

53	54	52	54	55	55	58	56	57	55
54	55	53	55	56	57	57	58	57	55
55	55	55	57	58	59	58	60	58	56
55	56	56	58	59	60	60	61	59	57
56	58	57	60	61	60	61	62	60	60
57	59	58	60	61	61	62	63	63	62
58	60	59	61	62	62	63	63	64	63
60	61	61	62	62	62	63	64	63	62
61	63	62	63	63	63	64	63	64	65
62	64	64	64	63	63	64	65	65	65
64				65	65	66	65	66	66
	67	65	66	65	66	67	66	67	67
66	68	67	67	67	68	68	68	68	69
68	70	69	68	68	69	70	69	70	70
69	71	70	71	72	70	72	70	71	72
71	72	73	72	73	71	74	73	72	73
72	74	74	73	75	74	75	74	73	74
75	78	76	75	78	76	76	75	75	76
76	79	77	77	78	77	78	77	77	78
78	81	79	80	80	79	79	78	78	79
88	85	82	80	82	79	81	80	80	81
92	86	84	82	84	81	86	81	81	88
	95	86	84	87	84	85	86	86	86
	101	90	90	87	84	85	86	89	89
			91	99	99	96	89	90	90
									102

We're growing in preparation for 60% more over-65s by 2031



It is easy to look at the statistics and note a growing population of older people.

It is more difficult to know what sort of services they will want in the future.

Hanover does not treat older people as stereotypes but as individuals leading unique lives.

Our aim is to support older people to lead the lives they want for as long as possible.



HANOVER HOUSING ASSOCIATION AND ITS SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

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Throughout this publication the term 'Hanover Group Board' means the board of Hanover Housing Association which, as the board of the group parent fulfils the role of the group board. Hanover Group is a Business Name of Hanover Housing Association and a title used to describe the Group. Registered under the Industrial and Provident Societies Act 1965 (No 16324R). Registered with the Housing Corporation (No L0071). Registered with the Inland Revenue (Charities Division No XN 9996). Registered Office: Hanover House, 1 Bridge Close, Staines TW18 4TB.

Hanover Group Board



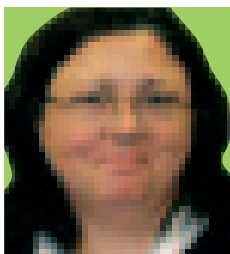
Kenneth Bartlett OBE (Ken), *Group Chair; appointed 28/09/2000*

Home Location: Kingston, Surrey **Nationality:** British **Born:** 1936
Occupation/Current Employment: Housing Consultant, Adviser to the Joseph Rowntree Foundation. **Qualifications and Experience:** Ordained Anglican priest; 37 years' experience in founding, running and regulating Housing Associations. **Previous Employment:** Founder Director, Paddington Churches Housing Association; Deputy Director, NFHA; Trustee and Chairman, SHELTER; Assistant Chief Executive of the Housing Corporation; Consultant, Bellway Homes; Chair, Stepney Housing and Development Agency.
Public Duties/Voluntary Work: Chairman, Notting Hill Churches Homeless Concern; Deputy Chairman, The Building Exploratory (Hackney); Trustee, Quest Trust, Midtown Trust; Member, Genesis Group, various other housing agencies; Adviser, Ocean New Deal for Communities Board, Tower Hamlets; Chair, Hanover Housing Association.



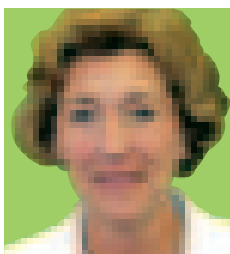
Robert Banner, *Chair, Hanover Friends; appointed 25/03/2004*

Home Location: Knightsbridge, London **Nationality:** Australian
Born: 1942 **Occupation/Current Employment:** Chairman – Network Company (three years). **Qualifications and Experience:** 30 years' board level experience in France, USA and UK; qualified for membership of Institute of Chartered Accountants (Australia). **Previous Employment:** 15 years IT company; 10 years public accounting with KPMG.
Public Duties/Voluntary Work: Chair of major mental health charity.



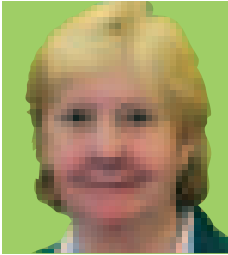
Penny Bennett, *Chair, Group Audit Committee; appointed 25/03/2004*

Home Location: Cirencester, Gloucestershire **Nationality:** British **Born:** 1956
Occupation/Current Employment: Regional Commissioner for the South West, NHS Appointments Commission. **Qualifications and Experience:** Regional Commissioner for the South West, NHS Appointments Commission; BSc (Hons), Psychology; Master of Business Administration; solicitor since 1982; Non-Executive Board Director, NHS (May 1995 – November 2003); Regional Commissioner, NHS. **Previous Employment:** Non Executive Board Director with NHS. **Public Duties/Voluntary Work:** Independent Member of the Cotswold District Council Standards Committee.



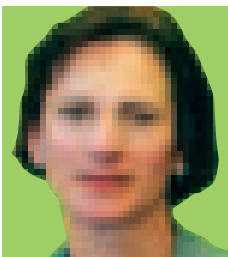
Pat Corless, *appointed 25/03/2004*

Home Location: Lytham St Annes, Lancashire **Nationality:** British **Born:** 1948
Occupation/Current Employment: Recently retired as Chief Executive, NHS Pensions Agency. **Qualifications and Experience:** BA (Hons), Economics and Politics; Fellow of the Institute of Personnel and Development; for the past 17 years, operated at Director or Chief Executive level in various local government and NHS posts. **Previous Employment:** Health Authority Chief Executive; Service Management in Local Government; involved in development of National Framework for Older People and People with Disabilities.
Public Duties/Voluntary Work: Lay member of Employment Tribunals.



Nina Del Monte, Chair, Hanover in Hackney Limited; appointed 26/09/2002

Home Location: Hackney, London; **Nationality:** British; **Born:** 1940;
Occupation/Current Employment: Retired; **Previous Employment:**
Treasurer; **Public Duties/Voluntary Work:** Chair, Hanover in Hackney Limited.



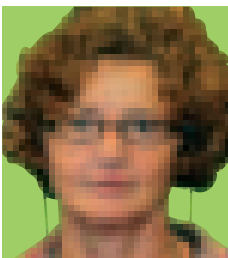
Angela Gillibrand; appointed 22/09/2004

Home Location: Swindon, Wiltshire; **Nationality:** British; **Born:** 1949;
Occupation/Current Employment: Non-Executive Director;
Qualifications and Experience: MA, Physiology and Psychology (Oxon);
MBA Insead, Certified Diploma in Finance and Accounting; various
company directorships; Member, Lloyds of London Disciplinary Board.
Previous Employment: Company Secretary and Head of Finance and
Planning, UK NIREX; Head of Finance and Planning, Royal Military College
of Science; **Public Duties/Voluntary Work:** Nominated Trustee of Holborn
Estate Charity by Westminster City Council; Non-Executive Director,
Swindon and Marlborough NHS Trust; Non-Executive Director, Department
of Finance and Personnel in Northern Ireland.



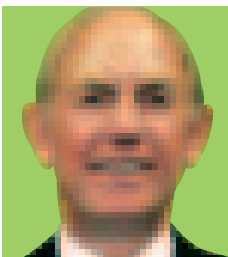
Stephen Hallett, Interim Group Chief Executive; co-opted 24/11/2005

Home Location: Scotland; **Nationality:** British; **Born:** 1947;
Occupation/Current Employment: Management Consultant;
Qualifications and Experience: Chartered Civil Engineer with a Post
Graduate Degree in Management Studies and a First Degree in Civil
Engineering; **Previous Employment:** Extensive experience in senior
positions including CEO, Chairman and Group Managing Director of
building and civil engineering organisations.



Jill Preston, appointed 25/03/2004

Home Location: Renfrewshire, Scotland; **Nationality:** British; **Born:** 1945;
Occupation/Current Employment: Consultant – External Adviser to the
Office of the Deputy Prime Minister; **Qualifications and Experience:**
Executive MBA, Dept. of Urban Studies, Glasgow University Business School;
BA, Trent Polytechnic; **Previous Employment:** Local Government – director
level since 1984. Most recently Director of Community and Housing,
Newcastle City Council.



David Priestnall, Deputy Group Chair; appointed 28/09/2000

Home Location: Kidderminster, Worcestershire; **Nationality:** British;
Born: 1943; **Occupation/Current Employment:** Consultant in Housing,
Health and Social Care; **Qualifications and Experience:** BSc (Hons),
Sociology; Diploma in Town Planning; Associate of Centre for Urban and
Regional Studies; Member of Royal Town Planning Institute (retired);
Previous Employment: Assistant Director, Housing Services, Birmingham
City Council; Chair of Wyre Forest Primary Care Trust.



→ Hanover Group Board *(continued)*



Jim Saunders, reappointed 05/05/2004

Home Location: Haywards Heath, West Sussex; **Nationality:** British;
Born: 1926; **Occupation/Current Employment:** Retired;
Previous Employment: Families Officer to Armed Forces; Estate and Stud Manager to HM The Queen; **Public Duties/Voluntary Work:** Residents' Association Chair.



John Steele, Chair, Hanover Property Management Limited, appointed 13/09/2001

Home Location: Hemel Hempstead, Hertfordshire; **Nationality:** British;
Born: 1928; **Occupation/Current Employment:** Retired;
Qualifications and Experience: Member, Chartered Institute of Management; Member, Chartered Institute of Logistics; 40 years' experience in Production and Physical Distribution Management. Human Resources – Industrial Relations and Management Selection. Marketing and Research. General Management and Restructuring;
Previous Employment: Director of Whitbread (London) Ltd.; Director of Stowells of Chelsea (Whitbread); Operation Planning Director of European Cellars Ltd **Public Duties/Voluntary Work:** Chair, Hanover Property Management Limited.

■ *Peter Brass, appointed 13/09/2001, resigned 29/09/2005*

■ *John Gatward, co-opted 25/03/2004, resigned 22/11/2005*

The Hanover Group Board also acts as Trustees of the group's Almshouse Trusts and the Council of Management of Hanover Housing Association Charitable Trust.

Boards of subsidiaries

Hanover in Hackney Limited

- Nina Del Monte (Chair)
- Ken Bartlett
- Ann Benyon
- Abdul Harris
- Stuart Harris
- Faizullah Khan
- Hugh McEwan
- Linda Milton
- Terry Noys
- Jerry Parana-Hetty

Hanover Friends

(Joint venture with Friends of the Elderly)

- Robert Banner (Chair)
- Simon Dawes
- Richard Furze
- John Gould
- Barry Hindson
- Joan Orford
- John Steele

Care and Repair (Cheltenham) Limited

- Pat Thornton (Chair)
- Eric Balyliss
- Barry Hindson
- Dawn Jackson
- David Lawrence
- Michael Redman
- Keith Williams

Hanover Property Management Limited

- John Steele (Chair)
- Robert Banner
- Ken Bartlett
- Peter Bennett
- Eva Cooney
- Colin Gabb
- Chris Kinnear
- Norman Peacock
- Howard Singh

Committees of Hanover Housing Association

Group Audit Committee

- Penny Bennett (Chair)
- Pat Corless
- Nina Del Monte
- Angela Gillibrand
- David Priestnall
- John Steele

Group Remuneration Committee

- Pat Corless (Chair)
- Ken Bartlett
- Penny Bennett
- David Priestnall

Nominations Committee

- Ken Bartlett (Chair)
- Penny Bennett
- David Priestnall
- Jim Saunders

Residents' Council

- Brian Goodhand (Chair)
- Ron Bignell
- Tony Edwards
- Eric Glendenning
- Brenda Jones
- Margaret MacDonald
- Jill Preston
- David Priestnall
- Ezra Pryce
- Jim Saunders

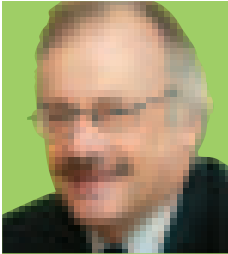
The following committees were disbanded during the financial year

- Hanover Housing Management Committee
- Strategic Projects Committee
- Support Services Committee
- Group Finance Committee

Corporate Management Team

■ **Stephen Hallett**, *Interim Group Chief Executive, Appointed 24/11/2005*

(Details and photograph on page 5)



■ **Barry Hindson**, *Group Director of Strategic Business Development*

Home Location: Cambridgeshire; **Nationality:** British; **Born:** 1948;
Joined Hanover Housing Group: 1993; **Qualifications and Experience:** LL.B (Birmingham); **Previous Employment:** Various senior appointments with City of Birmingham Housing Department 1977 – 1993.



■ **Terry Noys**, *Group Finance Director*

Home Location: Wanstead, London; **Nationality:** British; **Born:** 1961;
Joined Hanover Housing Group: 2004; **Qualifications and Experience:** Chartered Accountant (Fellow of the Institute of Chartered Accountants in England and Wales); **Previous Employment:** five years in investment banking (as a corporate financier) before moving into commerce. Held divisional and board level Finance Director roles for listed and private (venture capital backed) companies in a variety of industries including, inter alia, media consultancy and electronics manufacturing.



■ **James Preston (Jim)**, *Group Director of Housing Services*

Home Location: Cramlington, Northumberland; **Nationality:** British
Born: 1956; **Joined Hanover Housing Group:** 1993;
Qualifications and Experience: Senior manager with two large national Registered Social Landlords for 18 years; **Previous Employment:** Posts with English Churches Housing group, North British Housing Association and two local authorities.

■ **John Gatward**, *resigned 22/11/2005*

■ **Jennifer Williams**, *retired 31/05/2006*

Secretary



■ **Michael Fuller**, *Secretary: Hanover Housing Association, Hanover Housing Limited; Company Secretary: Hanover Friends, Hanover in Hackney Limited, The Hanover Housing Association Charitable Trust*

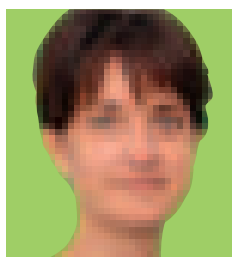
Home Location: Banstead, Surrey; **Nationality:** British; **Born:** 1957;
Joined Hanover Housing Group: 1997; **Qualifications and Experience:** ACIB (Associate of the Chartered Institute of Bankers);
Previous Employment: Various managerial roles in operations and credit with Midland Bank plc (now HSBC Bank plc).
Public Duties/Voluntary Work: Secretary, Horseshoe Community Pre-School.

Chief Executives of subsidiaries



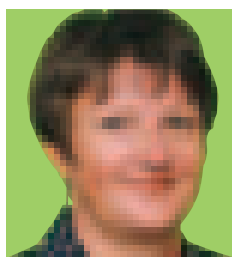
Gavin Cansfield, Chief Executive, Hanover in Hackney Limited

Home Location: Hackney, London; **Nationality:** British; **Born:** 1963; **Joined Hanover Housing Group:** 2004; **Qualifications and Experience:** BA (Hons), MA; **Previous Employment:** 18 years working in homelessness, housing and regeneration including NACRO, Shape HA, Focus Group, Birmingham Voluntary Service Council and latterly Regional Director at Southern Housing Group; **Public Duties/Voluntary Work:** Board member of Field Lane Foundation and Housing Association Charitable Trust.



Jane Lawrence, Chief Executive, Hanover Friends

Home Location: Hove, East Sussex; **Nationality:** British; **Born:** 1961; **Joined Hanover Housing Group:** 2003; **Qualifications and Experience:** BA (Hons), Housing; FCIH, MRICS; **Previous Employment:** Policy Manager National Housing Federation, Housing Advisor to Government of Montserrat, various housing positions in local authorities and housing associations in the UK.



Sharon Trimby, Chief Executive, Hanover Property Management Limited

Home Location: Maidenhead, Berkshire; **Nationality:** British; **Born:** 1957; **Joined Hanover Housing Group:** 1994; **Qualifications and Experience:** Fellow, Chartered Institute of Housing; Member, Institute of Residential Property Management; **Previous Employment:** Various senior housing management appointments for local authorities and RSLs; **Public Duties/Voluntary Work:** Member of the Executive Committee of the Association of Retirement Housing Managers.

Advisers and bankers

Bankers

Barclays Bank plc
Cardinal Point, Newall Road
Heathrow Airport, Hounslow TW6 2AH

Principal solicitors

Winckworth Sherwood
35 Great Peter Street
Westminster, London SW1P 3LR
DX 2312 VICTORIA

Auditors

BDO Stoy Hayward LLP
Emerald House
East Street
Epsom, Surrey KT17 1HS

I am delighted to report that whilst the last year has been another challenging one for the association and its subsidiaries, it has also been extremely successful.

The major challenge that the association has successfully dealt with during the past 12 month period has been a very rigorous inspection from the Audit Commission. HHA had been preparing for the inspection for some time and, prior to the physical visit by the inspectors, submitted some 727 documents for their review. During the actual inspection, the four inspectors concerned conducted 27 interviews, as well as meeting with four focus groups, they also carried out nine observations and visited 27 estates. Around 120 HHA staff were directly involved in this process.

The result of the inspection is that HHA received two stars for its existing service and good prospects for improvement. My colleagues on the board and I consider this to be an excellent outcome for which management and staff should be congratulated. I know that they will be striving hard to achieve an even better rating next time round.

In their inspection, the Audit Commission picked up on both the good and not so good aspects of HHA's existing services. Good aspects included the fact that the inspectors consider that "it is easy for residents to access a wide range of customer-focused services through local Estate Managers", that "appropriate steps are taken to ensure residents receive support relevant to their personal needs" and that "overall operating costs compare favourably with similar organisations". This is important because HHA's whole *raison d'être* is to provide high levels of service at reasonable prices to tenants and others who benefit from the association's services. In terms of prospects for improvement, the inspectors noted that "resident involvement with HHA as a landlord had increased in recent years and a range of improvements have been implemented which are of direct benefit to residents". They also noted that in HHA "there is a culture of continuous improvement and the association responds positively to regulatory reports". Furthermore, existing improvement plans "address many of the key weaknesses identified during inspection and the association demonstrates strong self-awareness".

The weaknesses identified include an underdeveloped strategic approach to asset management and the lack of a track record in relation to value for money. HHA is conscious of these issues and is taking positive steps to address

all the weaknesses identified by the inspectors. I am confident that further progress will be made towards the goal of achieving three stars.

I am also very pleased to report that HHA has been made an approved partner for the Housing Corporation's National Affordable Housing Programme for 2006 – 2008 development funding round. This makes Hanover one of the Corporation's 81 preferred partners for undertaking grant funded developments and marks the achievement of a goal that the association has been pursuing for several years. It is especially pleasing that this result was achieved despite increased competition from private sector organisations who were allowed to bid for public money for the first time.

To achieve approved partner status HHA had to pass the rigorous new bid procedures developed by the Housing Corporation and demonstrate its ability to make efficient use of public funding. All the new homes to be built will meet the EcoHomes rating of 'very good', emitting 6% less carbon dioxide than those built under the latest 2006 Building Regulations and will deliver further savings on utility bills to residents.

A further key success for the group during 2005/06 was the achievement of two Hanover **AtHome's** schemes, in Suffolk and Merton, which won joint first place in the 'Partnership Working' category at the Foundation's Conference awards. Care and Repair (Cheltenham) Limited was also 'highly commended'. The winning of these awards by Hanover **AtHome's** home improvement agencies ably demonstrates the group's commitment both to working in partnership with other bodies and in extending the range of services that the group provides to those not fortunate enough to reside in one of the group's properties.

The group operates in a very dynamic environment and this means that the skills and experience required by the group need to evolve and change to reflect the new realities. In March 2004, the group board was restructured, with the number of members greatly reduced and new members with different skills and experiences brought in. During the past year the group board has greatly simplified its committee structure, improving the decision making process and making for a more coherent group approach to such decisions.

In November 2005, John Gatward stepped down from the post of Group Chief Executive. John joined HHA as its Chief Executive in 1991

By 2021, people living alone will make up 36% of households, adding to a vast increase in demand for housing



and was instrumental in developing the group that now exists. The search for a worthy successor is ongoing but the group has been ably guided in the intervening period by a highly experienced interim, Stephen Hallett, whose commercial background has helped to bring some fresh perspectives to the group.

Another member of the Corporate Management Team has also recently retired; Jenny Williams left the post of Group Director of Corporate Services in May 2006, after some 12 years of service

Some 12 months ago I informed the board that I wished to step down as Group Chairman this year, having served in that capacity since 2001. During my time with the group I have seen considerable growth, some dramatic changes and real progress. I am delighted to report that my designated successor is Lord Richard Best, the current Director of the Joseph Rowntree Foundation. Richard has been a pivotal figure in the evolution of housing associations to become the principal providers of homes in the social sector. His record of achievement and innovation over more than 30 years in addressing urgent community needs and aspirations is unrivalled. His vision and leadership will be invaluable for the Hanover Group.

I would like to thank staff and board members, past and present, for their support during my time at Hanover and look forward to watching the group continue to grow and prosper.

Ken Bartlett,
Group Chair

	51	33	24	72				
34	17	20	47	25				
	27	58	68	30				
50	78	76	88	62				
22	46	26	40	65				
6	42	91	26	42	39	99	65	35
2	16	54	2	36	8	65	32	26
	8	19		11	5	61		2
72	7	17	18		3		78	
37		14	1	72		21	69	34
29	36	9		36	74	20		11
	4		54		68		27	
81		32	50	25		88	8	29
76	41	31	21	23	34	81		28
	33	6	18		3		40	
64		4		48		75	32	56
62	76	1	24	24	33	26	21	55
	74		7		32			

The board present their report and audited financial statements for the year ended 31 March 2006 for Hanover Housing Association ('HHA') and its subsidiaries, collectively referred to as the 'group' or 'Hanover Group'.

Principal activities

The principal activities of the group are the provision of rented accommodation and support services for older people at affordable rents and the provision of professional management services for retired owner occupiers.

Review of the business

A review of the activities of the group and of its prospects is set out in the Chairman's statement and in the Operating and Financial Review.

Changes in fixed assets

Details of fixed assets are shown in notes 11 and 12 of the financial statements.

Post balance sheet events

The board consider that no events have occurred since the year end that have had a significant effect on the group's financial position.

The board, executives and secretary

The board, executives and secretary of HHA are listed on pages 4 – 9.

Equal opportunities

The group is committed to equal opportunities and in particular supports the employment of disabled people, both in recruitment and in the retention of employees who become disabled whilst in the employment of the group.

Health and safety

The board is aware of its responsibilities on all matters relating to health and safety. The group has prepared detailed health and safety policies and provides staff training and education on health and safety matters.

Charitable and political donations

The members of Hanover in Hackney Limited have approved a political donations policy in order to permit staff time off to engage in legitimate trade union activities. In law such paid absences may be construed as political donations. The policy does not permit any member of the group to make political donations in any other circumstances and no donations to any political groups or parties have been made.

Big Lottery Funding

During the year the Hanover Housing Association Charitable Trust, of which the HHA board members form the Council of Management, received £19,801 (2005 – £10,210) in funding from the Big Lottery Fund.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office as auditors to HHA and the group. A resolution to reappoint them as auditors will be proposed at the next annual general meeting.

The Report of the Board was approved on 3 August 2006 and signed on its behalf by:

Michael Fuller, Secretary
3 August 2006

Activities

Founded in 1963, Hanover Housing Association is the parent for a group of businesses (the 'Hanover Group', 'group' or 'Hanover') focused on providing housing and support services to older people. Details of all group entities are shown in note 30 of the financial statements.

Operating nationally, the group manages just under 18,000 properties across 229 local authorities. The group is focused on providing accommodation and other services to people aged over 55 and virtually all of the group's housing stock is designed and managed to assist older people to live their lives independently.

According to a Social Housing magazine (March 2006) survey of registered social landlord (RSL) accounts for 2004/05, **Hanover Housing Association** ('HHA') was the 18th largest mainstream RSL in England, measured by the number of properties managed. An area of significant development focus for HHA is **ExtraCare**, which provides a very cost effective and desirable alternative to residential care. An **ExtraCare** estate typically consists of 40 or more flats, built to wheelchair friendly standards throughout. Each flat is completely self-contained, with a fully equipped kitchen and a bathroom designed to cater for people with varying levels of disability. The estate also provides extensive communal facilities, such as a restaurant with a full catering kitchen, laundry and a small shop that gives even very disabled residents easy access to somewhere to buy provisions from. The main attraction, however, is that each estate has dedicated 24/7 care provision on-site, enabling social services to provide flexible levels of care efficiently and cost effectively.

HHA's national home improvement agency, **Hanover AtHome**, provides advice and, where appropriate, manages repairs, adaptations and extensions to properties belonging to vulnerable older or disabled owner-occupiers who require this assistance for physical, financial or other reasons. This helps meet the government's objective that people should stay in their own home for as long as possible – which is also likely to match the aspirations of the individuals themselves. During 2005/06 7,887 (2004/05: 6,609) households were assisted in this way, including the facilitating of £4.1m (2004/05: £2.9m) of building work.

Hanover Property Management Limited ('HPML') operates nationally and as at 31 March 2006 managed 5,147 (2005: 5,089) leasehold retirement homes, in estates built by a range of private developers. Hanover believes that HPML is the fourth largest leasehold manager of its type in England. Among its services is an in-house sales agency that facilitates the purchase and sale of HPML managed properties and also contributes its expertise to HHA's development of retirement housing for sale.

Hanover in Hackney Limited ('HiH') was established to take a voluntary transfer of the London Borough of Hackney's sheltered housing rental properties for older people. This stock was transferred to Hanover in October 2002 with the intention of spending £25m bringing the properties up to decent homes standard within five years. As at 31 March 2006 HiH had spent £19.2m bringing 517 (2005: 264) properties up to this standard.

Hanover Friends ('HF') is a joint venture with the charity Friends of the Elderly and provides a mixture of residential care and sheltered housing for older people.

Key performance indicators ('KPIs')

To help support delivery against its key strategies, the group employs a range of financial and non-financial KPIs, of which the most important are currently:

Asset management

- Number of units managed
- Proportion of properties meeting decent homes standard
- Percentage repairs completed within target timescales
- Number of new units completed in period
- Level of development grant received

Housing management

- Arrears percentage
- Void loss percentage
- Percentage of lettings to applicants from BME (Black and Minority Ethnic) communities
- Tenant satisfaction

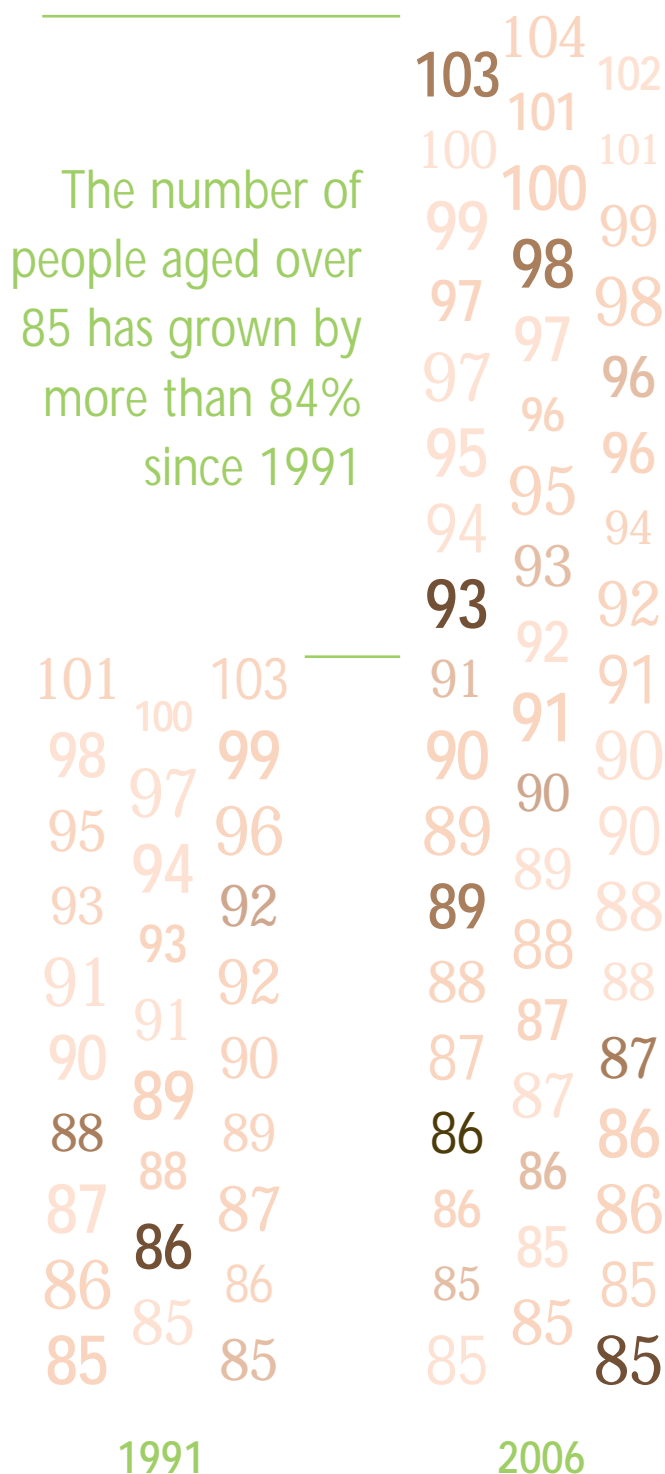
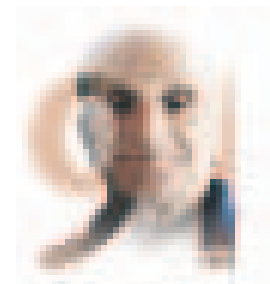
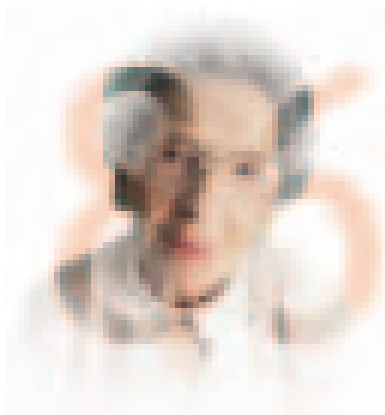
Financial

- Operating surplus margin
- Interest cover
- Gearing
- Net surplus
- Operating cash flow/(net interest + capitalised repairs)
- Efficiency gains

Staffing

- Staff turnover
- Staff costs as a percentage of turnover
- Proportion of BME staff

Each of the above KPIs is supported by a range of subsidiary performance indicators.



Objectives and strategies

Hanover's current long term corporate plan has four main objectives, against which the group seeks to apply a number of key strategies, as summarised below:

Objectives

Key strategies

Leadership

To be a leading provider of products and services of the highest quality for older and disabled people in England

- Ensure group properties remain in good, lettable and viable condition
- Design and bring to the appropriate markets high quality, affordable products and services
- Involve service users, staff, partners and other stakeholders in product design and policy decisions

Growth

To increase substantially the number of households benefiting from the group's expertise

- Develop new properties and services
- Explore opportunities to integrate services into the wider community
- Develop and sustain a range of partnerships with like-minded organisations

Performance

To be a top performing organisation

- Sustain strong corporate governance
- Strengthen the group's financial position
- Maintain a stable and high quality workforce
- Seek continuous improvement in the quality and value for money of services provided by the group

Influence

To influence policy

- Actively engage with government and other bodies in order to work towards improved services for older and disabled people

Performance

Overall

HHA is subject to regulation by the Housing Corporation and inspection by the Audit Commission, each of which utilises different regulatory and inspection frameworks.

The Housing Corporation uses a traffic light system to measure the effectiveness of a housing association across these four areas:

- Financial viability
- Governance
- Management
- Property development.

HHA currently enjoys four green traffic lights.

During the last part of the 2005/06 financial year, HHA was the subject of inspection by the **Audit Commission** (a process to which all major RSLs are subject). The Audit Commission's report was issued in May 2006 and assessed HHA as providing a 'good', two-star service that has promising prospects for improvement.



→ Performance > Overall (continued)

The reasons for the Audit Commission judging the service as good included:

- Residents have easy access to a wide range of customer-focused services through local estate managers, with appropriate steps being taken to ensure residents receive support relevant to their personal needs.
- The housing stock is in a good condition and well maintained with all properties meeting the government's decent homes standard;
- Performance on re-letting empty properties is relatively strong with HHA actively maintaining a demand for its accommodation.
- Rent and annual service charge accounting is managed effectively and computer systems support effective arrears management.
- Resident involvement is clearly structured and their input influences the decisions HHA takes.
- Overall operating costs compare favourably with similar organisations.

Asset management

Units under management

As at 31 March 2006, the group managed a total of 17,888 properties (2005: 17,925); of these, 16,110 properties (90.1%) were owned by the group (2005: 16,199 (90.4%)).

As at 31 March 2006, 1,371 of the properties owned by HHA were **ExtraCare** properties (2005:

1,373), representing 12.3% (2005: 12.3%) of HHA's social housing stock.

Note 29 of the financial statements provides information on units owned and managed by the group and the Housing Assets section of the Operating and Financial Review (OFR) offers further commentary.

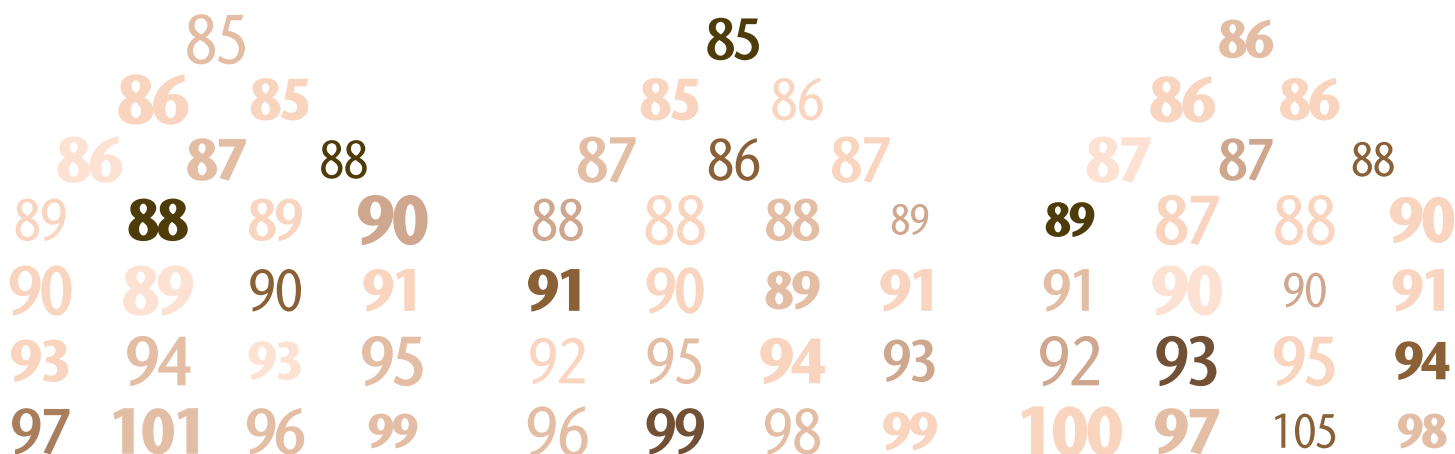
Decent Homes

As at 31 March 2006, 100% (2005: 99.5%) of the properties owned by HHA met the government's Decent Homes Standard ('DHS'). HHA achieved DHS well ahead of the government's target of 2010 and was one of the first RSLs to reach this goal. This compares with an overall sector performance of 81.3%. As at the same date, 517 (60.5%) of HiH's homes met DHS (2005: 264 (30.9%)) and HiH is well on track to meet the 100% target, which was the purpose behind HiH's transfer into the Hanover Group.

Repairs performance

An important KPI is percentage repairs complete: **the percentage of repair jobs completed within their published timescales**. Any repair job that is raised is given one of three target timescales: 24 hours, seven days or 28 days. HHA records the time taken from when the repair was reported to when it was carried out.

HHA's performance this year shows an improvement over last year although it did not meet target (**figure 1**). As noted in last year's OFR, steps have been taken to improve performance, and management is confident that the percentage



OPERATING REVIEW

	2003/04	2004/05	2005/06	Internal target
Percentage repairs complete within target timescales	92%	89%	91%	>92%

figure 1: Repairs performance

	2003/04	2004/05	2005/06	2006/07
Grant allocation:				
Housing Corporation	£1.5m	£15.3m	£1.9m	£10.7m
Local Authority	£11.9m	£1.0m	£3.2m	-
Department of Health	-	£3.6m	£10.4m	£8.4m
Total grants allocated	£13.4m	£19.9m	£15.5m	£19.1m
Number of units	304	314	249	309
Projected build cost for developments with grant allocation	£30.3m	£40.9m	£31.9m	£42.5m
Grant as a proportion of total build costs	44.2%	48.7%	48.6%	44.9%

figure 2: Grant allocations

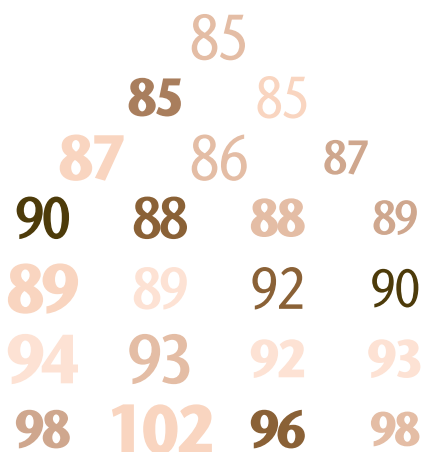
will increase as HHA continues to target and take positive action with those contractors whose performance needs to improve. The significant effort and time that has been taken to train staff and to improve information systems is now beginning to deliver enhanced performance.

Development Grant

HHA is an active property developer and for HHA, as for most other registered social landlords that develop properties, a key issue is the availability of capital grant funding from the Housing

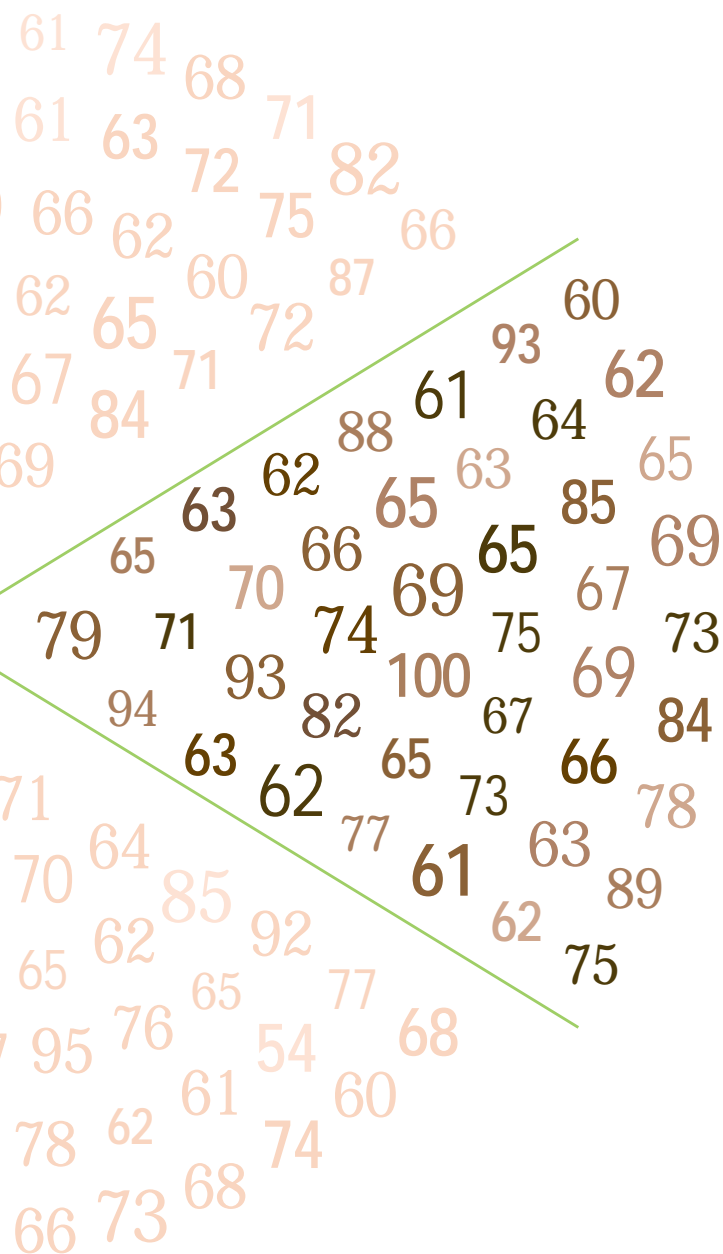
Corporation, complemented by the Department of Health's grant funding for extra care housing. In this respect, HHA is delighted to have been made one of the Housing Corporation's Preferred Development Partners, which should allow HHA to build on its already high levels of grant allocation, as demonstrated by *figure 2*.

Housing Corporation grant allocation reflects its biennial grant programme and these grant allocations will underpin HHA's development programme for the next two years.

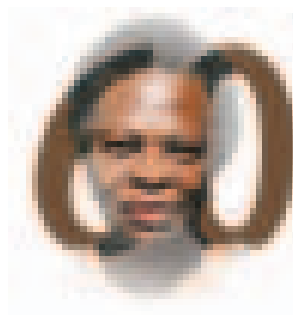


In 2001, at least 25% of over-85s still lived in homes classified as 'non-decent'





By 2011, 17.5% of people over 60 in London will be minority ethnic



→ Performance (continued)

Housing management

Figure 3 summarises housing management KPIs for HHA (i.e. these are not group figures):

Arrears

Arrears: *the total value of arrears as a percentage of the annual debit figure*. The annual debit is the amount charged to tenants for rent, services and utilities during the year.

This year's performance shows another year on year improvement. Although the stretching target set internally was not met, HHA's performance in

managing arrears is better than most other RSLs.

HHA has faced difficulties in limiting its arrears. HHA has passed additional charges to some residents for support services because Supporting People grants have not completely covered the associated costs and an increasing number of residents' Housing Benefit is being paid in arrears. Despite these continuing pressures, HHA's performance has seen a slight improvement, which, in these circumstances, should be considered an achievement. However, the association recognises that there are still

	2003/04	2004/05	2005/06	2005/06 Internal target
Arrears	2.92%	1.97%	1.95%	< 1.90%
Void loss percentage	1.39%	1.42%	1.04%	<1.40%
Lettings to applicants from BME communities	3.64%	3.09%	4.18%	> 3.25%

figure 3: Housing management key performance indicators (HHA)

improvements to be made and is seeking to bring performance across the organisation up to the levels of the best performing schemes through its continuous improvement programme

Void loss percentage

Void loss percentage: *the cumulative value of void loss as a percentage of the projected annual debit figure*. As soon as a tenancy comes to an end, HHA will lose money on that property until a new tenancy begins. These are losses that can never be recovered and therefore considerable focus is given to avoiding rent losses through units standing empty. The success of HHA's performance rests with the involvement of staff at various levels in undertaking these tasks:

- Identifying properties and estates where a letting problem is deemed to exist and then directing resources at marketing and promoting the properties in question.
- Making sure that the requirements of those applicants seeking re-housing are understood and that unnecessary and inappropriate offers are kept to a minimum, i.e. they are only offered accommodation that suits their needs.

Reports highlight where problems may exist and staff constantly reassess their priorities as to where effort may be required.

HHA's performance (1.04%) is better than many RSLs but does not quite reach that of the top performers (top quartile performance in 2004/5 was 0.9%: bottom quartile performance was 2.10%). Current performance shows a

significant improvement on the previous year.

This is due to both the good work of staff and the fact that the previous year's figures were high as a consequence of the large number of new schemes that were brought into management; this inevitably generates higher levels of void loss.

BME lettings

BME lettings: *The cumulative quantity of lettings to black and minority ethnic applicants as a percentage of total lettings – excluding transfers*.

HHA's performance of letting 4.18% of its properties to BME applicants is similar to its main peers. Specific issues are generally recognised to exist in respect to attracting BME applicants into sheltered housing and consequently the average across all RSLs, at around 14%, is higher.

HHA has undertaken considerable work over the preceding twelve months in targeting those estates where higher numbers of BME lettings would be anticipated. This assessment is usually based on the percentage of older BME people in that local authority area. This work, which has included making approaches to BME community groups, combined with more effective cultural awareness training has helped to bring about the rise in the number and percentage of BME applicants who have been re-housed.

HHA runs an equalities group that is looking at other related issues, such as length of tenancy of BME residents and referral routes for BME applicants (e.g. local authority or self referral). This work will hopefully help to identify and overcome some of the barriers to BME lettings that seem to exist with sheltered housing. →

→ Performance > Housing management (continued)

Tenant Satisfaction:

One of the main ways in which HHA assesses its effectiveness is in the levels of satisfaction expressed by tenants. Knowing what tenants think about their accommodation and the services provided to them is fundamental to understanding how successful HHA is in providing services.

HHA carries out a major satisfaction survey of tenants every three years. The last one was undertaken in 2004 and involved HHA sending questionnaires to nearly one in five of its tenants. This survey covered a wide variety of subjects but focused primarily on the quality of the accommodation and on the services received by tenants from HHA. The results of the survey were encouraging in that 95% of tenants said they were satisfied with their accommodation, 93% with their estate and 89% with their landlord. The survey acts as a useful management tool by identifying areas of comparative strength and weakness.

The triennial survey is supplemented by several on-going satisfaction surveys. These have been set up in many of HHA's core service areas so as to ensure that HHA's services are meeting tenants' expectations. These surveys are carried out with tenants shortly after they have experienced a specific service from HHA. The latest information for 2005/6 that has been collated shows that 99% of tenants were satisfied with a recent repair, 98% with how HHA let a property to them, 91% with the service they received from Hanover OnCall – HHA's 24 hour alarm call centre – and 98% with how HHA carried out an adaptation to their home. HHA believes these to be impressive results.

Staffing

During 2005/06, the average number of full-time equivalent staff employed by the Hanover Group was 919 (2005: 877), as shown in *figure 4*

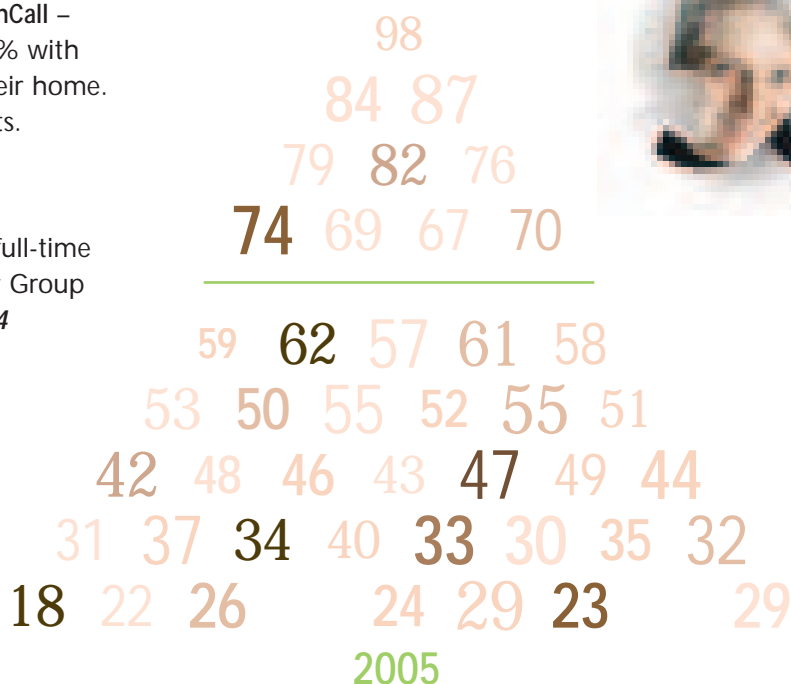
Overall staff turnover (as illustrated in figure 5) for the group has fallen year on year from 23% to 17%, although it is slightly above the average for the sector of 15.5%. Turnover in the previous year was inflated by the closure of two care homes in HF and the consequential loss of staff. The ongoing reduction in turnover



■ HHA: 573 ■ HiH: 54
 ■ HF: 137 ■ HPML: 155
Total: 919

figure 4: Average FTEs

Over the next 25 years,
 the number of people of
 working age for each
 person of state pension age
 will fall from 3.31 to 2.62



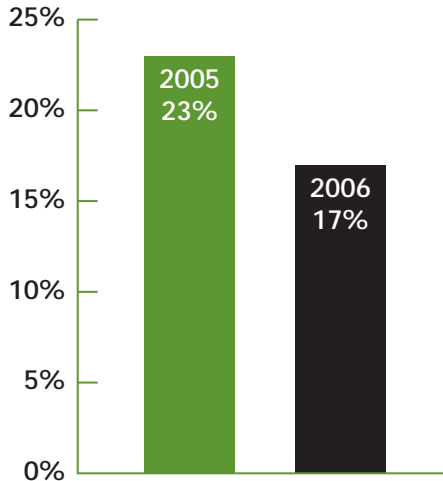


figure 5: staff turnover

of Estate Managers within HHA has also contributed to this year's improvement; modifications to induction programmes and processes for recruitment and training have continued to help drive this progress.

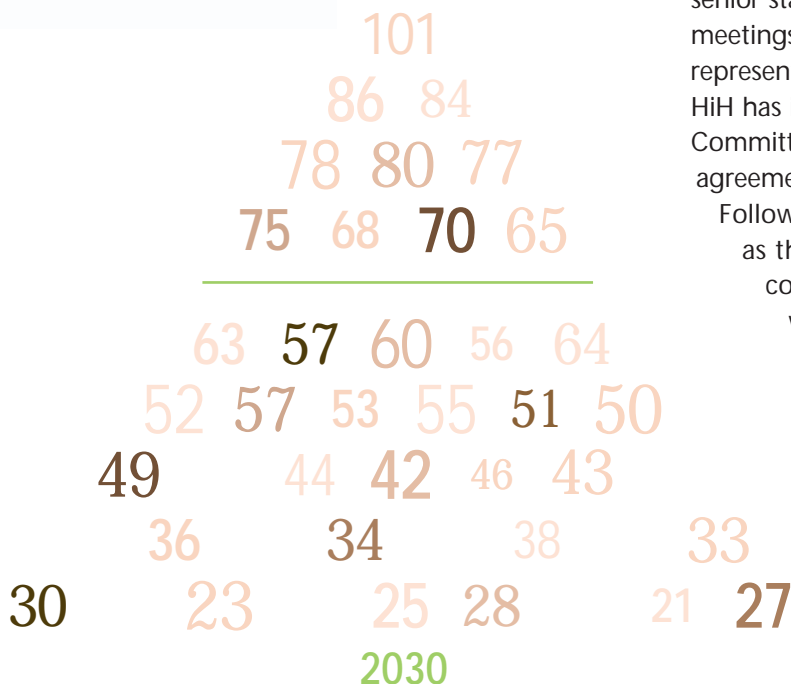
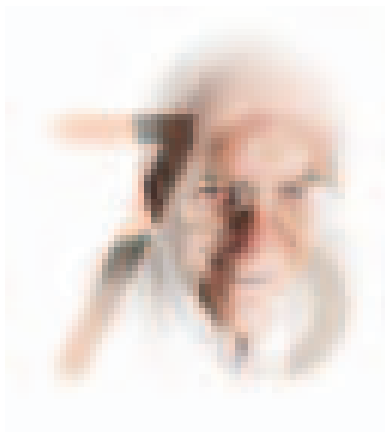
The percentage of staff from a BME background within the group is 8%. HHA has seen a small increase in BME staff over the past year.

The Human Resources department ('HR') has continued to develop in its capacity to perform a much more business orientated role by lending support to organisational development and providing statistical information to highlight the workforce composition and 'staff health'. This development has been supported by the implementation in 2005/06 of an integrated human resources and payroll system. This new system has:

- Enabled the payroll service to be moved in-house, thus saving the organisation around £47,000 per annum in respect of the cost of a bureau service.
- Made human resource information available that allows more effective reporting of statistics to build the staff 'picture' within the business.
- Introduced a user friendly self service function that provides online, real time information to both staff and line managers.

Communication within such a dispersed organisation has to make full use of a variety of channels. These include regular presentations by senior staff, electronic newsletters and quarterly meetings of the Staff Forum, which consists of representatives of the workforce in HHA and HPML. HiH has its own Joint Consultation and Negotiating Committee, operating under a recognition agreement with the principal trade union.

Following the election of the Staff Forum as the official body for information and consultation, HR has been working with the staff representatives to 'professionalise' their roles. HR has developed a more formal induction for new representatives, created sub-groups to concentrate on such elements as HR policy consultation and has identified coaching and training opportunities for the group as a whole. →



→ Performance (continued)

Partnering and influencing

Hanover's support of the 2020 vision for housing and care for older people continued throughout the year; with the group's Marketing Director co-ordinating the campaign. Interestingly many of the milestones laid out in the 2020 partners' manifesto for change are beginning to become a reality, helped by government departments beginning to work holistically to achieve joint aims for older people, as demonstrated by a plethora of joined-up policy documents and white papers during the course of the year.

Local authorities are also starting to create inclusive strategies for older people, with housing's role no longer sidelined. Supporting People has often been the driver for this as it has acted as a catalyst to bring professionals together to think collectively about the best options for older people. However on a less positive note we are beginning to see the erosion of the low level preventative service sheltered housing fulfils, as some local authorities do not recognise its underlying role in maintaining the health and welfare of older people. Any further cuts in Supporting People funding and the removal of its ring fencing could worsen this scenario.

With this in mind Hanover has been working with the other major providers of sheltered housing to influence government to recognise the cost effectiveness of the low level support provided by high quality sheltered housing. Given the future increases of the very old in the UK it would also seem to be rather short-termist to potentially lose this valuable resource. Hanover believes that in the future more people in the community should be able to benefit from their local sheltered housing estate; using it as a service hub and as a location for intermediate care. This approach is mirrored by both the 2020 manifesto, which called for a one stop information shop, and by the Department for Local Government and the Communities who launched their 'Sure Start' initiative for older people in early 2006, which calls for local centres where older people can source services and information.

Resident involvement

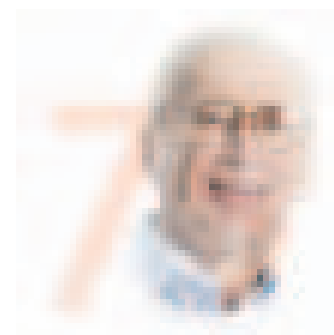
HHA recognises that it cannot achieve its goals of high service standards without effective engagement with residents. The association has in place a well established formal structure for resident involvement, including elected estate representatives, regional forums and a national Residents' Council, as well as a resident on the group board. A Resident Involvement Statement was agreed in May 2005, and a report on the 'Impact of Resident Involvement' was published early in 2006.

A continuous improvement group of both staff and residents has developed an action plan to further improve the effectiveness of resident involvement, an important element of which is the creation of a 'menu' of means of involvement to enable a wider range of HHA's residents to have their say. In the coming year HHA will be working with residents to develop a 'compact', a more detailed agreement about how residents will be involved and be able to influence the full range of the association's activities.

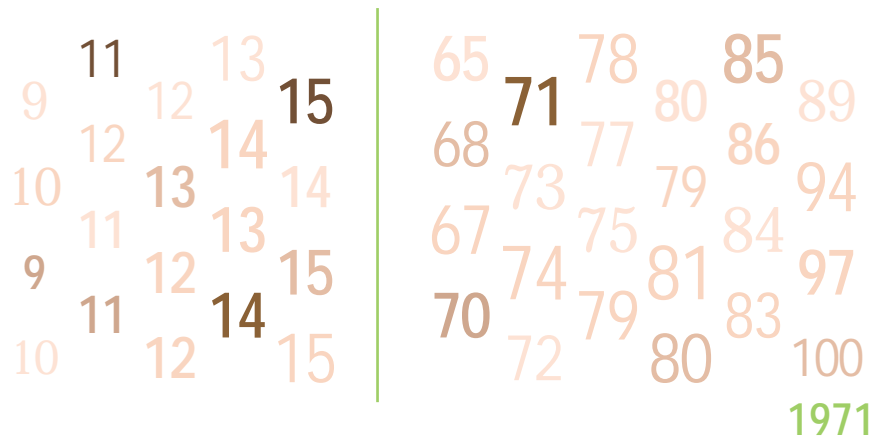
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Environmental dynamics

HHA and its subsidiaries are affected by a wide range of external factors. Some of the more important factors include:

■ Income restrictions –

The group's businesses are, to a large extent, restricted in the fees that they are able to charge their customers, thus restricting future income levels.

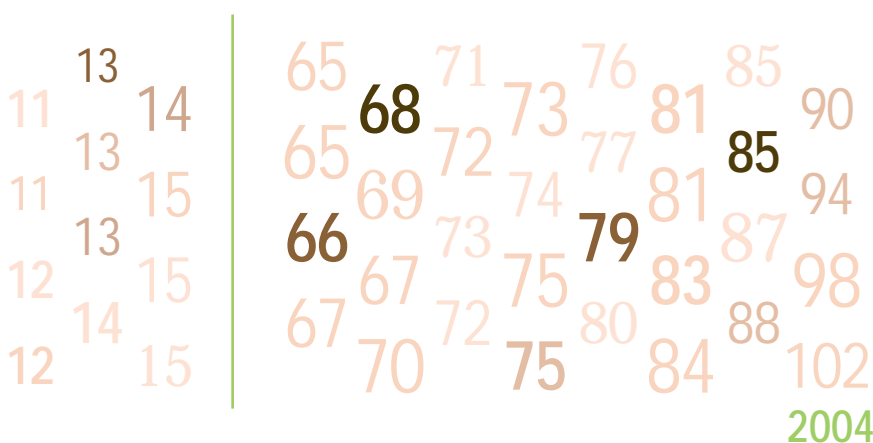
■ Supporting People –

This source of government funding currently provides the group with £6.3m (9.7%) of its turnover (2005: £6.1m (10.1%)). This funding is being reduced, which could place further pressures on Hanover's ability to provide the current level of support services. The nature of Supporting People contracts, unless changed, also means that certain of the new services which the government (and Hanover) is keen to see develop, e.g. floating support and further expansion of home improvement agencies, can only be undertaken at a loss to the group.

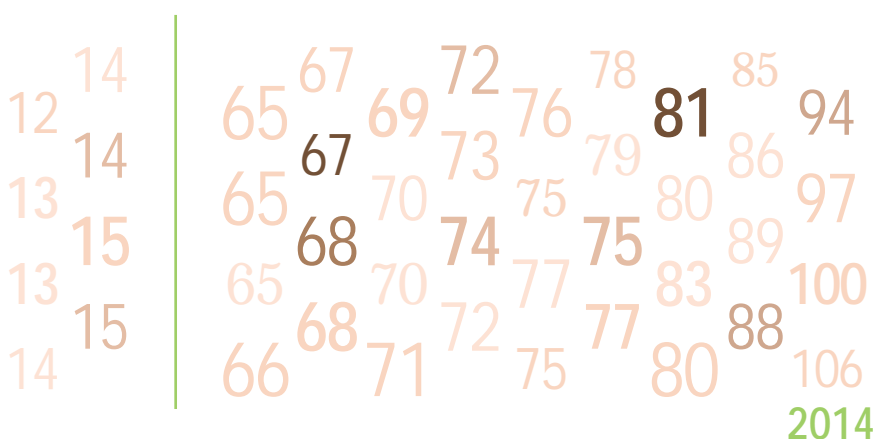
■ **Regulation** – The government has significantly increased the bureaucracy with which Hanover and similar organisations have to deal. This increases costs, slows down decision making and can lead to non-optimal business decisions being made.

■ **Development grant availability** – HHA's ability to develop new properties is dependent upon the availability of development grant from the Housing Corporation and Department of Health.

The over-65 age group is forecast to continue growing to such an extent...



...that they will outnumber those under 16 by 2014



Going forward

Efficiency/value for money/continuous improvement

These are three of the key phrases within the social housing sector (and more generally within the public sector). Indeed the ability to demonstrate efficiency savings and deliver value for money were key elements of the methodology used by the Audit Commission in their recent inspection of HHA to judge the service provided to residents and the prospects for making improvements to that service. HHA is committed to embedding a culture of continuous improvement within the organisation and constantly reviews the level and means of delivery of its products and services in order to find better, more cost effective ways of performing these activities. This is a key driver at HHA in ensuring that a good service is provided to residents.

The continuous improvement strategy outlines HHA's way of regulating the internal continuous improvement process. The continuous improvement plans ('CIPs') are an integral part of the planning process undertaken annually within the group. During the next financial year, the group will be revising its CIPs for 2007 – 2010. The preparation of this new plan will include consultation with residents. Progress with the CIPs will continue to be reported to the Residents' Council and the Hanover Group Board.

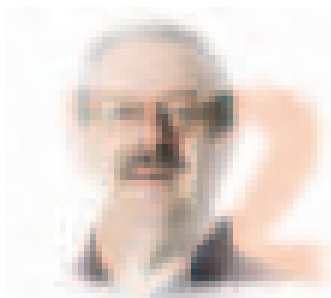
An example of the sort of current activity that the group is working on in this area is the 'procurement improvement project', two key elements of which are the establishment of an in-house procurement function (currently being performed by external consultants) and the addition of a purchase order processing capability to the group's existing IT systems.

Development for sale

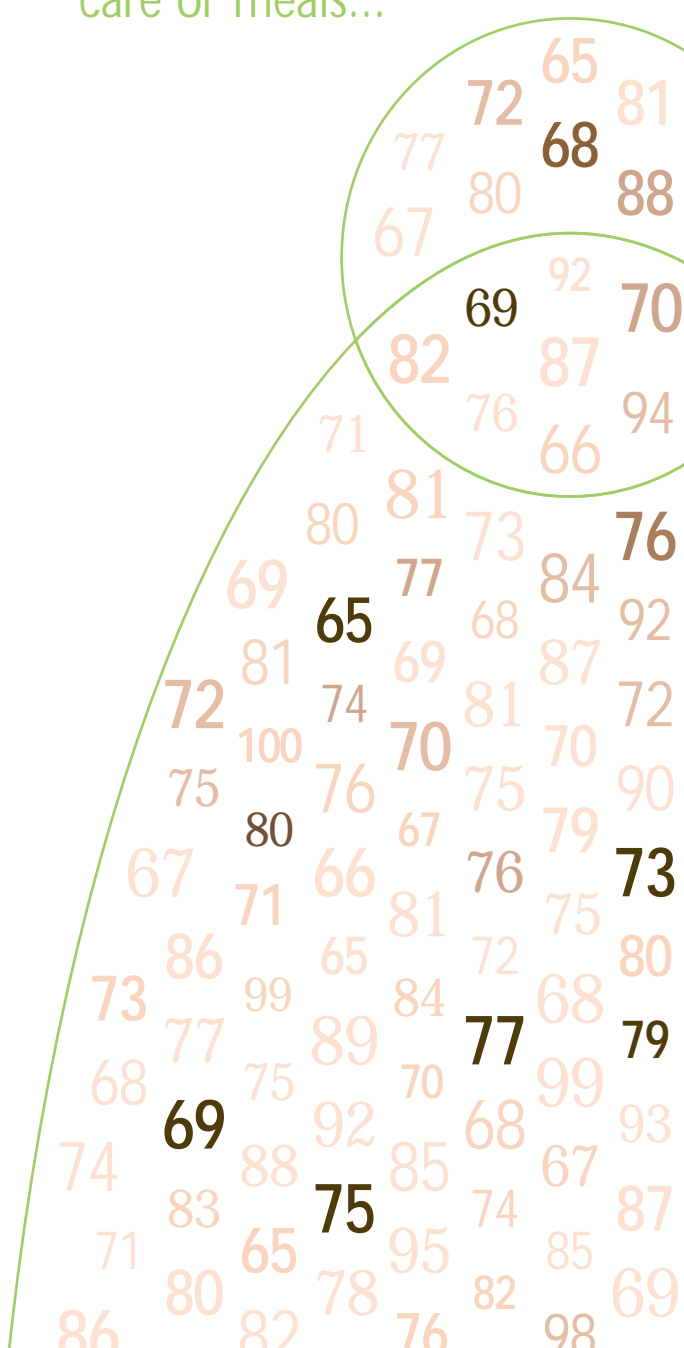
The over-65 age group is forecast to continue growing to such an extent that it will outnumber those aged under 16 by 2014. In particular, throughout the first half of the 21st century the number of people aged over 80 will rise substantially. This is a major target market for the group. Many of these people, on retirement, want to vacate their existing property and re-invest their funds profitably and securely in a smaller, more manageable property. Thus the number of people aged between 60 and 69 who are owner-occupiers is rising and by 2011 is expected to represent 79% of that section of the population.

In addition, two key elements of the government's agenda are choice (of accommodation, services etc.) and 'more for less' (in particular, more properties for less grant).

Both of these factors have led HHA to take the decision to actively develop properties for sale – both outright and under shared ownership arrangements. As at 31 March 2006, HHA had in development some 101 properties – at an estimated cost of £13m – for this purpose.



In 2004, over half a million over-65s in England received home care, day care or meals...



Risks and uncertainties

The Hanover Group faces a variety of business related risks. The five principal risks facing the group, together with the group's strategies for mitigating those risks, are stated below.

Principal risks

Mitigating business strategies

Reduction in Supported People income for estate manager provided support services

- Level of services tailored to what the group can afford
- Shortfalls passed on to tenants

Costs rise faster than revenues

- Active engagement in value for money and efficiency initiatives, including use of short and medium term targets for cost reductions and continuing investment in IT
- Use of range of 'input' KPIs (e.g. staff costs as percentage of turnover) to ensure acceptable output KPIs (e.g. operating margin)
- Generate additional income through more active asset management strategy including development of new properties for sale

Reduction in development grants made available to Hanover

- Generate additional income through a more active asset management strategy, including development of new properties for sale, in order to finance developments from internal resources
- Utilise Preferred Development Partner status to undertake additional work for non-group entities

Ability to achieve adequate values on new properties for sale, especially those sold under shared ownership arrangements

- Use of conservative values when contemplating initial feasibilities, together with higher 'hurdle rate' which such schemes are required to pass
- Recruitment of specialist Sales Manager – reporting to the new Property Director – who will actively manage the sales process

New products/services are loss making (especially given nature of government funding regimes)

- Careful financial review before new products or services are adopted
- Acceptance of agreed level of exposure that the group is prepared to bear



...and 4.8 million people aged over 65 were owner-occupiers

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Capital structure

The group contains entities with a variety of legal forms (Industrial and Provident society, registered charity and company limited by guarantee), none of which are able to raise equity funding. Consequently, the group finances its operations by a combination of government grants, housing loans from commercial banks and retained surpluses.

No member of the Hanover Group pays dividends.

Housing assets

A strong balance sheet and a growing asset base are key factors in respect of the group's ability to raise additional finance to support property development plans.

The number of units and the value of the group's housing stock has generally risen over the past five years although the group did experience a small net reduction in housing stock last year due to the sale or demolition of units that were no longer core to the group's activities. The increases have been driven by both organic growth and the acquisition of HiH and HF in 2003. *(Figure 6)*

These properties are included on the balance sheet at a net book value (gross historical cost less depreciation, Social Housing Grant and other public grants) of £213m (2004: £207m). The board believe that the current market value of these properties is significantly in excess of their net book value. This belief is based on valuations of elements of the portfolio undertaken since April 2000 and the backdrop of the rising property market of recent years, coupled to the group's planned maintenance programme based on stock

condition surveys. The group maintains its properties to a high standard and the board does not believe that any of its properties have suffered from any impairment during the year.

During the 12 months ended 31 March 2006, HHA completed one estate (representing 20 units), compared with four estates and 143 units in 2004/05. HHA also undertook work to convert some schemes from bed-sits to one bedroom flats with the net loss of 6 units. HF completed the refurbishment of one of its sheltered schemes during the year, adding 8 units in the process. These developments added £3.4m to the group's asset base but this was offset by a number of disposals within the group. The gross cost of assets in the course of construction at the end of the period was £12m (2005: £216k), representing the development of 12 estates. Four of these estates are expected to be completed during 2006/07 and the remainder in the following financial year.

For 2006/07 the group is anticipating completing 173 units, which will increase tangible fixed assets by a further £10.4m.

As at 31 March	2002	2003	2004	2005	2006
Number of units owned	14,461	16,032	16,341	16,396	16,315
Gross cost of housing properties	£331m	£356m	£411m	£439m	£464m
Percentage increase in cost	7.4%	7.6%	15.4%	6.8%	5.7%

Figure 6: Housing assets

Treasury policy

The group has a centralised treasury operation whose primary function is to manage liquidity, funding, investment and the group's financial risk, including risk from volatility in interest rates and counterparty credit risk. The treasury operation is not a profit centre and the objective is to manage risk on a cost effective basis; speculative transactions are not permitted.

Treasury policies are reviewed annually and approved by the board. The group manages interest rate risk by utilising a high proportion of fixed interest debt. The group's target is to have up to 85 per cent of the gross debt portfolio attracting a fixed rate of interest. At 31 March 2006, 80 per cent of the debt portfolio was at a fixed rate (2005: 80 per cent).

The group's financial instruments comprise cash, short-term investments and borrowings.

Regarding liquidity, as the provision of housing is a long-term business, the group's policy is to finance it primarily with medium and long-term borrowings. The group's funding policy aims to ensure the availability of an appropriate amount of reasonably priced funding to meet current requirements as well as future growth anticipated within the group's budget and strategic plan. Accordingly, the group aims to keep committed facilities to a minimum of 115 per cent of peak borrowing requirements.

The Hanover Group has continued to grow its asset base, and has 12 new schemes currently under development. Despite this growth, the levels of debt have been reduced by enhanced cash management and the accelerated receipt of public sector grants, reducing the outstanding housing loans and finance leases to £141m at 31 March 2006 (2005: total gross debt of £147m). £141m of these loans and finance leases are secured on the group's property assets (2005: £133m).

HHA opted not to renew the debt facilities maturing in the year ending 31 March 2006 and has instead negotiated new loan facilities with selected current lenders following a tender process. The new 30 year facilities are a mix of secured and unsecured money at reduced margins, and will provide HHA additional flexibility to undertake effective treasury management. The future

development plans of HHA will require additional loan facilities, and the shareholders accepted the board's recommendation to change the rules at the last annual general meeting to allow total borrowing of £500m.

A key measure of the financial health of the Hanover Group is the ratio of net debt (being gross debt minus cash at bank and in hand, minus short term and long term investments) to net assets (defined as the aggregate of reserves, Social Housing Grant, other public grants and housing depreciation). This ratio, known as gearing, is also one of HHA's key bank covenants. The group seeks to keep gearing below 80 per cent at the consolidated level and less than 75 per cent for HHA, as required by HHA's banking covenants.

Gearing decreased from 51 per cent in 2004/05 to 45 per cent at the end of 2005/06. The gearing percentage reflects the extensive property development programme undertaken by HHA, which is funded in part by borrowings. This is well within the 75 per cent level required by HHA's bankers.

Only 5 per cent of the housing loans of £133m are repayable during the next five years. Notes 18 and 19 to the financial statements provide a detailed analysis.

A major element of creditors repayable within one year is the interest free loans of HF. These are loans made to HF by some of its residents. These loans carry no interest coupon, but give the lender an entitlement to a reduced charge for staying in an HF property. These interest free loans totalled £3.9m as at 31 March 2006 (2005: £4.2m).

During the year the group was able to renegotiate the margin on certain historic loan facilities to take advantage of the competitive loan market. The group's weighted average interest rate paid fell to 6.53 per cent for the year ended 31 March 2006 (2004/05: 6.65 per cent). The group remains largely insulated from rate changes due to its policy of fixing the majority of its loan facilities.

As at 31 March 2006, the group had undrawn funding facilities of £63.7m (2005: £54.3m) comprising undrawn loan facilities of £61.2m (2005: £53.0m) and undrawn overdraft facilities of £2.5m (2005: £1.3m).

Interest rate management

The Group Treasury Department actively manages the group's interest costs, seeking to reduce average interest rates and interest payments. The facility terms are regularly benchmarked against similar organisations and, where possible, renegotiated to reduce costs. Group Treasury also performs a rolling review of facility utilisation, to ensure the cheapest facilities are drawn down first, and seeks the early repayment of historic term debt where it is in the best interests of the group. The group will also utilise treasury instruments to mitigate exposure to adverse movements in interest rates, as permitted by its rules.

Interest cover is a key bank covenant and is defined as operating surplus (adjusted by adding back housing depreciation), divided by interest

payable. The most onerous covenants require interest cover to exceed 115 per cent. Interest cover improved in the last financial year; this reverses a trend of decline in the recent past caused by the high level of investment in the group's property portfolio, which included the impact of HiH coming into the group. In recent years the level has comfortably exceeded that required by any of the group's lenders.

The board has approved more stringent internal targets as being appropriate for planning and managing the operations of the group and has set a target for interest cover of 150 per cent, which was exceeded this year. However, the possible requirement to fund HF during a period in which it redevelops some of its properties may prevent this in the short-term.

Cash flow

The net cash outflow in 2005/06 was £0.4m, which was £4.1m lower than in 2004/05. The net cash inflow from operating activities of £16.8m was broadly similar to the prior year, reflecting the stability of the underlying rental stream, as was net interest paid. The amount paid out in respect of new fixed assets fell by £0.6m year on year whilst receipts of

grants rose by £16.3m; HHA received considerable sums of grant in advance of work commencing on the associated developments. These improvements in cash flow were to some degree offset by the £9.6m swing on financing cash flow, as the group went from increasing its borrowings in 2004/05 to repaying debt in 2005/06.



- Rent: 60%
- Supporting People: 4%
- Support charges: 6%
- Other: 6%
- Service charges: 19%
- Care fees: 5%

Figure 7: Income from social housing lettings

Turnover and operating surplus

In 2005/06, turnover for the Hanover Group increased by 8.4 per cent to £65.4m. The group's main focus is social housing activities, which account for 97 per cent of the turnover. The relative components of the social housing income stream are illustrated in *figure 7*.

The principal component of turnover is rental income. Due to regulation, HHA and HiH can only increase rents annually by a maximum of RPI + 0.5%, plus a further £2 per week where current rents are below target rent levels established through a government formula linking rents to local property values and wage levels. Service charges are levied on tenants and cover expenditure such as garden maintenance. RSLs are not entitled to generate surpluses from such charges. Supporting People income represents grants from local government administering authorities. These grants are provided in respect of individual tenants in order to pay for preventative support to older people to promote their continuing independence and well being.

The increase in the group's operating costs over the previous year was lower in both absolute and percentage terms than the

increase in turnover. The direct costs of operating schemes have generally risen in line with income although energy costs and depreciation have seen greater relative rises. However, repairs and maintenance expenditure and central overhead costs have actually fallen year on year. Central overhead savings relate particularly to staff related costs and a move to recruit permanent staff rather than using more expensive contract labour. These savings reflect the efforts of management to improve controls over costs and to deliver greater efficiency and value for money.

The operating surplus for the period was £10.1m, which is an improvement of £3.5m over the prior period and represents an increase in operating margin from 11.1% to 15.5%. This reflects the greater increase in turnover relative to operating costs. Note 36 of the financial statements shows the relative contributions of each main group entity to these results.

The surplus on ordinary activities after tax rose from £2.6m in 2004/05 to £3.5m in 2005/06; the improvement in operating surplus was partly offset by a lower surplus on disposals of fixed assets.

Total recognised surpluses and deficits

The result for the year reflects the impact of full adoption of the accounting standard FRS 17 'Retirement Benefits'. The group has for the first time recognised pension liabilities in respect of two multi-employer defined benefit pension schemes. The net effect on the income and expenditure account for 2005/06 has been to reduce the operating surplus by £250k and to reduce the total recognised surpluses by £1,440k following the recognition of an actuarial loss of £1,190k. This change in accounting policy has also necessitated a prior year adjustment in order to recognise a deficit on pension schemes of £8.7m as at 31 March 2005 and a consequent reduction in revenue reserves; the liability at 31 March 2006 rose to £10.1m. Despite these adjustments, the group's total reserves are a healthy £49.5m. Note 34 of the financial statements provides detailed disclosures in

respect of pension obligations and note 35 sets out the effects of the change in accounting policy.

The group has decided not to continue to account for separate designated reserves and has therefore shown those reserves moving back into revenue reserves in this year's financial statements. This decision reflects the opinion, set out in the 'Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities' published in August 2005 as an exposure draft by the Accounting Standards Board, that designated reserves do not represent a different class of residual interest unless legally binding restrictions have been placed on the funds in question. The group continues to disclose the amount of restricted reserves it holds separately. Notes 23 to 25 of the financial statements summarise reserve movements.

Going concern

After making enquiries, the directors of the group have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the going concern basis has been adopted in these financial statements.

Accounting policies

The group's accounting policies are set out in note 1 to the financial statements.

Statement of compliance

In preparing this Operating and Financial Review, the board has followed the principles set out in Part 3 of the SORP 'Accounting by Registered Social Landlords' (Update 2005).

Income and expenditure accounts for the year ended 31 March 2006

	Note	Group		Association	
		2006 £'000	Restated 2005 £'000	2006 £'000	Restated 2005 £'000
Turnover	2	65,386	60,335	52,899	48,018
Operating costs	2	(55,243)	(53,652)	(43,102)	(41,283)
Operating surplus	2	10,143	6,683	9,797	6,735
Surplus/(deficit) on disposal of fixed assets	4	3,037	5,296	(254)	188
Interest receivable and other income	5	406	591	429	520
Interest payable and similar charges	6	(9,957)	(9,689)	(9,597)	(9,503)
Other finance income/(cost)	34	(169)	(237)	(180)	(280)
Surplus/(deficit) on ordinary activities before tax	7	3,460	2,644	195	(2,340)
Tax on surplus on ordinary activities	8	(2)	(3)	-	-
Surplus/(deficit) on ordinary activities after tax	23	3,458	2,641	195	(2,340)

All amounts relate to continuing activities.

The accompanying notes are an integral part of these income and expenditure accounts.

Statements of total recognised surpluses and deficits for the year ended 31 March 2006

	Note	Group		Association	
		2006	Restated 2005	2006	Restated 2005
		£'000	£'000	£'000	£'000
Surplus/(deficit) for the financial year		3,458	2,641	195	(2,340)
Actuarial gain/(loss) on pension schemes	34	(1,190)	969	(1,200)	915
Unrealised surplus/(deficit) on revaluation of long term investments	25	53	(78)	53	(78)
Total recognised surpluses and deficits relating to the year		2,321	3,532	(952)	(1,503)
Prior year adjustment	35	(8,690)	-	(8,350)	-
Total recognised surpluses and deficits since the last financial statements		(6,369)	3,532	(9,302)	(1,503)

The accompanying notes are an integral part of these statements of total recognised surpluses and deficits.

Balance sheets at 31 March 2006

	Note	Group		Association	
		2006 £'000	Restated 2005 £'000	2006 £'000	Restated 2005 £'000
Tangible fixed assets					
Housing properties – depreciated cost	11	430,148	411,358	407,199	393,726
Less: Social Housing Grant	11	(214,952)	(204,113)	(214,952)	(204,113)
Less: Other public grants	11	(2,486)	(200)	(2,286)	-
		212,710	207,045	189,961	189,613
Other fixed assets	12	5,573	6,027	4,961	5,468
		218,283	213,072	194,922	195,081
Long term investments	13	3,985	3,885	3,985	3,885
		222,268	216,957	198,907	198,966
Current assets					
Stock	14	712	-	712	-
Debtors	15	9,666	5,191	12,650	8,079
Investments	16	422	280	-	-
Cash at bank and in hand	17	1,555	1,598	-	-
		12,355	7,069	13,362	8,079
Creditors: amounts falling due within one year	18	(32,791)	(32,806)	(26,469)	(24,650)
Net current liabilities		(20,436)	(25,737)	(13,107)	(16,571)
Total assets less current liabilities		201,832	191,220	185,800	182,395
Creditors: amounts falling due after more than one year	19	142,099	134,885	133,699	130,533
Provision for liabilities and charges	21	134	497	134	363
Pension liability	34	10,130	8,690	9,770	8,350
Capital and reserves					
Share capital	22	-	-	-	-
Revenue reserves	23	46,205	9,520	40,087	6,583
Restricted and designated reserves	24	2,725	37,142	1,571	36,080
Investment revaluation reserve	25	539	486	539	486
		201,832	191,220	185,800	182,395

The accompanying notes are an integral part of these balance sheets.

These financial statements were approved by the board on 3 August 2006 and signed on its behalf by:

K Bartlett,
Chairman; Board Member

A Gillibrand,
Board Member

M Fuller,
Secretary

Consolidated cash flow statement for the year ended 31 March 2006

	Note	2006 £'000	Restated 2005 £'000
Net cash inflow from operating activities	26	16,771	16,699
Returns on investments and servicing of finance	26	(9,524)	(9,463)
Taxation	26	(3)	(13)
Capital expenditure and financial investment	26	(1,880)	(17,353)
Cash inflow/(outflow) before use of liquid resources and financing		5,364	(10,130)
Management of liquid resources	26	(142)	1,679
Financing	26	(5,597)	3,994
Decrease in cash	26	(375)	(4,457)

The accompanying notes are an integral part of this consolidated cash flow statement.

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, the Statement of Recommended Practice: Accounting by Registered Social Landlords Update 2005 (SORP) and the Housing Corporation's Accounting Requirements for Registered Social Landlords General Determination 2006.

The financial statements for the year ended 31 March 2005 have been restated in order to provide comparative figures arising from the adoption of Financial Reporting Standard 17 'Retirement Benefits' in preparing the financial statements for the year ended 31 March 2006.

A summary of specific policies is set out below.

Basis of accounting

The financial statements are prepared on the historic cost basis of accounting, modified to include the revaluation of long term investments.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Hanover Housing Association and its subsidiaries. Intra-group transactions are eliminated on consolidation.

Turnover

Turnover is shown net of voids and value added tax (VAT) and comprises rental and service charge income receivable, Supporting People income receivable, commissions, donations, fees and revenue based grants from local authorities and the Housing Corporation. Void losses are only recognised where the properties are available for letting.

Fixed assets

Fixed assets are stated at cost less depreciation. In the case of housing properties, cost includes the incidental costs of development - including interest capitalised up to the date of practical completion of the scheme.

Housing properties in the course of construction are stated at cost and are transferred into housing properties when completed.

Scheme equipment is shown at cost less cumulative depreciation.

Capitalisation of interest

Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development if it represents either:

- a) interest on borrowings specifically financing the development programme after deduction of interest on Social Housing Grant (SHG) in advance; or
- b) interest on borrowings of the entity as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the income and expenditure account in the year.

Capitalisation of development overheads

Development costs are capitalised where they are directly attributable to bringing the properties into working condition for their intended use. Directly attributable costs are the labour costs of employees relating directly to the construction or acquisition of the property, and incremental costs that would have been avoided only if individual properties had not been constructed or acquired.

Works to existing properties

Works (including programmed works as a result of the stock condition survey) which result in an enhancement in the economic benefits of housing properties (i.e. an increase in rental income, reduction in future maintenance costs or significant extension of the life of the property) for a period of ten years or more are deemed to be improvements and capitalised.

All other expenditure on repairs incurred over a property's life to maintain the fabric of the original asset is charged to the income and expenditure account as incurred.

Depreciation

- Freehold land is not depreciated.
- Housing under construction is not depreciated.

- Housing properties are depreciated on a straight line basis with an expected life of 50 years as at 31 March 1999 or practical completion, whichever is the later.
- Properties held on long leases and under finance leases are depreciated over the remaining period of the lease.

Using component costing principles, the works are depreciated according to the expected life of the component as follows:

Life	Depreciation
■ 10 to 19 year	10%
■ 20 to 29 years	5%
■ 30 years plus	over the life of the building

Other tangible fixed assets are depreciated on a straight line basis on cost over the expected useful economic lives of the assets at the following annual rates:

■ Freehold buildings	2.5%
■ Leasehold premises	2.5%
■ Office equipment	20.0%
■ Scheme equipment	25.0%
■ Computer equipment	25.0%

Impairment

Impairments that result from a major reduction in service potential of the property are recognised immediately in the income and expenditure account.

Sale of properties

The surplus or deficit arising on the disposal of housing properties held as fixed assets is accounted for on the face of the income and expenditure account.

Under shared ownership arrangements, the group sells a long leasehold interest of shared ownership units to persons who occupy them at a lease premium equal to 75% of open market value. Proceeds of the sale of first tranches are deducted from the carrying cost of shared ownership housing properties. Subsequent tranches sold are reflected as costs of sales and any surplus or deficit on sale is disclosed in the income and expenditure account.

Properties developed for sale – stock

Completed properties for outright sale are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales prices after allowing for all further costs of completion and disposal. Until sold, these properties are held as current assets and represent the only items of stock on the balance sheet.

Social Housing Grant and other grants

Social Housing Grant is a capital grant made to the group towards the cost of acquiring and/or building housing for rent or sale. Under shared ownership arrangements, Social Housing Grant is paid by the Housing Corporation on a basis related to cost but varying according to area and type of scheme.

Where developments have been financed wholly or partly by grants, the cost of those developments has been reduced by the amount of grant received.

Where Social Housing Grant is received for properties in the course of construction, if the amount received is in excess of the costs of construction incurred to date then the excess is shown as 'Social Housing Grant received in advance', within 'Creditors: amounts falling due within one year'.

Where grant is received on items treated as revenue expenditure, it is treated as revenue grant and credited to the income and expenditure account.

Grants are usually repayable unless formally abated, waived or recycled. Therefore they may be repayable in certain circumstances, primarily the sale of property. This can be the case even where the grant has been treated as a revenue grant for accounting purposes.

Long term investments

HHA is required to set aside a debt service reserve as a condition of certain funding arrangements. These reserves are invested in the name of HHA and cannot be redeemed until maturity of the underlying financial instruments. These investments are shown at valuation.



→ 1 Accounting policies (continued)

Interest free loans

Some residents of Hanover Friends ('the lenders') have provided interest free loans in return for reduced accommodation charges. These loans were originally made to Help the Aged, but the monies passed to Hanover Friends as part of the transfer and are available to be used by Hanover Friends as part of its cash management. The loans are repayable on demand or at short notice.

Help the Aged remained responsible to repay the loans and Hanover Friends indemnified them in that respect.

As part of the transfer agreement, Hanover Friends undertook to obtain the agreement of the lenders to transfer the obligations of Help the Aged to Hanover Friends. All lenders have agreed that the transfer of obligations should take effect from 1 April 2004 and all rights and obligations under the loan agreements now belong to Hanover Friends. As a result the indemnity to Help the Aged has been nullified.

Other long term creditors

Other long term creditors include the costs of arranging long term funding and premiums received on the issue of bonds. These amounts are amortised over the period of the underlying financial instrument.

Leases

Rentals paid under operating leases are charged to the income and expenditure account on the accruals basis.

The cost of assets held under finance leases is included under tangible assets and depreciation provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the income and expenditure account to produce a constant periodic charge on the remaining balance of the outstanding obligations.

Provisions

The group only provides for contractual liabilities which exist at the balance sheet date.

Retirement benefits

Pensions and related benefits are accounted for in accordance with Financial Reporting Standard 17 'Retirement Benefits'. The year ended 31 March 2006 is the first in which this accounting standard has been fully adopted by the group. The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The regular cost of providing retirement pensions to employees during the year and the full cost of providing amendments to benefits in respect of past service are charged to operating surplus. A credit representing the expected return on assets held by pension schemes is included within 'other finance income'. This expected return is based on the market value of those assets at the start of the financial year. An interest charge is also included in 'other finance income'. This interest cost is the expected increase during the period in the present value of scheme liabilities because the benefits are one period closer to settlement. Differences between actual and expected returns on assets are recognised in the statement of total recognised surpluses and deficits, together with differences arising from changes in assumptions. The difference between the market value of the assets of a scheme and the present value of the accrued pension liabilities is shown as an asset or liability on the balance sheet.

Annual contributions relating to defined contribution schemes and schemes eligible to be accounted for as defined contribution are charged to the income and expenditure account on an accruals basis.

Reserves

The group has established restricted reserves for specific purposes where their use is subject to external restrictions.

The group no longer operates any designated reserves.

Investment revaluation reserve

Surpluses arising from the revaluation of long term investments are taken to the investment revaluation reserve. Deficits arising on revaluation are charged against this reserve to the extent that a previous surplus on revaluation has occurred.

Where there is no such surplus or the deficit exceeds such a surplus then the deficit, or balance thereof, is charged directly to the income and expenditure account.

Taxation

The association and most of its subsidiaries have charitable status and consequently income and capital gains are generally exempt from taxation.

Non-charitable taxable surpluses are covered by gift aid payments.

Value added tax

The group charges value added tax (VAT) on some of its income and is able to recover VAT it incurs on those activities. However a large proportion of the group's income comprises rental income which is exempt for VAT purposes and gives rise to a partial exemption claim. Expenditure is therefore shown inclusive of VAT. Recoverable VAT arising from partially exempt activities is credited to the income and expenditure account. The balance of VAT recoverable or payable at the year end is included as a current asset or liability.

Related parties

Advantage has been taken of the exemption allowed by Financial Reporting Standard 8 'Related Party Disclosures' from disclosing transactions between the association and its wholly owned subsidiaries.

2 Turnover, operating costs and operating surplus

The Group	2006			Restated 2005		
	Turnover £'000	Operating costs £'000	Operating surplus/ (deficit) £'000	Turnover £'000	Operating costs £'000	Operating surplus/ (deficit) £'000
Income and expenditure from social housing lettings (note 3)						
Housing accommodation	59,229	(45,956)	13,273	54,817	(44,000)	10,817
Other income and expenditure from social housing lettings						
Supporting People contract income:						
- Care & Repair	814	(561)	253	742	(606)	136
- Other	1,617	(1,551)	66	1,621	(1,510)	111
Care & Repair (not met by Supporting People)	748	(1,679)	(931)	552	(1,664)	(1,112)
Management services	417	(125)	292	282	(255)	27
Development services	207	(1,402)	(1,195)	141	(1,106)	(965)
Hanover OnCall – service provided to residents and external organisations	209	(1,002)	(793)	225	(1,005)	(780)
Emergency response service	75	(70)	5	103	(124)	(21)
Donations and similar income	196	-	196	26	-	26
Business development and other costs	-	(1,430)	(1,430)	-	(1,584)	(1,584)
	63,512	(53,776)	9,736	58,509	(51,854)	6,655
Non social housing activities						
Management services	1,669	(1,324)	345	1,663	(1,588)	75
Other	205	(143)	62	163	(210)	(47)
Total	65,386	(55,243)	10,143	60,335	(53,652)	6,683

→ 2 Turnover, operating costs and operating surplus (continued)

The Association	2006			Restated 2005		
	Turnover £'000	Operating costs £'000	Operating surplus/ (deficit) £'000	Turnover £'000	Operating costs £'000	Operating surplus/ (deficit) £'000
Income and expenditure from social housing lettings (note 3)						
Housing accommodation	50,441	(37,298)	13,143	46,107	(35,819)	10,288
Other income and expenditure from social housing lettings						
Supporting People contract income:						
- Care & Repair	814	(526)	288	742	(577)	165
- Other	57	-	57	55	-	55
Care & Repair (not met by Supporting People)	453	(1,507)	(1,054)	212	(1,226)	(1,014)
Management services	432	(131)	301	282	(147)	135
Development services	233	(1,342)	(1,109)	174	(1,052)	(878)
Hanover OnCall – service provided to residents and external organisations	298	(984)	(686)	300	(991)	(691)
Donations and similar income	116	-	116	146	-	146
Business development and other costs	-	(1,314)	(1,314)	-	(1,471)	(1,471)
	52,844	(43,102)	9,742	48,018	(41,283)	6,735
Non social housing activities						
Management services	-	-	-	-	-	-
Other	55	-	55	-	-	-
Total	52,899	(43,102)	9,797	48,018	(41,283)	6,735

3 Particulars of income and expenditure from social housing lettings

Supported housing and housing for older people	Group		Association	
	2006	Restated 2005	2006	Restated 2005
	£'000	£'000	£'000	£'000
Income from social housing lettings				
Rent receivable net of identifiable service charges	40,083	37,454	36,060	33,748
Charge for support services	3,673	3,606	3,526	3,428
Service charges receivable	12,565	10,782	11,025	9,391
Care fees receivable	3,155	3,571	-	-
Gross rental income and fees receivable	59,476	55,413	50,611	46,567
Less: rent losses from voids	(611)	(920)	(408)	(664)
Net rental income and fees receivable	58,865	54,493	50,203	45,903
Revenue grants from local authorities and other agencies	53	42	53	42
Other property and service income	311	282	185	162
Total income from social housing lettings	59,229	54,817	50,441	46,107
Expenditure on social housing lettings				
Management	(6,767)	(7,058)	(5,781)	(6,473)
Services	(22,643)	(21,578)	(17,361)	(15,442)
Rent losses from bad debts	(109)	112	(68)	121
Routine maintenance	(7,985)	(7,686)	(6,898)	(6,555)
Major repairs expenditure	(1,637)	(1,982)	(1,387)	(1,798)
Depreciation of housing properties	(6,513)	(5,614)	(5,582)	(5,596)
Other costs	(302)	(194)	(221)	(76)
Total expenditure on social housing lettings	(45,956)	(44,000)	(37,298)	(35,819)
Operating surplus from social housing lettings	13,273	10,817	13,143	10,288

The majority of the group's social housing income is derived from supported housing and housing for older people, income from other categories of social housing is not considered material. Prior year comparatives have been reclassified in accordance with the General Determination 2006.

4 Surplus/(deficit) on disposal of fixed assets

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Proceeds of sale	4,153	5,595	503	414
Less: Net book value from fixed assets	(1,446)	(254)	(1,136)	(205)
Social Housing Grant abated	396	-	396	-
Associated costs	(66)	(45)	(17)	(21)
Surplus/(deficit) on disposal of fixed assets	3,037	5,296	(254)	188

5 Interest receivable and other income

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Interest receivable from banks, building societies and other investments	406	591	290	391
Interest receivable from subsidiary undertaking	-	-	139	129
Interest receivable from banks, building societies and other investments	406	591	429	520

6 Interest payable and similar charges

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Interest payable on bank loans, overdrafts and other loans	9,866	9,811	9,506	9,625
Less: Interest capitalised in housing properties*	91	(122)	91	(122)
	9,957	9,689	9,597	9,503

The rate used to capitalise interest in respect of housing properties is 6.68% (2005: 6.72%).

*In 2006 the level of grants received in advance resulted in the deduction for interest thereon exceeding the amount capitalised and therefore led to a net charge to the income and expenditure account.

The above amounts include deferred interest of £nil (2005: £nil).

7 Surplus on ordinary activities before tax

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Surplus on ordinary activities before tax is stated after charging:				
Depreciation	8,824	7,947	7,776	7,816
Operating leases of offices	958	1,021	813	870
Operating leases of cars and equipment	363	357	333	323
Auditors' remuneration:				
- in their capacity as auditors	86	75	63	56
- in respect of other services	11	-	7	-

8 Tax on surplus on ordinary activities

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
UK corporation tax:				
Current tax on profits of the year	2	3	-	-
Under provision in respect of previous year	-	-	-	-
	2	3	-	-

The above tax charge arises on the activities of the group's non charitable subsidiary and is arrived at as follows:

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	2	3
Corporation tax on profit on ordinary activities at 19% (2005 – 19%)	1	1
Effects of:-		
Expenses not deductible for tax purposes	1	1
Depreciation in excess of capital allowances	-	1
Movement on provisions	-	-
Marginal relief	-	-
	2	3

No provision for UK Corporation Tax arises in respect of the association, which has charitable status.

9 Directors' emoluments

The directors are defined as the board, including the Group Chief Executive, together with the other members of the Corporate Management Team. The emoluments of the non-executive board directors were £140,000 (2005: £137,000); the Group Chief Executive received no additional emoluments in respect of board duties.

The emoluments of the other directors were as follows:	2006 £'000	2005 £'000
Emoluments (including pension contributions and benefits in kind)	781	526
Emoluments, paid to the highest paid director, the Group Chief Executive (excluding pension contributions and including benefits in kind):		
For service	118	114
Compensation for loss of office	73	-
	191	114

The benefits in kind include the provision of leased cars and private healthcare cover.

10 Employee information

The average number of employees expressed as full time equivalents (including the Group Chief Executive) during the year was:

	Group		Association	
	2006 No.	2005 No.	2006 No.	2005 No.
Office staff	397	349	334	292
Estate staff	522	528	231	229
	919	877	565	521

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Staff costs for the above persons:				
Wages and salaries	19,231	18,011	12,663	11,491
Social security costs	1,579	1,439	1,083	953
Pension costs (note 34)	1,663	1,632	1,205	1,173
	22,473	21,082	14,951	13,617

Included in the above group costs is £1,579,000 (2005: £1,491,000) paid in respect of Hanover Property Management Limited estate based staff that is recharged to the relevant estates and is not included in the income and expenditure account.

11 Tangible fixed assets – housing properties

The Group	Completed housing properties £'000	Completed LSOP*/Shared Ownership housing properties £'000	Housing properties in the course of construction £'000	Total £'000
Cost				
At 1 April 2005	433,999	4,599	216	438,814
Additions	11,557	-	15,149	26,706
Schemes completed	3,371	-	(3,371)	-
Disposals	(1,540)	(92)	-	(1,632)
At 31 March 2006	447,387	4,507	11,994	463,888
Social Housing Grant				
At 1 April 2005	201,207	2,906	-	204,113
Receivable for year	8	-	11,227	11,235
Schemes completed	1,866	-	(1,866)	-
Disposals	(396)	-	-	(396)
At 31 March 2006	202,685	2,906	9,361	214,952
Other public grants				
At 1 April 2005	200	-	-	200
Receivable for year	-	-	2,286	2,286
Schemes completed	-	-	-	-
Disposals	-	-	-	-
At 31 March 2006	200	-	2,286	2,486
Depreciation				
At 1 April 2005	27,418	38	-	27,456
Charge for the year	6,513	-	-	6,513
Disposals	(229)	-	-	(229)
At 31 March 2006	33,702	38	-	33,740
Net book value:				
At 31 March 2006	210,800	1,563	347	212,710
At 31 March 2005	205,174	1,655	216	207,045

*Leasehold scheme for older people

All of the group's additions to completed housing properties relate wholly to works to existing properties.

The group's total expenditure during the year on works to existing properties was £12,662,000, which was split between £11,557,000 that was capitalised and £1,105,000 that was charged to the income and expenditure account.

During the year to 31 March 2003, the subsidiary undertaking, Hanover in Hackney Limited ('HiH'), took a transfer of housing stock from the London Borough of Hackney ('LBH') at a price of £25,882,000. At the same time, HiH invoiced LBH £25,882,000 for the required future works to the transferred properties. Under the terms of that contract £19,421,000 had been completed by 31 March 2006.

→ 11 Tangible fixed assets – housing properties (continued)

The Association	Completed housing properties £'000	Completed LSOP*/Shared Ownership housing properties £'000	Housing properties in the course of construction £'000	Total £'000
Cost				
At 1 April 2005	416,052	4,599	215	420,866
Additions	5,010	-	15,149	20,159
Schemes completed	3,371	-	(3,371)	-
Disposals	(1,171)	(92)	-	(1,263)
At 31 March 2006	423,262	4,507	11,993	439,762
Social Housing Grant				
At 1 April 2005	201,207	2,906	-	204,113
Receivable for year	8	-	11,227	11,235
Schemes completed	1,866	-	(1,866)	-
Disposals	(396)	-	-	(396)
At 31 March 2006	202,685	2,906	9,361	214,952
Other public grants				
At 1 April 2005	-	-	-	-
Receivable for year	-	-	2,286	2,286
Schemes completed	-	-	-	-
Disposals	-	-	-	-
At 31 March 2006	-	-	2,286	2,286
Depreciation				
At 1 April 2005	27,102	38	-	27,140
Charge for the year	5,582	-	-	5,582
Disposals	(159)	-	-	(159)
At 31 March 2006	32,525	38	-	32,563
Net book value:				
At 31 March 2006	188,052	1,563	346	189,961
At 31 March 2005	187,743	1,655	215	189,613

* Leasehold scheme for older people

All of the association's additions to completed housing properties relate wholly to works to existing properties.

The association's total expenditure during the year on works to existing properties was £5,871,000, which was split between £5,010,000 that was capitalised and £861,000 that was charged to the income and expenditure account. →

→ 11 Tangible fixed assets – housing properties *(continued)*

	Group		Association	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Completed housing properties comprise:				
Freeholds	182,830	175,037	160,532	157,789
Long leaseholds	11,072	30,137	10,421	29,954
Short leaseholds	17,099	-	17,099	-
	211,001	205,174	188,052	187,743

The total net book value, after deducting both accumulated depreciation and Social Housing Grant, of housing properties held under finance leases is £5,275,000 (2005: £5,337,000). Depreciation charged during the year on these assets was £118,000 (2005: £116,000).

The total amount of Social Housing Grant (covering both capital and revenue grant) received or receivable at the balance sheet date for both the group and the association was £223,097,000 (2005: £205,411,000).

12 Other fixed assets

The Group	Scheme equipment £'000	Leasehold/ freehold office premises £'000	Plant, machinery, fixtures and vehicles £'000	Total £'000
Cost				
At 1 April 2005	9,291	1,913	8,349	19,553
Additions	1,127	25	748	1,900
Disposals	(60)	(52)	(28)	(140)
At 31 March 2006	10,358	1,886	9,069	21,313
Depreciation				
At 1 April 2005	6,680	715	6,131	13,526
Charge for year	1,275	162	874	2,311
Disposals	(47)	(22)	(28)	(97)
31 March 2006	7,908	855	6,977	15,740
Net book value:				
At 31 March 2006	2,450	1,031	2,092	5,573
At 31 March 2005	2,611	1,198	2,218	6,027
The Association				
The Association	Scheme equipment £'000	Leasehold/ freehold office premises £'000	Plant, machinery, fixtures and vehicles £'000	Total £'000
Cost				
At 1 April 2005	9,164	1,573	7,916	18,653
Additions	955	20	744	1,719
Disposals	(40)	(52)	(28)	(120)
At 31 March 2006	10,079	1,541	8,632	20,252
Depreciation				
At 1 April 2005	6,659	682	5,844	13,185
Charge for year	1,243	126	825	2,194
Disposals	(38)	(22)	(28)	(88)
At 31 March 2006	7,864	786	6,641	15,291
Net book value:				
At 31 March 2006	2,215	755	1,991	4,961
At 31 March 2005	2,505	891	2,072	5,468

13 Long term investments

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Treasury Stock				
8 3/4% Treasury Stock 2017	694	689	694	689
8% Treasury Stock 2021	1,486	1,451	1,486	1,451
Bonds				
European Investment Bank	230	228	230	228
North British Housing Association	270	266	270	266
Northern Counties Housing Association	289	280	289	280
Bank investments				
Dexia	1,016	971	1,016	971
	3,985	3,885	3,985	3,885

These investments represent the Debt Service Reserves for funding received from Funding for Homes Limited, Haven Funding Bond and Dexia Bank. The valuations have been supplied by the funding organisations.

14 Stock

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Work in progress on properties held for outright sale	712	-	712	-
Completed properties held for outright sale	-	-	-	-
	712	-	712	-

15 Debtors

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts receivable within one year:				
Rent and service charge arrears	1,235	1,225	974	916
Less: bad debt provision	(363)	(340)	(227)	(172)
	872	885	747	744
Deferred service charge debtors	101	152	101	152
Social Housing Grant receivable	4,990	-	4,990	
Amounts owed by group undertakings	-	-	1,157	1,151
Other debtors, prepayments and accrued income	3,415	3,975	2,886	3,372
	9,378	5,012	9,881	5,419
Amounts receivable after one year:				
Loan to subsidiary undertaking – Hanover in Hackney Limited	-	-	2,481	2,481
Deferred service charge debtors	288	179	288	179
	288	179	2,769	2,660
Total debtors	9,666	5,191	12,650	8,079

16 Current asset investments

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Short term deposits	422	280	-	-

17 Cash at bank and in hand

None of the group's cash balances are charged as security to lenders.

18 Creditors: amounts falling due within one year

	Group		Association	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Housing loans	1,075	13,477	1,075	13,477
Bank overdrafts	751	419	751	419
Finance leases	61	45	61	45
Trade creditors	1,738	2,106	1,605	1,018
Social Housing Grant received in advance	7,746	1,298	7,746	1,298
Other public grants received in advance	7,261	-	7,261	-
Interest free loans	3,859	4,190	-	-
Other creditors including taxation	3,034	3,203	2,552	2,691
Accruals and deferred income	7,266	8,068	5,418	5,702
	32,791	32,806	26,469	24,650

19 Creditors: amounts falling due after more than one year

	Group		Association	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Housing loans	132,391	125,565	123,991	121,215
Tenancy nominations	11	11	11	11
Finance leases	7,516	7,553	7,516	7,553
	139,918	133,129	131,518	128,779
Recycled Capital Grant Fund (note 20)	399	-	399	-
Other long term creditors	1,782	1,756	1,782	1,754
	142,099	134,885	133,699	130,533

The association has agreement for the sale and leaseback of a number of housing properties and in accordance with Financial Reporting Standard (FRS) 5 'Reporting the Substance of Transactions', the proceeds have been recognised as secured loans. The lease terms are for 30 years and 120 years, with interest being accrued on the balance of the loan outstanding.

→ 19 Creditors: amounts falling due after more than one year (continued)

Housing loans from banks, building societies, local authorities and others comprises: £132,391,000 (2005: £125,565,000) secured by charges on housing properties and land and £nil (2005: £nil) that is unsecured. The loans are at varying rates of interest and repayable in installments due as follows:

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Between one and two years	2,158	2,159	2,158	2,159
Between two and five years	3,386	3,479	3,386	3,479
In five years or more	126,847	119,927	118,447	115,577
	132,391	125,565	123,991	121,215

At the year end, the group had loan and overdraft facilities arranged, but undrawn, of £61.2m and £2.5m respectively (2005: £53.0m and £1.3m). These are provided to ensure liquidity and the flexibility to undertake effective treasury management.

Amounts due under obligations in respect of finance leases are as follows:

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Within one year	61	45	61	45
Between two and five years	293	262	293	262
In five years or more	7,223	7,291	7,223	7,291
	7,577	7,598	7,577	7,598

20 Recycled capital grant fund

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
At 1 April 2005	-	78	-	78
Grants recycled	382	-	382	-
Interest accrued	17	1	17	1
	399	79	399	79
Withdrawals:				
New build	-	(78)	-	(78)
Major repairs to existing stock	-	(1)	-	(1)
At 31 March 2006	399	-	399	-

21 Provision for liabilities and charges

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
At 1 April 2005	497	-	363	-
Provided in year	9	497	9	363
Released in year	(372)	-	(238)	-
At 31 March 2006	134	497	134	363

The provision at 31 March 2006 is for potential uninsured claims and insurance excesses totalling £134,000 (2005: £125,000). Last year the association held additional provisions in respect of a potential VAT liability of £108,000 and a potential repairs liability of £130,000, which have both subsequently been released. Last year a subsidiary also made provision for a potential VAT liability of £134,000; this was also released during the year.

22 Share capital

	2006 £	2005 £
Each member of Hanover Housing Association holds one share of £1		
Allotted, issued and fully paid	71	71

The share capital of the association consists of shares with a nominal value of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. The shares provide members with the right to vote at general meetings. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the association. Therefore all shareholdings relate to non-equity interests; there are no equity interests in the association.

23 Revenue reserves

	Group		Association	
	2006	Restated 2005	2006	Restated 2005
	£'000	£'000	£'000	£'000
At 1 April 2005	18,210	15,352	14,933	17,256
Prior year adjustment	(8,690)	(9,105)	(8,350)	(8,705)
	9,520	6,247	6,583	8,551
Surplus/(deficit) on ordinary activities after tax	3,458	2,641	195	(2,340)
Actuarial (loss)/gain on pension schemes	(1,190)	969	(1,200)	915
Transfer from/(to) restricted & designated reserves	34,417	(337)	34,509	(543)
At 31 March 2006	46,205	9,520	40,087	6,583

24 Restricted and designated reserves

	Special reserves £'000	Major repairs £'000	Renewals £'000	Total 2006 £'000	Total 2005 £'000
The Group					
At 1 April 2005	15,459	8,165	13,518	37,142	36,805
Transfer to income and expenditure account	(12,788)	(8,113)	(13,516)	(34,417)	337
At 31 March 2006	2,671	52	2	2,725	37,142
Represented by:					
Restricted reserves	2,671	52	2	2,725	2,012
Designated reserves	-	-	-	-	35,130
	2,671	52	2	2,725	37,142
The Association					
At 1 April 2005	15,010	7,552	13,518	36,080	35,537
Transfer to income and expenditure account	(13,494)	(7,499)	(13,516)	(34,509)	543
At 31 March 2006	1,516	53	2	1,571	36,080
Represented by:					
Restricted reserves	1,516	53	2	1,571	1,563
Designated reserves	-	-	-	-	34,517
	1,516	53	2	1,571	36,080

25 Investment revaluation reserve

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
At 1 April 2005	486	564	486	564
Increase/(decrease) in value of long term investments	53	(78)	53	(78)
At 31 March 2006	539	486	539	486

The investment revaluation reserve represents the increase in value of long term investments over cost.

26 Notes on the consolidated cash flow statement

	2006 £'000	Restated 2005 £'000
Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	10,143	6,683
Pension charge	81	317
Depreciation	8,824	7,947
Change in stock	(712)	-
Change in debtors	553	(800)
Change in creditors	(1,755)	2,055
Change in provisions	(363)	497
Net cash inflow from operating activities	16,771	16,699
Analysis of cash flow headings:		
Returns on investment and service of finance		
Interest received	322	493
Interest paid	(9,846)	(9,956)
	(9,524)	(9,463)
Taxation		
UK corporation tax paid	(3)	(13)

→ 26 Notes on the consolidated cash flow statement (continued)

Capital expenditure and financial investment	2006	Restated 2005
	£'000	£'000
Construction and purchase of housing properties	(26,706)	(27,762)
Purchase of other fixed assets	(1,900)	(1,431)
Social Housing Grant received	13,092	6,301
Other public grants received	9,547	-
Proceeds from sale of fixed assets	4,087	5,539
Net cash outflow from capital expenditure and financial investment	(1,880)	(17,353)
Management of liquid resources		
(Increase)/decrease in cash on short term deposit	(142)	1,679
Financing		
Repayment of loans due within one year	(20,782)	(27,800)
Repayment of loans due after more than one year	(74)	-
New secured loans	15,280	31,888
New unsecured loans	-	-
Capital element of finance lease rental payments	(21)	(94)
Net cash (outflow)/inflow from financing	(5,597)	3,994
Reconciliation of net cash inflow to movement in net debt		
Decrease in cash in the year	(375)	(4,457)
Cash outflow from decrease in debt and lease financing	5,597	(3,994)
Cash outflow from decrease in liquid resources	142	(1,679)
Change in net debt resulting from cash flows	5,364	(10,130)
Net debt at 1 April	(145,192)	(135,062)
Net debt at 31 March	(139,828)	(145,192)



→ 26 Notes on the consolidated cash flow statement (continued)

Analysis of changes in net debt

	At 1 April 2005 £'000	Cash flow £'000	At 31 March 2006 £'000
Cash at bank and in hand	1,598	(43)	1,555
Bank overdraft	(419)	(332)	(751)
	1,179	(375)	804
Debt due after one year	(125,576)	(6,826)	(132,402)
Debt due within one year	(13,477)	12,402	(1,075)
Finance leases	(7,598)	21	(7,577)
Other liquid resources	280	142	422
	(145,192)	5,364	(139,828)

27 Capital commitments

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	48,246	22,574	47,916	21,631
Capital expenditure that has been authorised by the Board but not yet contracted for	23,024	29,631	16,664	24,271

The capital expenditure will be financed by a mixture of capital grants, proceeds from property sales and existing loan facilities.

The subsidiary undertaking Hanover in Hackney Limited has entered into a contract for £25,882,000 for capital and revenue works to transferred housing properties. Under the terms of that contract £19,421,000 (2005: £13,887,000) has been completed as at 31 March 2006, a further £330,000 (2005: £530,000) has been contracted for and £5,172,000 (2005: £4,623,000) has been approved by its board but not yet contracted for.

28 Commitments under operating leases

The group and association had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	Other	Land and buildings	Other
	2006	2006	2005	2005
	£'000	£'000	£'000	£'000
The Group				
Leases expiring within one year	-	68	144	49
Leases expiring between one and five years	141	234	141	284
Leases expiring after five years	685	6	685	4
	826	308	970	337
The Association				
Leases expiring within one year	-	68	144	49
Leases expiring between one and five years	141	203	141	255
Leases expiring after five years	640	6	640	4
	781	277	925	308

29 Housing stock in management

	2006 Managed by the Group	2006 Managed by the Association	2006 Managed by non- Group body	2005 Managed by the Group	2005 Managed by the Association	2005 Managed by non- Group body
Owned by the Group:						
Designated housing for older people (sheltered housing)	10,576	9,743	-	10,624	9,791	-
Housing for older people, some special design features (<i>ExtraCare</i> housing)	1,292	1,292	40	1,294	1,294	40
Supported housing	79	79	-	79	79	-
Total housing for older people and supported housing	11,947	11,114	40	11,997	11,164	40
Care bedspaces	-	-	163	-	-	155
General needs	170	170	-	170	170	-
Shared ownership/LSOP	222	-	-	217	-	-
Other leasehold	3,770	1	-	3,814	1	-
Other rented	1	1	2	1	1	2
Total owned and managed	16,110	11,286	205	16,199	11,336	197
Not owned by the Group:						
Non-Group rented	357	357	-	353	353	-
Associated organisations rented	258	258	-	258	258	-
Total rented	615	615	-	611	611	-
Non-Group leased	1,163	-	-	1,115	-	-
Total managed but not owned	1,778	615	-	1,726	611	-

'Associated organisations' consist of a number of almshouse trusts of which HHA is Corporate Trustee.

30 Subsidiary undertakings

The following comprise the subsidiary undertakings for incorporation into the consolidated accounts for the group in accordance with the Industrial and Provident Societies Acts and Financial Reporting Standards:

Organisation	Status	Principal activity	Basis of control by Hanover Housing Association
Hanover Property Management Limited	Private company limited by guarantee	Management of retirement and other owner-occupied housing	The board of HHA appoints the majority of the Board of Directors
Hanover Housing Limited	Industrial and Provident Society	Dormant	The board of HHA appoints the majority of the Committee of Management
Hanover in Hackney Limited	Private company limited by guarantee	Management of rented sheltered housing in Hackney	The board of HHA has the right to appoint a majority of the Board of Directors, as set out in the Memorandum and Articles of Association
Hanover Friends	Private company limited by guarantee	Management of private rented sheltered housing and residential care homes	The board of HHA has the right to appoint a majority of the Board of Directors, as set out in the joint venture agreement
Care and Repair (Cheltenham) Limited	Industrial and Provident Society	Provision of care and repair services within Cheltenham	The board of HHA has the right to appoint the Committee of Management, as set out in the Rules of the Society

Hanover Friends is a 50% owned joint venture with Friends of the Elderly, a registered charity. There are no other subsidiary organisations.

31 Associated organisations

HHA acts as the corporate trustee for the following Almshouse Trusts: Alfred Stubbs Trust, Almshouse Charity of Elizabeth Smith, Collins Memorial Trust, Jane Cameron's Old People's Charity, The Margaret Jane Ashley Almshouse Charity, The Flood Charity, William Paul Housing Trust.

HHA has stated its support for any of the above requiring short term cash flow support.

Just Assured Limited was a joint venture between HHA and Network Housing Group. HHA ceased its membership of the company on 21 March 2006.

The Hanover Housing Association Charitable Trust: HHA Board members form the Council of Management of the Trust.

32 Contingent liabilities

The association has performance guarantees with Barclays Bank for £10,779 (2005: £10,779). The association has also provided a counter indemnity for £500,000 in favour of Zurich GSG Limited in respect of a pension bond for the same amount provided by the subsidiary undertaking Hanover in Hackney Limited in favour of the London Borough of Hackney Local Government Pension Scheme.

33 Related party transactions

It is confirmed and disclosed, in accordance with Financial Reporting Standard 8 'Related Party Disclosures', that resident members of any of the organisations in the Hanover Group occupy properties on normal terms.

34 Pension obligations

The pension liability in the consolidated balance sheet comprises liabilities in respect of two schemes:

		2006 £000	2005 £000
Surrey County Council Pension Fund	(Association)	(9,770)	(8,350)
London Borough of Hackney Pension Fund		(360)	(340)
Total pension liability	(Group)	(10,130)	(8,690)

The details relating to each of these schemes are set out separately below.

Surrey County Council Pension Fund

Employees of Hanover Housing Association who joined prior to 1 July 2003 were admitted to the Surrey County Council Pension Fund ('the Fund'), this is a defined benefit scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme ('LGPS').

The pension costs of this arrangement are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the Fund was undertaken as at 31 March 2004 and the results of this valuation have been rolled forward to 31 March 2006.

The main financial assumptions used in the valuation of the pension liabilities were:

	31 March 2006 % per annum	31 March 2005 % per annum	31 March 2004 % per annum
Retail price inflation	3.1	2.9	2.9
Increases in salaries	4.6	4.4	4.7
Increases in pensions and deferred pensions	3.1	2.9	2.9
Discount rate	4.9	5.4	5.5

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

The fair values of the assets held by the Fund and the expected annual rates of return are:

	31 March		31 March		31 March	
	Fair value	Expected return	Fair value	Expected return	Fair value	Expected return
	2006 £m	2006 %	2005 £m	2005 %	2004 £m	2004 %
Equities	1,192.6	7.4	923.9	7.7	821.0	7.7
Bonds	280.2	4.6	225.6	4.8	174.9	5.1
Property	90.0	5.5	74.4	5.7	62.6	6.5
Cash	26.9	4.6	25.5	4.8	29.9	4.0
Total	1,589.7	6.8	1,249.4	7.0	1,088.4	7.1
		(average)		(average)		(average)

The net pension liability was:

	2006 £000	2005 £000	2004 £000
The fair value of the above assets related to HHA was	21,460	16,430	12,360
The value placed on the liabilities related to HHA was	(31,230)	(24,780)	(21,065)
The deficit related to HHA at 31 March was	(9,770)	(8,350)	(8,705)

Analysis of amount charged to operating surplus:

	2006 £000	2005 £000
Employer service cost	1,000	1,100
Past service cost	-	-
Curtailement cost	30	40
Total operating charge	1,030	1,140



→ 34 Pension obligations > Surrey County Council Pension Fund (continued)

Analysis of amount credited/(charged) to other financing income:

	2006 £000	2005 £000
Expected return on employer assets	1,180	910
Interest on pension scheme liabilities	(1,360)	(1,190)
Net return	(180)	(280)

Analysis of amount recognised in statement of total recognised surpluses and deficits:

	2006 £000	2005 £000
Actual return less expected return on pension scheme assets	2,910	610
Experience gains and losses on liabilities	10	345
Changes in assumptions	(4,120)	(40)
Actuarial (loss)/gain on assets and liabilities	(1,200)	915

Movement in pension liability during the year:

	2006 £000	2005 £000
Pension liability at the beginning of the year	(8,350)	(8,705)
Current service cost	(1,000)	(1,100)
Employer contributions	990	860
Curtailments	(30)	(40)
Net return on assets	(180)	(280)
Actuarial (losses)/gains	(1,200)	915
Pension liability at the end of the year	(9,770)	(8,350)

History of experience gains and losses in the year:

	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000	31 March 2003 £000
Difference between expected and actual return on scheme assets:				
Amount	2,910	610	1,680	(3,200)
Percentage of scheme assets	13.5%	3.7%	13.6%	(33.7)%
Experience gains and losses on pension liabilities:				
Amount	10	345	825	-
Percentage of the present value of pension liabilities	0.0%	1.4%	3.9%	-
Amount recognised in statement of total recognised gains and losses:				
Amount	(1,200)	915	1,175	(5,600)
Percentage of the present value of pension liabilities	(3.8)%	3.7%	5.6%	(29.5)%

Standard Life Stakeholder Pensions Scheme

Hanover Housing Group closed its defined benefit pension scheme to new employees on 30 June 2003. Employees joining from 1 July 2003 have the option of being admitted to a new contributory defined contributions scheme with Standard Life Stakeholder Pension Scheme. The scheme provides benefits directly determined by the value of the contributions paid in respect of each member.

Employer's contributions during the year amounted to £315k, employees' contributions amounted to £161k – total contributions £476k (2005: £307k). Employer contributions are shown as employee costs in the income and expenditure account.

Contributions for March 2006 salaries of £32k were paid on 13 April 2006.

The Pensions Trust SCVO Final Salary Pension Scheme

Hanover Friends participates in the SCVO Pension Scheme.

The SCVO Pension Scheme is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

The Trustee commissions an actuarial valuation of the scheme every three years. The main purpose of the valuation is to determine the financial position of

the scheme in order to determine the level of future contributions required so that the scheme can meet its pension obligations as they fall due.

The actuarial valuation assesses whether the scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period Hanover Friends paid contributions at the rate of 15.4%. Member contributions were 6.0%.

As at the balance sheet date there were 40 active members of the scheme employed by Hanover Friends. Hanover Friends has closed the scheme to new entrants.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the scheme was performed as at 30 September 2002 by a professionally qualified actuary using the 'projected unit credit' method. →

→ 34 Pension obligations > SCVO Final Salary Pension Scheme (continued)

The financial assumptions underlying the valuation as at 30 September 2002 were as follows:

■ Investment return on future contributions:.....	6.6% pa
■ Investment return on accumulated assets:.....	7.2% pa
■ Rate of salary increases.....	4.5% pa
■ Rate of pension increases.....	2.5% pa
■ Rate of price inflation.....	2.5% pa

The market value of the scheme's assets at the valuation date was £12.8 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £2.2 million (equivalent to a past service funding level of 85%).

The ongoing future service joint contribution rate (i.e. employer and employee contributions) was assessed as 15.9% of pensionable salaries.

In view of the past service shortfall it was agreed that employers would continue to pay contributions at the rate of 12.0% of pensionable salaries and that member contributions would be increased to 6.0% with effect from 1 April 2004.

New employers joining the scheme, including Hanover Friends, pay contributions at the ongoing employer future service contribution rate. This rate applies from the date the employer joins the scheme to the date of the second actuarial valuation of the scheme following the date of joining.

New employers, including Hanover Friends, also pay an additional age loading if the average age of their members is higher than the average age of the scheme membership. This loading applies from the date the employer joins the scheme to the date of the second actuarial valuation of the scheme following the date of joining, or such earlier date as agreed between the SCVO Pensions Committee and the Scheme Actuary.

Employers that have closed the scheme to new entrants, including Hanover Friends, are required to pay an additional contribution loading to reflect the higher costs of a closed arrangement. This loading is based on actuarial advice and is subject to change from time to time. The loading is currently 3.5%.

Employers that participate in the scheme on a non-contributory basis pay a joint contribution

rate that covers both the employer and employee contributions payable.

Hanover Friends currently pays contributions at the rate of 15.4%. This comprises the on-going employer contribution rate of 9.9% plus an age loading of 2.0% plus the closed arrangement loading of 3.5%.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit, on an on-going funding basis, by 30 September 2012.

The Scheme Actuary is currently carrying out an actuarial valuation of the scheme as at 30 September 2005. The results of this valuation will be available by September 2006.

Career Average Revalued Earnings Pension Scheme

Hanover Friends also participates in the CARE Pension Scheme.

CARE is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

The main benefits provided by the scheme are:

- A pension of one-eightieth of the member's career average revalued earnings for each year (and months proportionately) of pensionable service, plus
- Each member has a money purchase account (which is also administered by The Pensions Trust) into which monies are transferred as a result of bonus declarations by the trustee.

Employers pay contributions at the rate of 10.0% of earnings and members pay contributions based on an age-related scale (equal to age divided by ten). It is expected that contributions at these levels will be more than sufficient to meet the cost of the core pension benefit.

The rules of the scheme allow for the declaration of bonuses if this is within the financial capacity of the scheme assessed on a prudent basis. Bonuses are not guaranteed and are declared at the discretion of the trustee.

The trustee commissions an actuarial valuation of the scheme every three years. The actuarial valuation assesses whether the scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension

benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

As at the balance sheet date there were six active members of the scheme employed by Hanover Friends. Hanover Friends has closed the scheme to new entrants.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the scheme was performed as at 30 September 2004 by a professionally qualified actuary using the 'projected unit credit' method. The market value of the scheme's assets at the valuation date was £1.9 million. The valuation revealed a surplus of assets compared to liabilities of £0.3 million.

The financial assumptions underlying the valuation as at 30 September 2004 were as follows:

■ Rate of return pre retirement.....	6.0%pa
■ Rate of return post retirement	5.3%pa
■ Rate of revaluation on accrued pensions.....	4.5%pa
■ Rate of pension increases.....	2.5%pa
■ Rate of price inflation.....	2.5%pa

The valuation revealed a surplus of assets compared with the value of liabilities of £0.3 million (equivalent to a past service funding level of 116%).

The employer's on-going future service contribution rate was assessed at 10.0% of pensionable salaries.

The next actuarial valuation will be carried out as at 30 September 2007.

London Borough of Hackney Pension Fund

Employees of Hanover in Hackney Limited (HiH) are admitted to the London Borough of Hackney Pension Fund ('the Fund'); this a defined benefit scheme, administered by the London Borough of Hackney under the regulations governing the Local Government Pension Scheme (LGPS).

The pension costs of this arrangement are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the Fund was undertaken as at 31 March 2004 and the results of this valuation have been rolled forward to 31 March 2006.

The main financial assumptions used in the valuation of the pension liabilities were:

	31 March 2006 % per annum	31 March 2005 % per annum	31 March 2004 % per annum
Retail price inflation	3.1	2.9	2.9
Increases in salaries	4.6	4.4	4.7
Increases in pensions and deferred pension	3.1	2.9	2.9
Discount rate	4.9	5.4	5.5



→ 34 Pension obligations > London Borough of Hackney Pension Fund (continued)

The fair values of the assets held by the Fund and the expected annual rates of return are:

	31 March		31 March		31 March	
	Fair value	Expected return	Fair value	Expected return	Fair value	Expected return
	2006 £m	2006 %	2005 £m	2005 %	2004 £m	2004 %
Equities	433.1	7.4	331.1	7.7	287.8	7.7
Property	78.4	5.5	66.4	5.7	55.6	6.5
Bonds	76.2	4.6	69.1	4.8	64.9	5.1
Cash	17.7	4.6	6.1	4.8	18.7	4.0
Total	605.4	6.7	472.7	7.0	427.0	6.9
		(average)		(average)		(average)

The net pension liability was:

	2006 £000	2005 £000	2004 £000
The fair value of the above assets related to HiH was	2,570	1,820	4,300
The value placed on the liabilities related to HiH was	(2,930)	(2,160)	(4,700)
The deficit related to HiH at 31 March was	(360)	(340)	(400)

As part of the undertaking between HiH and the London Borough of Hackney, the London Borough of Hackney has agreed to indemnify HiH in respect of any shortfall in the pension fund, at the date of transfer.

Analysis of amount charged to operating surplus:

	2006 £000	2005 £000
Employer service cost	242	240
Past service cost	-	-
Curtailement cost	3	10
Total operating charge	245	250

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Analysis of amount credited/(charged) to other financing income:

	2006	2005
	£000	£000
Expected return on employer assets	135	310
Interest on pension scheme liabilities	(124)	(267)
Net return	11	43

Analysis of amount recognised in statement of total recognised surpluses and deficits:

	2006	2005
	£000	£000
Actual return less expected return on pension scheme assets	358	82
Experience gains and losses on liabilities	3	(43)
Changes in assumptions	(351)	15
Actuarial gain/(loss) on assets and liabilities	10	54

Movement in pension liability during the year:

	2006	2005
	£000	£000
Pension liability at the beginning of the year	(340)	(400)
Current service cost	(242)	(240)
Employer contributions	204	213
Curtailments	(3)	(10)
Net return on assets	11	43
Actuarial gains/(losses)	10	54
Pension liability at the end of the year	(360)	(340)

History of experience gains and losses in the year:

	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000
Difference between expected and actual return on scheme assets:			
Amount	358	82	528
Percentage of scheme assets	13.9%	4.5%	12.3%
Experience gains and losses on pension liabilities:			
Amount	3	(43)	177
Percentage of the present value of pension liabilities	0.1%	(2.0)%	3.8%
Amount recognised in statement of total recognised gains and losses:			
Amount	10	54	409
Percentage of the present value of pension liabilities	0.3%	2.5%	8.7%



→ 34 Pension obligations (continued)

Social Housing Pension Scheme (SHPS)

Care and Repair (Cheltenham) Limited participates in the Social Housing Pension Scheme (SHPS).

SHPS is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

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

The actuarial valuation assesses whether the scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period Care and Repair (Cheltenham) Limited paid contributions at the rate of 11.7%. Member contributions varied between 3.1% and 6.1% depending on their age.

As at the balance sheet date there were three active members of the scheme employed by Care and Repair (Cheltenham) Limited. Care and Repair (Cheltenham) Limited continues to offer membership of the scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the scheme was performed as at 30 September 2002 by a professionally qualified actuary using the 'projected unit credit' method. The market value of the scheme's assets at the valuation date was £650 million. The valuation revealed a shortfall of assets compared to liabilities of £117 million.

Care and Repair (Cheltenham) Limited has subsequently been notified of the preliminary results of the triennial valuation carried out on 30 September 2005. This indicates an increase in the assets of the scheme to £1,278 million and an increase in the shortfall of assets compared with

liabilities to £283 million. This valuation, and any consequent alteration to future contribution rates, is currently the subject of consultation with participating employers and members. The outcome of this consultation will be made known in September 2006, and any consequent changes to contribution rates applied from 1 April 2007. The following notes therefore relate to the formal valuation of September 2002.

The financial assumptions underlying the valuation as at 30 September 2002 were as follows:

■ Rate of return on future contributions	6.6
■ Rate of return on accumulated assets	7.2
■ Rate of salary increases	4.5
■ Rate of pension increases	2.5
■ Rate of price inflation	2.5

The valuation revealed a shortfall of assets compared with the value of liabilities of £117 million (equivalent to a past service funding level of 85%).

Employers that participate in the scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate). This rate was increased from 15.0% to 17.3% of pensionable salaries with effect from 1 April 2004. Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement. A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme. Employers joining the scheme after 1 October 2002, that do not transfer any past service liabilities to the scheme, pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 31 March 2017.

SVCO/CARE/SHPS

Following a change in legislation in September 2005 there is a potential debt on the employers that could be levied by the trustees of these schemes. In the case of each scheme: the debt is due in the event of the employer ceasing to participate in the scheme or the scheme winding up. In the case of each scheme: the debt for the scheme as a whole is calculated by comparing the liabilities for the scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the scheme. If the liabilities exceed assets there is a buy-out debt. The leaving employer's share of the

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

35 Prior year adjustment

The prior year adjustment arises from first time adoption of FRS 17 'Retirement Benefits'. The effects of this change in policy are summarised below:

	Group		Association	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Increase in staff costs	(81)	(317)	(40)	(280)
Financing loss	(169)	(237)	(180)	(280)
Increased operating surplus/(deficit)	(250)	(554)	(220)	(560)
Actuarial (loss)/gain	(1,190)	969	(1,200)	915

Analysis of prior year adjustment:	Group £'000	Association £'000
Adjustment to opening reserves as at 1 April 2004	(9,105)	(8,705)
Adjustment to income and expenditure account for the year ended 31 March 2005	(554)	(560)
Adjustment to statement of total recognised surpluses and deficits for the year ended 31 March 2005	969	915
Total prior year adjustment	(8,690)	(8,350)

The net adjustment of £8,690k is disclosed on the face of the statement of total recognised surpluses and deficits.

36 Group results

	Hanover Housing Association £'000	Hanover in Hackney £'000	Hanover Friends £'000	Hanover Property Management Limited £'000	Care and Repair (Cheltenham) Limited £'000
2006					
Turnover	52,899	5,802	4,803	1,842	297
Operating surplus/(deficit)	9,797	741	(577)	(24)	89
(Deficit)/surplus on disposal of fixed assets	(254)	2,547	104	-	-
Net interest (payable)/receivable	(9,168)	(429)	8	26	12
Other finance (cost)/income	(180)	11	-	-	-
Surplus/(deficit) on ordinary activities before tax	195	2,870	(465)	2	101
Net assets	42,197	6,655	10,278	203	262
	number	number	number	number	number
Employee numbers (FTE)	565	54	137	155	8
	£'000	£'000	£'000	£'000	£'000
2005 - Restated					
Turnover	48,018	5,323	4,327	1,826	340
Operating surplus/(deficit)	6,735	699	(1,097)	(25)	(99)
Surplus on sale of fixed assets	188	4,486	236	-	-
Net interest (payable)/receivable	(8,983)	(239)	93	25	7
Other finance (cost)/income	(280)	43	-	-	-
Surplus/(deficit) on ordinary activities before tax	(2,340)	4,989	(768)	-	(92)
Net assets	43,149	3,775	10,743	203	161
	number	number	number	number	number
Employee numbers (FTE)	521	57	146	147	6

To the members of Hanover Housing Association

We have audited the financial statements of Hanover Housing Association for the year ended 31 March 2006 which comprise the income and expenditure accounts and the balance sheets for the group and association, the consolidated cash flow statement, the statement of total recognised surpluses and deficits and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the board and auditors

As described in the Statement of Board Responsibilities the association's board is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial & Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. We also report to you if, in our opinion, the Report of the Board is not consistent with the financial statements, a satisfactory system of control over transactions has not been maintained, if the association has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report of the Board and consider whether it is consistent with the audited financial statements. This other information comprises only the Operating and Financial Review and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of Schedule 1 paragraph 16 to the Housing Act 1996 and Section 9 of the Friendly and Industrial and Provident Societies Act 1968 and for no

other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the above statutes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group and association's affairs as at 31 March 2006 and of the results for the year then ended; and
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

BDO Stoy Hayward LLP

*Chartered Accountants and Registered Auditors
Epsom, Surrey*

Date: 3 August 2006

Responsibility for internal control systems and review of their effectiveness

The Hanover Group Board acknowledges responsibility for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, not absolute, assurance against material misstatement or loss.

In accordance with Housing Corporation circular R2-25/01 'Internal Controls Assurance', the group board confirms that there is a continuous

process for identifying, evaluating and managing the significant risks to the achievement of the group's strategic objectives.

The process has been in place throughout the year to 31 March 2006 and up to the date of approval of the financial statements and annual report. The effectiveness of this process has been regularly reviewed by the Group Audit Committee, which has reported findings for consideration by the group board, after each meeting and in an annual summary.

Processes adopted to ensure effective internal control

The processes used by the group board and Group Audit Committee to maintain and review the effectiveness of the system of internal control include the following:

- A control environment which is based upon an organisation structure with clearly defined levels of responsibility and authority, supported by documented controls and procedures appropriate to the specific areas concerned.
- Financial monitoring procedures which require the board to approve the annual budget, review quarterly performance, balance sheets and cash flows against plan, and receive explanations from management on significant variances.
- A risk management process in which senior managers around the group confirm the nature and extent of the significant risks facing their areas of responsibility and the likelihood of their materialising, and the controls in place to manage such risks.

■ Formal statements prepared by the Group Chief Executive, group directors and chief executives of the various subsidiaries and joint ventures, in which they acknowledge their responsibility for the internal control and risk management systems in their businesses and divisions and confirm that they have reviewed the effectiveness of those systems.

The group's control systems and processes are subject to risk focussed internal audit, which plays an important role in providing independent assurance to management and the Audit Committee on key control processes.

The Group Audit Committee reviews internal audit plans and reports, together with external audit plans and management letters. The scope of the work, authority and resources of the Internal Audit Service are reviewed by the Audit Committee, which also conducts an annual self-appraisal exercise to monitor its own effectiveness.

Set out below is a description of the arrangements for the corporate governance of the group during 2005/06.

HHA Board and committees

Board structure

The board has a maximum membership of 12. Certain subsidiaries are permitted to nominate board members. Throughout this report the terms 'group board' or 'Hanover Group Board' mean the board of HHA.

At 31 March 2006, group board membership was 11, including the nominated Chairs of HPML and HiH; and the co-opted Group Chief Executive. Details of board membership are set out on pages 4 – 6.

Board meetings

The board met ten times during 2005/06. The timing of these meetings and main agenda issues are set out below:

- April 2005: general business;
- June 2005: general business and strategy review;
- August 2005: general business and to approve the draft annual accounts prior to submission to the annual general meeting;
- September 2005: twice; once for general business and also following the annual general meeting to deal with associated matters;
- November 2005: twice; once to consider a possible merger with Housing 21 and once for general business;
- December 2005: to approve the budget for 2006/07;
- February 2006: to review the group consolidated budget for 2006/07 and general business;
- March 2006: general business.

The board also considered a number of matters by circulation.

Board elements

Since HHA is the parent body for the group, its board bears ultimate responsibility for all group activities and has the ability to appoint the majority of members of the governing bodies of group members or, in the case of almshouse trusts (as referred to in note 31 to the financial statements), acts on behalf of HHA in its role as corporate trustee.

Committee structure

The board undertook a review of the committee structure in September 2005. A number of committees were disbanded and the majority of their responsibilities reassumed by the group board. As at 31 March 2006 the board had established the following committees:

The **Group Audit Committee** has the principal role of overseeing all aspects of governance and internal control, ensuring that risks are properly assessed and controlled and that the group conducts its affairs to the highest standards of probity. In particular, the committee is responsible for overseeing the operation of the Group Internal Audit Service and for ensuring that any audit findings are properly actioned. It also reviews the audited accounts and external auditors' report, being principally concerned with the processes involved and that control issues are addressed effectively.

The **Residents' Council** oversees the quality of services delivered to residents and the relationship with HHA's residents. The Residents' Council comprises of eight residents, two from each of the association's four regions, together with two non-resident committee members appointed by the group board. The committee is chaired by a resident.

The **Remuneration Committee's** role is to determine and approve the salary, terms and conditions of employment, superannuation and benefits of executives and to review and advise the group board on changes to general terms and conditions of employment for all staff.

The **Nominations Committee's** role is to recommend membership of the group board.

Membership of these committees is laid down in standing orders. With the exception of the Residents' Council, which has 10 members, each committee has a maximum of six members chosen for skills that match the requirements implicit in their terms of reference. The intention is that committees will be able to develop strong working knowledge of their subject areas and, in conjunction with the group board itself, add value to the work of staff by contributing high level expertise.

Within certain documented frameworks the group board also oversees the activity of HHA's subsidiaries, HPML, HiH and HF, which have their own governing bodies.



→ HHA Board and committees (continued)

Board and committee members

Board and committee members are prevented by law and HHA's rules from deriving any non-contractual benefit from their membership, subject to a number of exemptions, which have to be authorised by the board. The main exemption relevant to HHA's board during the year related to HHA residents, for whom eight places on the Residents' Council and one on the board were reserved, in line with the board's policy of enabling residents to participate in decision-making processes at a variety of levels. The position for HiH is similar, with six residents, including the chair, on the board.

Following the issue by the Housing Corporation of a Specification under Schedule 1 to the Housing Act 1996, enabling registered social landlords to pay board members within prescribed limits a special general meeting in September 2004 approved rule changes to permit board member payment. After subsequent review of HHA's business case for board payment by the Housing Corporation, board members of HHA were remunerated for their services. Board members are subject to a contract for services setting out their obligations and are subject to annual appraisal.

Standing orders

Standing orders, which incorporate principles from the National Housing Federation's Code of Governance, provide for regular audits of board and committee membership to ensure diversity and a good balance of skills, backgrounds and geographical representation. Such audits also take place when vacancies arise. Vacancies are filled both through personal invitation and through wider advertisement on the basis of a skills requirement specification. Members' credentials and other interests are recorded in a register, together with training undertaken, which may be either arranged by the group or provided externally. Terms of reference for all committees are included within standing orders, as are the duties of the Group Chair and Group Chief Executive. Standing orders are regularly reviewed and were substantially revised following the disbanding of a number of committees in September 2005.

Corporate Management Team

The Corporate Management Team ('CMT') comprises the Group Chief Executive; the Group Finance Director; the Group Director of Housing Services; and the Group Director of Strategic Business Development. The CMT meets monthly to direct, monitor and co-ordinate the group's operations, within the policy and strategic framework laid down by the board. Members of this group are referred to as executives. During the year, executives received remuneration only in connection with their employment in HHA and not in connection with any boards or committees on which they served.

Statement of the board's responsibilities

The board is responsible for preparing the Report of the Board and the financial statements, for each financial year, in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice which give a true and fair view of the group and association's financial activities during the year and of the financial position of the group and association at the end of the year.

In preparing those financial statements the board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and association will continue in operation.

The board is responsible for keeping accounting records which disclose with reasonable accuracy the financial position of the association and to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulation 1969, the

Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. The board is also responsible for safeguarding the assets of the group and association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of current obligations of board and committee members

Common responsibility: all board and committee members share responsibility for that board or committee's decisions. The board or committee should act only in the interests of HHA and not on behalf of any constituency or interest group.

The liability of board members (except for their own criminal acts) is limited provided they have acted in good faith.

Individual responsibility: each board member is obliged:

- to uphold the values and objectives of HHA;
- to act only in the interests of HHA and not on behalf of any constituency or interest group;
- to uphold the HHA's core policies (including those for equal opportunities);
- to attend and participate in meetings of the board or committee;
- to contribute to discussion and debate and to share responsibility for the resulting decisions;
- to represent HHA on occasion;
- to respect confidentiality of information;
- to uphold HHA's Code of Conduct including the declaration of any relevant interest;
- to act as mentor to new board or committee members as appropriate;
- to ensure private interests do not come into conflict with the individual's role on the board or committee.

Statement of qualities, skills and experience required by the board amongst its members, committee members and staff

Board and committee members and staff are required to comply with HHA's Code of Conduct and the seven principles of public life identified by the Nolan Committee which are:

- **Selflessness:** we will take decisions only in terms of HHA's corporate aims and objectives. We will not take such decisions to gain financial or other benefits for ourselves, our family or our friends.
- **Integrity:** we will not place ourselves under any financial or other obligation to other individuals or organisations that might influence us in the performance of our duties.
- **Objectivity:** we will ensure that impartiality will be applied and that choices will be made on merit alone in respect of the delivery of services, the appointment of staff and the awarding of contracts.
- **Accountability:** we accept responsibility for our decisions and actions to our residents, public and private funding providers, and all other stakeholders in our business, and will submit ourselves to whatever scrutiny is considered appropriate.
- **Openness:** we will be as open as possible about the decisions and actions we take and give reasons for those decisions and actions when asked. Information will be withheld only when individual or commercial confidentiality is demanded.
- **Honesty:** we will declare any private interests which relate to our duties and take whatever action is necessary to resolve or avoid potential conflicts arising, in a way that both is lawful and protects HHA's reputation.
- **Leadership:** we will actively promote and support these principles by leadership and example.

In constituting the board and committees the group board is mindful of the need to ensure an appropriate balance of skills and experience in the key areas identified by the Housing Corporation, these are:

- Housing needs HHA aims to meet
- Resident needs and concerns
- Strategic management
- General business skills including the management of staff, properties and contracts
- Finance
- Legal matters



→ HHA Board and committees > Statement of qualities, skills and experience required by the board amongst its members, committee members and staff (*continued*)

- Community relations and needs, including equal opportunities
- Working with local authorities
- Property development and building
- Public relations
- Management of information technology

The level of skill or experience required should be that appropriate to a senior post in an organisation of the size and diversity of the group.

Policy for admitting new members (shareholders)

The following is an extract from HHA's Membership Policy (a full copy of which is available on HHA's website www.hanover.org.uk):

Membership Policy: the board will consider for membership those individuals and organisations which, in its view, can make a positive contribution to HHA's affairs.

The board recognises three broad groups of member:

- **Residents** of properties owned or managed by HHA (or its subsidiaries) or recognised groups representing those residents. To ensure that the maximum number of residents are effectively represented, shares will generally be allocated only to residents acting in a representative capacity rather than as individuals.

- **Community and partner organisations** that work with or have similar aims to HHA or that represent the communities in areas in which HHA operates.
- **Individuals** who are not residents or representatives of community and partner organisations but who can contribute to achievement of HHA's objects.

In considering applications for membership the board will seek to ensure that:

- no single group is dominant;
- any statutory restrictions on the size of particular groups are met;
- accepted guidance from HHA's regulators is followed;
- HHA complies with its equal opportunities and diversity policy.

Procedure for electing resident board and committee members

Full details of the arrangements have been published and are available on HHA's website.

Compliance with the National Housing Federation Code of Governance

HHA complies with all relevant recommendations in the NHF Code of Governance except for that in respect of the maximum term of office for board members. The length of service of two board members currently exceeds the recommended maximum. The board is content with this exception in order to ensure continuity of experience within the board.

Other group members and associated organisations

■ Board of Hanover Property Management

Limited: HPML was incorporated on 3 September 1993 being established to manage the leasehold retirement housing of HHA. The board has a maximum of nine directors, of whom up to six may be directly appointed by HHA (one of these always being the Group Chair and at least one other being a member of the main board). The Group Chair may not chair this board except in the absence of a permanent Chair. At 31 March 2006, there were nine directors, six of whom were appointed by HHA's board; in addition two residents in HPML properties and one independent director were directly appointed by other HPML directors. The HPML board is responsible to HHA's board for the operation of HPML.

■ Board of Hanover in Hackney Limited:

HiH was incorporated on 22 August 2002 and registered with the Housing Corporation on 1 October 2002. The company took transfer of the sheltered housing stock of the London Borough of Hackney on 14 October 2002. The board of HiH consists of two nominees appointed by the HHA board, two local authority nominees, six HiH tenants and two independent members.

HiH is an autonomous subsidiary of HHA. While HHA has the power to dismiss and appoint HiH board members and thus exercise control, it has undertaken not to do so providing the subsidiary operates in accordance with a procedure agreement and within a business plan approved by HHA.

■ Board of Hanover Friends:

HF is a joint venture between HHA and the charity Friends of the Elderly. The company was established to take transfer of a portfolio of sheltered housing and care homes from Help the Aged and was incorporated on 31 January 2002. Transfer took

place on 8 November 2002. The board of HF consists of four nominees appointed by the board of HHA and four appointed by Friends of the Elderly. HHA has a control right to appoint additional directors to give it a board majority. Both HHA and Friends of the Elderly are members of the company and their relationship is controlled by a joint venture agreement.

■ Committee of Management of Care and Repair (Cheltenham) Limited:

CARCL became a subsidiary on 1 August 2002. The Committee of Management comprises up to fifteen members. HHA has the power to appoint and remove all committee members. Current committee appointments include members with links to stakeholder groups: HHA, Cheltenham Borough Council and Gloucestershire County Council.

■ The rest of the group:

the Committee of Management of Hanover Housing Limited is the members of the HHA board.

Associated organisations

The HHA board acts on behalf of HHA as corporate trustee for the following almshouse trusts:

Alfred Stubbs Trust, Almshouse Charity of Elizabeth Smith, Collins Memorial Trust, Jane Cameron's Old People's Charity, The Margaret Jane Ashley Almshouse Charity, The Flood Charity and William Paul Housing Trust.

The Council of Management of The Hanover Housing Association Charitable Trust comprises all the members of HHA's board.

Just Assured Limited: this was a joint venture between HHA and Network Housing Group formed to provide consultancy on internal audit and risk assurance. HHA ceased its membership of the company on 21 March 2006. Just Assured was not and is not a member of the group.

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