit) / surplus after removal of SHAPS remeasurement and repayment during the year		(4,153)	(628)	1,993
Statement of Financial Position				
Total Fixed Assets net of depreciation	9	193,478	168,822	162,631
Housing Association Grant	17	102,117	84,846	82,770
Total Pension Liabilities		2,333	7,738	6,887
Total Loan Debt (before deferred charges netted off)		46,524	35,179	27,943
Total Reserves		40,528	38,800	40,136

Statistical Performance	2020	2019	2018
Adjusted Operating Surplus as % of Turnover	7.2%	0.7%	5.9%
Interest Cover	154.5%	18.8%	191.8%
Net (deficit) / surplus as a % of turnover	(10.3%)	(1.7%)	5.5%
Gearing – Financial indebtedness as %age of Net Worth (excl pensions)	19.8%	15.0%	13.6%
Gearing – Financial indebtedness as %age of Historic Cost of Properties	14%	11%	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 2020

Housing Management

The average void re-let period this year was 41 days (2019: 36 days) with a void rent and service charge loss of £725k (2019: £600k). Void loss has increased sigfnificantly this year and it remains a challenge which will continue to be closely monitored in the future.

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 17,819 (2019:16,432) reactive repairs carried out in the year with 95.8% (2019: 96.4%) completed right first time against a target of 98%. A full stock condition survey has recently been completed and the procurement for the capital and planned works is currently underway. Over a 30 year period investment is expected to total £159m which includes £15m investment relating to the former Arklet stock.

Housing Assets

The Association manages over 5,800 properties, of which we own over 4,600. 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 excess of £27m.

For the next five years a programme of cyclical repairs of £3.7m and planned maintenance of £6.8m are planned. This programme also includes works required by legislation, such as the Energy Efficiency Standards for Social Housing (EESSH) which has a target date for compliance by December 2020. Currently 98% of properties comply with EESSH.

Total expenditure on revenue repairs and maintenance in the year was £6.0m (2019: £5.2m), with a further £2.4m of expenditure on our capital investment programme (2019: £3.3m). This investment results in our residents benefitting from new kitchens, bathrooms, doors, windows and heating systems.

We received Scottish Government grants of £298k (2019: £344k) for the adaptation of 126 (2019:133) properties to meet the needs of tenants as they become increasingly frail. There has been a slight fall in funding during the year. The Association has, through previous research on Social Return on Investment (SROI), demonstrated the value of adaptations where for every £1 spent there is a total return on investment of between £5.50 and £6.00. We 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

During the 12 months ended 31 March 2020, the Association completed 2 new developments adding 44 new units at Dunbar Place (14 units) and Loxa Court (30 units). There was 1 unit redeveloped at New Road, Tarves. As part of the transfer of engagement of Arklet, a total of 434 units were acquired which included rented and shared ownership (391), shared equity (18) and owner occupied (25).

Developments currently under construction and stopped due to COVID-19, are Drymen (15 units), Buckie–Highland Yard (31 units) and Elgin–Spynie (45 units). It is anticipated that the construction of these developments will be not be completed until 2021/22.

If the construction stopped due to COVID-19 restarts before September 2020 works on developments at Bearsden Road - Partick 22 units and Elgin - Lesmurdie 33 units could start with completion likely to be in 2021/22.

It's not expected that any developments currently under construction will be completed in 2020/21 with potentially five developments being completed in 2021/22.

These housing assets are included on the Statement of Financial Position (SOFP) at £187.5 million (2019: £162.8 million), which is gross historical cost less depreciation. Housing Association Grant is included as deferred income and stands at £102.1 million (2019: £84.8 million).

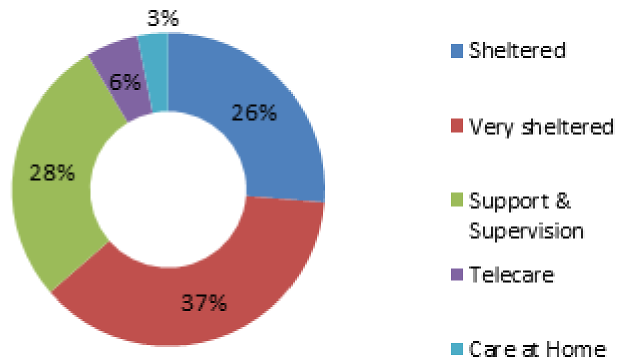
Details of fixed assets are set out in Note 9.

Employees

Without a devoted, motivated and well trained workforce we would not be able to meet the needs of our customers. The Association continues to benchmark its working environment to ensure that it provides competitive 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 2020-21 we will continue to improve our system of attraction, recruitment, retention, engagement and performance.

During 2019/20, the average number of staff employed by the Association was 599 (2018/19: 577), a full-time equivalent of 464 (2018/19: 438). The split of staff employed across the services is as shown below. The increase in staff relates to those who provide services in the very sheltered sector and the 10 staff transferred from Arklet Housing Association via TUPE.

Figure 1



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 responsibilty 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 Defined Benefit Scheme 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. A cessation payment of £3.3m has been agreed with Lothian Pension Scheme. During consultation, Scheme members expressed concern that the proposed closure of the Scheme in 2020-2021 would occur at a time when the results of its Triennial Funding Review were due to be published and that the results of the Review may show an improvement in the funding status.

The Triennial Funding Review will be released on 01 October 2020, after consideration of which we will advise the Board of its content prior to continuing consultation. In light of this, the cessation payment has not been recognised in 2019/20.

Subject to the completion of continuing consultation, the cessation of the Lothian Pension Defined Benefit Scheme 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 customer's voice is heard and that customers have opportunities to participate in a variety of ways. The creation of our Hanover HEART scrutiny panel has enabled increased tenant interaction with our Board. We also operate a well-established volunteering programme to assist in providing vulnerable customers with access to a range of additional services, such as befriending. Our Volunteer Coordinator has also been successful in obtaining grant funding for some of the social activities we are running for the benefit of our customers.

Information and Communications Technology (ICT)

The ICT section at the Association plays a crucial role in supporting the organisation. The primary focus of the ICT team is the delivery of the ICT 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. This will ensure that the engagement of stakeholders with Hanover is facilitated and barriers are removed.

Digital Inclusion work includes the on-going roll out of WiFi to communal areas on our developments which is encouraging the use of new technology amongst our residents. This project will also involve the installation of electronic notice boards in developments to improve communications.

Employee Involvement and Health and Safety

The Association is fully aware of its responsibilities relating to Health and Safety and encourages employee involvement in all major initiatives. The Association has detailed policies on health and safety including evacuation plans for our offices and developments and provides staff training on these areas. 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.

Equality and Diversity

The Association has a legal and moral obligation as a good and socially responsible service provider and employer to be fair and equitable in the treatment of its customers, employees and others. With an increasingly diverse market place we are firmly committed to providing equal access to service and employment opportunities. Our policies, procedures and practices ensure that no one is disadvantaged.

Accounting Policies

The principal accounting policies are covered in detail in Note 1 of the Financial Statements on pages 27 to 32.

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 22.

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 2020, 80% of the debt portfolio was at a fixed rate (2019: 95%).

Creditor Payment Policy

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

Review by the Board
Year ended 31 March 2020

Going Concern
The Board has in the course of 2019-20 reviewed the results for this year and has also reviewed the projections for the next five years. Stress testing has been undertaken and a revised budget will go to the September Board providing a plan incorporating the lastest forecasts. A new Business Plan model is being developed to take account of the latest stock condition survey information recently completed, the development programme that has been impacted by COVID-19 and the most up to date projections.

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 24 - 26 and notes 12 - 14 to the financial statements. There is a higher level of creditors due within 1 year which relates to the £3m revolving credit facility due for repayment in October for which there is sufficient cash available to repay once due. The level of cash balances at the end of 2019/20 were less than last year but still considered high at £5.9m and sufficient to meet the current liabilities as they fall due. Therefore, the Association continues to operate on a going concern basis.

The Association has considerable financial resources together with long-term income from its customers. Funding is already in place to meet the development programme for the next two years.
As a consequence, the Board believe that the Association is well placed to manage its business risks successfully despite the current uncertain economic outlook. The 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 reductions in public sector spending combined with sustained maintenance expenditure. On the basis of the assumptions used in the projections of income and expenditure, longer term plans over the next 30 years offer a satisfactory picture of viability.

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 Chief Officers and our Board. Key risks currently facing the Association are:

Key Risks – Identified as High Risk

Key Risks Identified	Action being taken
Telecare Service	• Third call centre opened in the Elgin area office

If we fail to adequately staff the Telecare service then there is a risk of service failure, loss of TSA accreditation and loss of corporate customers. COVID-19 impacting on service delivery	• Consideration being given to pre-emptive recruitment going forward • Staff establishment has been increased • An enhanced pay system is now in place • Swift implementation of home working solution
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 • Brixx analysis modelling / Project appraisals • 4% return built into business models • 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 • Newhaven Report (by Gillian Young on Rent Policy and impact of the LHA, March 2017) • 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

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;

Review by the Board

Year ended 31 March 2020

- 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 auditors are unaware. They confirm that they have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Statement on Internal Financial Controls

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

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

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

   - formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority which allow the monitoring of controls and restrict the unauthorised use of the Association's assets;
   - experienced and suitably qualified staff take responsibility for the important business functions and annual appraisal procedures have been established to maintain standards of performance;
   - forecasts and budgets are prepared which allow the Management Team and Board to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;

Review by the Board

Year ended 31 March 2020

- 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 Association's new internal auditor was appointed in 2019, the first year of the programme of work, based on the Audit Needs Assessment and an internal risk review, is complete. In addition to individual reports resulting from the ongoing programme of work, the internal auditor prepares an annual report for the Audit Committee each year. These arrangements are considered appropriate to the scale and range of the Association's activities and comply with the requirements contained in the Scottish Housing Regulator's Regulatory Advice Note: Internal Financial Controls and Regulatory Standards September 2014.

4. The effectiveness of the Association's system of internal financial control has been reviewed by the Audit Committee. 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 2020-21 there will be a review of the financial control framework carried out.

Auditors

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

On behalf of the Board

Board Member: Michael Martin

Date: 16 July 2020

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

Opinion

We have audited the financial statements of Hanover (Scotland) Housing Association (the Association) for the year ended 31 March 2020 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 2020 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – February 2019.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

Matters on which we are required to report by exception

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

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

Responsibilities of the Board

As explained more fully in the Board's Responsibilities Statement set out on page 14-15, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

RSM UK Audit LLP

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: 24/7/20

Hanover (Scotland) Housing Association Limited

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

In addition to our audit of the Financial Statements, we have reviewed your statement on pages 15 -16 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 15 - 16 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.

RSM UK Audit LLP

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
Fountainbridge
Edinburgh
EH3 9QG

Date: 24/7/20.

Statement of Comprehensive Income

For the year ended 31 March 2020

	Notes	2020 £'000	2019 Restated £'000
Turnover	2	40,274	37,833
Less: Operating Costs	2	(36,760)	(35,528)
(Loss) / gain on disposal of housing property		(162)	(105)
Operating Surplus		3,352	2,200
Business combination – Excess of fair value of liabilities over the fair value of assets acquired	29	(4,223)	-
Interest receivable and other income	7	28	28
Interest payable and financing costs	8	(1,945)	(1,542)
(Deficit) / Surplus before taxation		(2,788)	686
Taxation	22	(1)	(2)
(Deficit) / Surplus for the year		**(2,789)**	**684**
Actuarial Gain / (Loss) on pension obligations	21	4,517	(1,276)
Remeasurement of SHAPS pension obligation	21	-	(744)
Total comprehensive income for the year		**1,728**	**(1,336)**

The results for the year relate wholly to continuing activities.

The notes on pages 27 to 52 form part of these financial statements.

Hanover (Scotland) Housing Association Limited

Statement of Changes in Reserves

	£'000
Income and Expenditure Reserve	
Balance at 1 April 2018	44,298
Prior Period Adjustment (note 30)	(4,162)
Balance at 1 April 2018 (restated)	40,136
Surplus from the Statement of Comprehensive Income (restated)	684
Other Comprehensive income	
Actuarial Loss on pension obligations	(1,276)
Remeasurement of SHAPS pension obligation	(744)
Balance at 31 March 2019 (restated)	38,800
Deficit from the Statement of Comprehensive Income	(2,789)
Other Comprehensive Income	
Actuarial gain in respect of Pension Liabilities	4,517
Balance at 31 March 2020	40,528

Hanover (Scotland) Housing Association Limited

Statement of Financial Position at 31 March 2020

	Notes		2020		2019 Restated
Fixed Assets		£'000	£'000	£'000	£'000
Non-Current Assets:					
Intangible assets	9		578		669
Housing properties	9		187,478		162,807
Other tangible fixed assets	9		5,422		5,346
Investment in subsidiary	25		1		1
			193,479		168,823
Current Assets					
Asset held for sale	10	-		190	
Trade and other debtors	11	2,221		1,992	
Cash and cash equivalents	12	5,932		7,433	
		8,153		9,615	
Current Liabilities					
Creditors: Amounts falling due within one year	13	(11,931)		(9,158)	
Net Current (Liabilities) / Assets			(3,778)		457
Total Assets less Current Liabilities			189,701		169,280
Creditors: Amounts falling due after more than one year	14		(146,840)		(122,742)
Provisions	16		(32)		(39)
Defined benefit pension liabilites	21		(2,301)		(7,699)
Total Net Assets			40,528		38,800
Capital and Reserves					
Share Capital	15		-		-
Income and Expenditure Reserve			40,528		38,800
Total Reserves			40,528		38,800

The Board approved and authorised the financial statements for issue on 16 July 2020 and are signed on its behalf by:

Chairperson: **Mike Martin**

Board Member: **Gary Devlin**

Company Secretary: **Donna Henderson**

The notes on pages 27 to 52 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Net cash generated from operating activities	(i)	3,824	6,695
Cash Flow from Investing Activities			
Purchase of tangible fixed assets		(10,095)	(12,571)
Proceeds from sale of tangible fixed assets		41	72
Grants received		2,713	5,402
Proceeds from sale of asset held for resale		190	-
HAG repaid		-	(35)
Cost of disposals		(21)	-
Interest received		28	28
Cash acquired on business combination		1,825	-
Net cash used in investing activities		(5,319)	(7,104)
Cash Flow from Financing Activities			
Interest paid		(1,795)	(1,364)
New loans		3,000	8,000
Repayments of borrowings		(1,211)	(763)
Net cash from financing activities		(6)	5,873
Net (Decrease) / Increase in cash		(1,501)	5,464
Opening cash at beginning of year		7,433	1,969
Closing cash at end of year		5,932	7,433

Notes to the Cash Flow Statement for the year ended 31 March 2020

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

	2020 £'000	2019 Restated £'000
(Deficit) / Surplus	(2,789)	684
Business combination – excess of fair value of liabilities over the fair value of assets	4,223	-
Depreciation on Housing Properties	5,901	5,351
Depreciation on Other Fixed Assets	445	406
Amortisation on Intangible Fixed Assets	207	223
Amortisation of Capital Grants	(2,819)	(2,687)
Loss on disposal of assets	162	105
Changes in owners' funds	(177)	62
Changes in service and heating charges	175	1,456
SHAPS Remeasurement	(1)	(7)
(Decrease) in pension provision	(1,430)	(1,333)
Unwinding of discounted liabilities	-	1
Deferred Finance Charge write down	9	9
Pension Past Service Deficit paid in year	(6)	(7)
Interest receivable	(28)	(28)
Interest paid	1,945	1,541
Taxation paid	1	2
Operating cash flows before movement in working capital	**5,818**	**5,778**
(Increase) / Decrease in trade and other debtors	(60)	392
(Decrease) / Increase in trade and other creditors	(1,934)	525
Cash generated from operations	**3,824**	**6,695**

(ii) Analysis of net debt

	Restated At 31 March 2019 £'000	Cash Flow £'000	Other Change £'000	At 31 March 2020 £'000
Cash and short term deposits	7,433	(1,501)	-	5,932
Debt due within one year	(773)	773	(4,441)	(4,441)
Debt due after one year	(34,181)	(3,000)	(4,485)	(41,666)
Total	(27,521)	(3,728)	(8,926)	(40,175)

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

	2020 £'000
Decrease in cash and short term deposits in the period	(1,501)
Increase in loans in the period	(11,153)
Change in net debt	(12,654)
Net debt at 1 April 2019	(27,521)
Net debt at 31 March 2020	(40,175)

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

In response to the global COVID-19 pandemic, the Association has conducted stress testing forecasts and is confident that there will be no detrimental impact on loan covenants, liquidity or cash flows. Creditors due within 1 year were higher at year end due to the £3m revolving credit facility due for repayment in October, for which there is sufficient cash available to repay. Cash balances at the end of 2019/20 were less than last year but still considered high at £5.9m and sufficient to meet current liabilities due. The cash position has increased post year end with significanty reduced expenditure relating to planned and capital works. 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 21). Variations in these estimations may significantly impact the liability and the annual defined benefit expenses (as analysed in Note 21). The defined benefit pension liabilities as at 31 March 2020 were £1.248m and £1.053m for the LPF and SHAPS respectively. Our commitment to the SHAPS Growth Plan, of £7k (plus 3% increase) per annum over the next 5.5 years has been discounted at a rate of 2.53%, amounting to a net present value of £32k.

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 has been 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 and Boilers. 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

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

i) Transfer of Engagement

The transfer of engagements from Arklet HA is 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) Investment in Subsidiary

The subsidiary, Arklet Homes Ltd, was acquired through the transfer of engagements from Arklet Housing Association and is deemed to be a non-current asset held at cost. Group accounts are not prepared and the entity is dormant.

k) 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.

l) 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.

m) Service equalisation accounts – tenanted properties

The Association has reintroduced 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. This represents the correction of a treatment applied in previous years and is due to the surplus or deficit fund balances being used to reduce or increase charges from 2021/22. This has resulted in a prior period adjustment and full disclosures required by FRS102 are to be found in note 30.

n) 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.

17 employees (2019:20 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.

For the year ended 31 March 2019, the Association was 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 2020, the net defined benefit pension deficit liability was £1.305m, which has been included within the provisions for pensions liability in the financial statements.

In the year ended 31 March 2020, 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 21 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 16.

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	2020 Operating Surplus £'000	2019 Restated Operating Surplus £'000
Social Lettings	3a	32,762	(29,591)	3,171	1,828
Other Activities	3b	7,512	(7,169)	343	477
		40,274	**(36,760)**	**3,514**	**2,305**
(Loss) / gain on disposal of housing property		-	(162)	(162)	(105)
Total for 2020		**40,274**	**(36,922)**	**3,352**	**2,200**
Total for 2019		**37,833**	**(35,633)**	**2,200**	

For 2018/19 the restated Operating Costs of £35,633 include £105k in relation to the loss on disposal which has been added to the £35,528 contained within the Statement of Comprehensive Income.

3a Income and Expenditure from Affordable Letting Activities

	General Needs Housing £'000	Supported Housing Accommodation £'000	Shared Equity & Ownership Accommodation £'000	Total 2020 £'000	Total 2019 Restated £'000
Rent receivable net of Identifiable Service Charges	1,481	17,423	58	18,962	17,270
Service Charges receivable	140	11,118	-	11,258	10,529
Gross income from rents & service charges	1,621	28,541	58	30,220	27,799
Less: Voids	(24)	(701)	-	(725)	(600)
Net income from rents & service charges	**1,597**	**27,840**	**58**	**29,495**	**27,199**
Other Revenue Grants	-	449	-	449	499
Grant released from deferred income	276	2,521	21	2,818	2,687
Total turnover from affordable letting activities	**1,873**	**30,810**	**79**	**32,762**	**30,385**
Management & maintenance administration costs	364	5,811	12	6,187	5,691
Service costs	116	11,071	-	11,187	11,154
Planned and cyclical maintenance including major repairs costs	68	2,609	-	2,677	2,435
Reactive maintenance costs	125	3,206	-	3,331	2,778
Bad debts - rents and service charges	-	308	-	308	1,148
Depreciation of affordable housing	593	5,279	29	5,901	5,351
Impairment of affordable housing	-	-	-	-	-
Operating Costs for affordable letting activities	**1,266**	**28,284**	**41**	**29,591**	**28,557**
Operating Surplus for affordable letting	**607**	**2,526**	**38**	**3,171**	**1,828**
Operating Surplus for affordable letting for previous period of account	**462**	**1,342**	**24**	**1,828**	

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	2020 Surplus/ (Deficit) for the Year £'000	2019 Restated Surplus/ (Deficit) for the Year £'000
Wider Role Activities	-	-	-	-	-	-	-	-	-
Care & Repair of Property	-	-	-	-	-	-	-	-	-
Investment property activities	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	2,102	2,102	-	(2,102)	-	-
Support Activities	-	-	1,066	-	1,066	-	(1,247)	(181)	(16)
Care Activities	-	-	-	2,254	2,254	-	(2,107)	147	264
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	-	-	-	1,379	1,379	-	(1,191)	188	152
Stage 3 Adaptations	-	298	-	-	298	-	(298)	-	-
Other Activities*	-		-	413	413	-	(224)	189	77
Total from Other Activities	**-**	**298**	**1,066**	**6,148**	**7,512**	**-**	**(7,169)**	**343**	**477**
Total from other activities for year ended 31 March 2019	**-**	**344**	**1,285**	**5,819**	**7,448**	**-**	**(6,971)**	**477**	

* 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.

	2020 £'000	2019 £'000
Total emoluments for the above key management personnel (excluding pension contributions and benefits in kind):	414	396
The emoluments (excluding pension contributions) of the Chief Executive amounted to :	116	112
The total emoluments payable to the highest paid member of the key management personnel amounted to :	159	154

The number of key management personnel, who received emoluments (excluding pension contributions) were within the following ranges:	2020 No. of Key Mgt Personnel	2019 No. of Key Mgt Personnel
£60,001 to £70,000	-	-
£70,001 to £80,000	1	3
£80,001 to £90,000	2	1
£90,001 to £100,000	-	-
£100,001 to £110,000	-	-
£110,001 to £120,000	1	1

The Association made pension contributions of £84,056 (2019: £86,881) on behalf of those key management personnel including £43,647 (2019: £42,376) to the highest paid.

The Board had a membership of 10 as at 31 March 2020 and a maximum of 10 members during the year. No payment of fees or other remuneration was made to the members during the year.

	2020 £'000	2019 £'000
Total expenses reimbursed to the Chief Executive insofar as not chargeable to UK Income Tax:	1	1
Total expenses incurred on behalf of Board Members who were neither officers nor employees of the Association amounted to:	2	2

5 Employee Information

	2020 No.	2019 No.
The average monthly FTE number of persons (including key management personnel) employed in the year was:	464	438
The average number of persons (including key management personnel) employed in the year was:	599	577
Staff costs (including key management personnel emoluments)		
Wages and salaries	12,638	11,775
Social security costs	999	910
Pension costs	833	793
BUPA	15	16
	14,485	13,494

Payments amounting to £498,700 (2019: £457,278), in respect of agency costs, and payments to the value of £32,996 (2019: £94,423), in respect of redundancy costs, are included within the totals for staff costs.

Average FTE Employees per Month

Apr-19	449	Oct-19	457
May-19	454	Nov-19	470
Jun-19	455	Dec-19	473
Jul-19	455	Jan-20	475
Aug-19	460	Feb-20	478
Sep-19	459	Mar-20	479

6 Operating Surplus

	2020 £'000	2019 £'000
Operating surplus is stated after charging/ (crediting) :		
Depreciation (exc Intangible Assets)	6,346	5,757
Amortisation on Intangible Assets	207	223
Grant amortisation	(2,819)	(2,687)
Repairs: cyclical, planned, day to day	6,008	5,213
External auditors' remuneration – audit services	26	22
Internal auditors' remuneration	19	24
Hire of plant and machinery - rentals payable under operating leases	183	161

7 Interest Receivable and Other Income

	2020 £'000	2019 £'000
Interest receivable on bank deposits	28	28

8 Interest Payable and Similar Charges

	2020 £'000	2019 £'000
Housing loans:		
On loans from banks and building societies		
repayable in more than 5 years	1,906	1,420
Less interest capitalised in year	(120)	(65)
	1,786	1,355
Interest on owner occupier funds	9	9
Net return on pension assets	150	177
Unwinding of discounted liabilities-pension provisions	-	1
	1,945	1,542

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 2019	245,599	311	1,059	5,345	**252,314**	6,720	1,497	**8,217**	**1,413**
Acquired through business combination (note 29)	20,285	875	-	-	**21,160**	150	4	**154**	**-**
Additions in the year	2,363	-	-	7,249	**9,612**	138	229	**367**	**116**
Transfers in the year	8,994	-	-	(8,994)	**-**	-	-	**-**	**-**
Disposals in the year	(835)	(23)	-	(9)	**(867)**	-	-	**-**	**-**
At 31 March 2020	276,406	1,163	1,059	3,591	**282,219**	7,008	1,730	**8,738**	**1,529**
Depreciation									
At 1 April 2019	88,802	124	581	-	**89,507**	2,000	871	**2,871**	**744**
Provided during year	5,872	11	18	-	**5,901**	151	294	**445**	**207**
Disposals in the year	(655)	(12)	-	-	**(667)**	-	-	**-**	**-**
At 31 March 2020	94,019	123	599	-	**94,741**	2,151	1,165	**3,316**	**951**
Net book value									
at 31 March 2019	156,797	187	478	5,345	**162,807**	4,720	626	**5,346**	**669**
at 31 March 2020	182,387	1,040	460	3,591	**187,478**	4,857	565	**5,422**	**578**

9 Tangible Fixed Assets (continued)

a) The Association has received £298,487 (2019: £343,823) in the year in respect of Housing Association Grant for Adaptations of which £298,487 (2019: £343,823) has been treated as revenue and £nil (2019: £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 £18,146 per unit at 31 March 2020.

c) For major repairs during the year the Association spent £4.07m (2019: £5.15m): £2.16m (2019: £3.29m) was capitalised for replacement components; and £1.91m (2019: £1.86m) was expensed through operating costs in the Statement of Comprehensive Income. A further £0.2m (2019: £nil) was capitalised for expenditure on new developments completed in 2018/19 and 2017/18. £Nil (2019: £nil) of additions relate to improvements.

d) Development administration costs capitalised in the year amounted to £171,298 (2019: £160,140).

e) Interest capitalised in the year amounted to £119,509 (2019: £64,832). The interest capitalised was in respect of the interest paid on loans used specifically for new development expenditure. Interest capitalised was 6.3% of total loan interest (2019:4.6%).

f) Shares were held at nil cost from Barclays plc. Market value of 104 shares at 31 March 2020 is £86 (2019: £165). Also 89 shares in Banco Santander were held at nil cost. The market value of these shares at 31 March 2020 is £169 (2019: £325).

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 Asset Held for Sale

The sale of these units was completed in July 2019 with proceeds received of £194k net of costs; £4k in excess of the estimated realisable value as at 31 March 2019. The excess has been recycled into grant income and is included within Grant received in the year in note 17.

11 Debtors

	2020 £'000	2019 Restated £'000
Amounts falling due within one year:		
Rental debtors	619	522
Less: bad debt provision	-	-
	619	522
HAG receivable	188	64
Owners service charge balances	88	71
Tenants Service Charge Balances	132	348
Tenants Heating Charge Balances	28	-
Other debtors	631	514
Prepayments and accrued income	535	473
	2,221	1,992

12 Cash and Cash Equivalents

	2020 £'000	2019 Restated £'000
Cash and cash equivalents	5,932	7,433

13 Creditors: Amounts Falling Due Within One Year

	2020 £'000	2019 Restated £'000
Loan repayments: instalments of principal (see note 14)	4,441	773
Deferred capital grants (see note 17)	3,050	2,669
Owners' funds (see note 14)	448	439
Owners service charge balances	321	227
Corporation Tax	1	2
Other taxation and social security	305	289
Development 'work in progress' accruals	199	352
Accruals and deferred income	1,250	2,382
Rent in advance	233	147
Trade creditors	1,683	1,878
	11,931	9,158

14 Creditors: Amounts Falling Due After More Than One Year

	2020 £'000	2019 Restated £'000
Loans	41,666	34,181
Deferred capital grants (see note 17)	99,067	82,177
Owners' funds	178	365
Tenants Service Charge Balances	4,869	4,768
Tenants Heating Charge Balances	1,007	1,198
Other	53	53
	146,840	122,742

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

The Association's only debt constitutes the loans as below.
Deferred finance costs of £417k (2019: £225k) 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% (2019: between 4.63% and 6.51%).
ii. Residents funds receive interest of between 1% and 0.5% (2019: 1% and 0.5%).

	2020	2019
Loan instalments are due as follows:	£'000	£'000
Within one year (note 13)	4.441	773
Between one and two years	4,485	792
Between two and five years	3,083	5,071
In over five years	34,098	28,318
	46,107	34,954

Owners' Funds	Balance at 31/03/19 £'000	Expenditure in year £'000	Provided in year £'000	Balance at 31/03/20 £'000
Owners replacement of scheme equipment	133	(69)	38	102
Owner occupier repairs	671	(734)	587	524
	804	(803)	625	626
Split as follows :				
Less than one year and included in note 13	(439)			(448)
More than one year	365			178

15 Share Capital

	2020 No.	2019 No.
Opening share capital	328	320
Shares allocated during the year	77	30
Shares relinquished during the year	(31)	(22)
Closing share capital	374	328

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 2020.

16 SHAPS Growth Plan Pension Provision

	2020 £'000	2019 £'000
Balance at start of year	39	52
Utilised in the year	(6)	(7)
Remeasurement	(1)	(7)
Unwinding of discount	-	1
Balance at end of year	32	39

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 5.5 years.

17 Deferred Capital Grants

	2020 £'000
Grant	
As at 1 April 2019	154,037
Grant acquired through Business Combination (note 29)	17,267
Grant received in the year	2,837
Grant repaid / abated in the year	(30)
As at 31 March 2020	174,111
Amortisation of Grant	
As at 1 April 2019	69,191
Grant released during the year	2,819
Disposals / abatements	(16)
As at 31 March 2020	71,994
Net book value at 31 March 2019	84,846
Net book value at 31 March 2020	102,117
Shown as:	
Amount to be released within one year	3,050
Amount to be released after more than one year	99,067

18 Financial Instruments

As at 31 March 2020, the Association held the following financial assets and liabilities:

	£'000
Financial assets measured at amortised cost	7,831
Financial assets measured at fair value	-
Total financial assets	7,831

	£'000
Financial liabilities measured at amortised cost	56,072
Financial liabilities measured at fair value	-
Total financial liabilities	56,072

19 Capital Commitments

Housing expenditure contracted less certified at 31 March 2020 amounted to £4.66m (2019: £1.06m). Expenditure authorised by the Board but not contracted at 31 March 2020 amounted to £1.62m (2019: £6.24m). Furthermore, the Board has authorised expenditure on capitalised major repairs and replacement components amounting to £4.59m (2019: £3.36m).

In addition, the Board has authorised expenditure on other fixed assets amounting to £1.03m (2019: £1.07m), which includes the purchase of computer equipment and software.

An agreement is in place for a new £20m loan to finance these commitments.

20 Leasing Commitments

	2020 £'000	2019 £'000
Amounts due:		
Within one year	130	131
Between one and five years	92	101
	222	232

The operating leases are in relation to the lease of company cars and one franking machine.

21 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 2020/21 is £1,211k to the SHAPS scheme and £499k 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 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 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 fair 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 2020 is £1.053m (2019: £5.893m).

Principal actuarial assumptions at the balance sheet date	**2020 p.a.**	**2019 p.a.**
Discount rate	2.39%	2.3%
Salary growth	2.65%	3.3%
Inflation (RPI)	2.65%	3.3%
Inflation (CPI)	1.65%	2.3%

Fair value of employer assets	**2020 £'000**	**2019 £'000**
Equities	26,548	27,977
Bonds	4,228	3,430
Property	3,852	2,645
Cash	3,130	1,748
Total Estimated Employer Assets	37,758	35,800

Movement in deficit during the year	**2020 £'000**
Deficit in scheme at beginning of year	(5,893)
Acquired through business combination	(400)
Movements during the year:	
Expenses	(40)
Contributions paid	1,356
Other finance costs	(107)
Actuarial (loss) / gain	4,031
Deficit at the year end	**(1,053)**

The amounts recognised in the balance sheet are as follows:

	2020 £'000	01/04/19 £'000
Present value of funded liabilities	(38,811)	(41,693)
Fair value of employer assets	37,758	35,800
Net Liability	(1,053)	(5,893)

Expense recognised in the statement of comprehensive income

	2020 £'000
Expenses	(40)
Losses/(Gains) on Curtailments and Settlements	-
Net interest on net defined benefit obligations	(107)
	(147)

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

	2020 £'000
Current service costs in operating costs	36,760
Net interest in interest payable and financing costs	1,945

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

	2020 £'000
Actuarial gains	4,031

Movements in present value of defined benefit obligation

	2020 £'000
Opening defined benefit obligation	41,693
Acquired through business combination	2,108
Expenses	40
Interest cost	895
Actuarial losses	(4,561)
Estimated benefits paid	(1,364)
Closing defined benefit obligation	**38,811**

Movements in the fair value of plan assets are as follows:

	£'000
Opening fair value of employer assets	35,800
Acquired through business combination	1,708
Expected return on assets	788
Contributions by members	-
Contributions by the employer	1,356
Contributions in respect of unfundedbenefits	-
Actuarial (losses)	(530)
Estimated unfunded benefits paid	-
Estimated benefits paid	(1,364)
Closing fair value of employer assets	**37,758**

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 £12.95m will be paid to the scheme per annum to 30 September 2025 and £55k per annum to 30 September 2028. These deficit contributions will be paid monthly and will increase by 3% each 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 2.53% (2019: 1.39%). 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 2020 the present value of the Association's share of the deficit funding was £32k. This is held within provisions in the SOFP. This liability will be paid over the next 5.5 years. The amount to be paid in 2020/21 is £6.6k.

Lothian Pension Fund

The Association participates in the Lothian Pension Fund (“the Scheme”) and had 17 active members at the balance sheet date (20 active members in 2019). 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 9.8%.

The last formal valuation of the Association’s share of the Scheme assets and liabilities was performed at 31 March 2017 by a professionally qualified actuary using the projected unit method. The results from that valuation have been projected forward to 31 March 2020 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	**2020 p.a.**	**2019 p.a.**
Pension increase rate	2.0%	2.5%
Salary increase rate	3.6%	4.2%
Expected return on assets	0.1%	9.3%
Discount rate	2.3%	2.4%

Fair value of employer assets	**2020 £'000**	**2019 £'000**
Equities	2,442	2,475
Bonds	3,731	3,647
Property	271	261
Cash	339	130
Total Estimated Employer Assets	6,783	6,513

Movement in deficit during the year	**2020 £'000**	**2019 £'000**
Deficit in scheme at beginning of year	(1,806)	(1,819)
Movements during the year:		
Current service cost	(317)	(316)
Contributions paid	431	390
Other finance costs	(42)	(46)
Actuarial gain / (loss)	486	(15)
Deficit at the year end	**(1,248)**	**(1,806)**

The amounts recognised in the balance sheet are as follows:

	2020 £'000	2019 £'000
Present value of funded liabilities	(8,011)	(8,298)
Fair value of employer assets	6,783	6,513
	(1,228)	(1,785)
Present value of unfunded liabilities	(20)	(21)
Deficit	(1,248)	(1,806)
Net Liability	(1,248)	(1,806)

Expense recognised in the statement of comprehensive income

	2020 £'000	2019 £'000
Current service cost	(317)	(316)
Losses/(Gains) on Curtailments and Settlements	-	-
Net interest on net defined benefit obligations	(42)	(46)
	(359)	(362)

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

	2020 £'000	2019 £'000
Current service cost in operating costs	36,760	35,528
Net interest in interest payable and financing costs	1,945	1,542

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

	2020 £'000	2019 £'000
Actuarial gains / (losses)	486	(15)

Movements in present value of defined benefit obligation

	2020 £'000	2019 £'000
Opening defined benefit obligation	8,319	7,559
Current service cost	317	316
Interest cost	201	198
Contributions by members	55	58
Actuarial gains	(638)	406
Losses/ (gains) on curtailment	-	-
Estimated unfunded benefits paid	(1)	(1)
Estimated benefits paid	(222)	(217)
Closing defined benefit obligation	**8,031**	**8,319**

Movements in the fair value of plan assets are as follows:

	£'000	£'000
Opening fair value of employer assets	6,513	5,740
Expected return on assets	159	152
Contributions by members	55	58
Contributions by the employer	430	389
Contributions in respect of unfunded benefits	1	1
Actuarial gains	(152)	391
Estimated unfunded benefits paid	(1)	(1)
Estimated benefits paid	(222)	(217)
Closing fair value of employer assets	**6,783**	**6,513**

22 Taxation

	2020	2019
UK Corporation Tax Charge	£000	£000
Based on the results for the year	(1)	(2)
Total Current tax	(1)	(2)
Factors affecting tax charge for the year		
(Deficit) / Surplus on ordinary activities before taxation	(2,788)	686
Expected tax credit / (charge) at 19% (2019: 19%)	530	(130)
Adjusted for:		
Net liabilities acquired on a business combination	(802)	-
Exempt charitable activities	271	128
Current tax charge	(1)	(2)

23 Housing Stock

The number of units in management as at 31 March 2020, was as follows:

	2020 No.	2019 No.
Rented - General needs housing	391	251
Rented - Supported housing accommodation	4,238	3,961
Shared ownership	35	19
Shared equity	106	88
Owner occupied	1,113	1,100
Totals	5,883	5,419

1 shared ownership unit was sold in the year. The sale proceeds were £41k and the gain on disposal was £14k. The gain is recognised within the Statement of Comprehensive Income.

The number of units in development as at 31 March 2020, was as follows:

	2020 No.	2019 No.
Rented - General Needs housing	66	-
Rented - Supported housing accommodation	25	44
	91	44

24 Average Annual Scottish Secure Tenancy Rents

	2020	2019
	£	£
Average annual Scottish secure tenancy rents for housing accommodation	4,731	4,124
	%	%
Percentage increase from previous year	14.7%	3%
	No.	No.
Number of Scottish secure tenancies	4,367	4,105

The 2019/20 rent increase of 14.7% includes five months of Arklet properties which had higher rents than those of Hanover.

25 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 2020	Reserves	Profit / (Loss)
	£	£
Arklet Homes Limited	1,000	-

26 Related Party Transactions

There were no related party transactions in the year.

27 Contingent Liabilities

The Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme (formerly the SFHA Pension Scheme) based on the financial position of the Scheme as at 30 September 2018. As of this date the estimated employer debt for The Association was £25,775,964. It has also been notified of the estimated employer debt on withdrawal from the Growth Plan as at 30 September 2018 was £78,474 based on the financial position of the Plan.

The Board is not aware of any other contingent liabilities as at 31 March 2020 and no other liabilities have emerged since.

28 Post Balance Sheet Events

The COVID-19 pandemic is impacting global business. The full extent of the impact of the pandemic on the United Kingdom is only starting to be seen. The Board continue to monitor the situation to manage the risks to the business, however the financial impact cannot be determined with certainty.

The Board is not aware of any other post balance sheet events, which affect the Association as at 31 March 2020.

29 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, as set out below. The excess of fair value of liabilities acquired over the value of the assets acquired of (£4,223k) has been recognised in the Statement of Comprehensive Income.

The housing properties were valued by Jones Lang LaSalle based on estimated use value – social housing (EUV-SH) with the valuation reported as at 8 November 2019. The fair value of £21.16m is the deemed opening cost at the acquisition date.

The details of the assets and liabilities acquired as a result of this transfer of engagements are as follows:

	Initial book value £'000	Fair value adjustment £'000	Fair value at acquisition date £'000
Housing properties	30,576	(9,416)	21,160
Other fixed assets	154	-	154
Investment in subsidiary	1	-	1
Arrears	77	-	77
Other Debtors	141	-	141
Cash	1,825	-	1,825
Total assets	**32,774**	**(9,416)**	**23,358**
Loans	(9,356)	-	(9,356)
Deferred grant income	(17,267)	-	(17,267)
Trade creditors	(266)	-	(266)
Rents in advance	(100)	-	(100)
Tax and social security	1	-	1
Other creditors	(136)	-	(136)
Accruals and deferred income	(57)	-	(57)
Pension liability	(400)	-	(400)
Total liabilities	**(27,581)**	**-**	**(27,581)**
Net assets	**5,193**	**(9,416)**	**(4,223)**

30 Service charge equalisation and prior period adjustment

These accounts include a change in the treatment of service charge equalisation accounts whereby the surpluses and deficits are now carried forward as debtors and creditor balances. This represents the correction of a treatment applied in previous years in relation to the re-introduction of Service Charge Equalisation Accounts for tenanted properties owned and managed by Hanover (Scotland) Housing Association Ltd as outlined in note 1. These equalisation accounts existed until 2011/12 when they ceased to be formally recognised in the financial statements but have been maintained on a notional basis to the present time.

The re-introduction of Service Charge Equalisation Accounts is intended to ensure equity and transparency for tenants. In addition, heating charges (previously subsumed within Service Charges generally) will have their own separate equalisation account to assist in the implementation of the Heat Metering Regulations when these come fully into force. This will also promote transparency and equity in the levying of these charges.

Service charges are intended to cover the costs of the services provided in each financial year. However, inevitably whilst the charges are set to achieve break even, there will always be some variation in actual costs incurred. The purpose of Service Charge Equalisation accounts is to recognise this reality and to carry forward any resulting surpluses or deficits and to adjust future service charges to reflect this over or under recovery. Previously, any surpluses or deficits incurred in a year would be written off to reserves with no balance carry forward and no adjustment to future charges.
Now that the surplus/deficit fund balances held will be reflected in the setting of future charges this change in treatment is deemed

appropriate. This has resulted in a prior period adjustment being applied retrospectively to the earliest presented period.

The effect of the cumulative adjustment from 2011/12 to the end of 2017/18 and in the comparative year's figures for 2018/19 is as follows:

	£'000
Reserves balance at 1 April 2018	(44,298)
Prior Period Adjustment	4,162
Restated reserves balance as at 1 April 2018	(40,136)
Reserves balance at 31 March 2019	(44,418)
Prior Period Adjustment	5,618
Restated reserves balance as at 31 March 2019	(38,800)

The effect of the change in accounting policy on the Statement of Comprehensive Income for 2019 was an increase in operating costs of £1,456k, resulting in a decrease in the surplus for the year from £2,140k to £684k.

The effect in 2020 was an increase in operating costs of £267k, resulting in an increase in the deficit for the year from £2,522k to £2,789.

The table below summarises the equalisation account balances held within Debtors (see note 11) and Creditors: Amounts falling due after more than one year (see note 14).

Equalisation Account Balances at 31/03/2020

	Creditors £'000	Debtors £'000	Net Total £'000
Heating Charge Equalisation Account	(1,007)	28	**(979)**
General Service Charge Equalisation Account	(4,869)	132	**(4,737)**
Total Equalisation Account Balances	**(5,876)**	**160**	**(5,716)**

Equalisation Account Balances at 31/03/2019

	Creditors £'000	Debtors £'000	Net Total £'000
Heating Charge Equalisation Account	(1,198)	-	**(1,198)**
General Service Charge Equalisation Account	(4,768)	348	**(4,420)**
Total Equalisation Account Balances	**(5,966)**	**348**	**(5,618)**