



Hanover Housing Association and its subsidiaries

Report and Financial Statements

Year ended 31 March 2007

Hanover Housing Association and its Subsidiaries

Report and Financial Statements

Year Ended 31 March 2007

Registered under the Industrial and Provident Societies Act 1965 (Number 16324R)

Registered with the Housing Corporation (Number L0071)

Registered with the Inland Revenue (Charities Division Number XN 9996)

Annual Report and Accounts

for the year ended 31 March 2007

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Board, Executives and Secretary

Board

Name	Position & responsibilities	
Lord Richard Best	Group Chair	Appointed 21/09/2006
Ken Bartlett	Group Chair (to 21/9/2006)	Resigned 7/3/2007
Robert Banner	Chair, Hanover Friends	Appointed 25/03/2004
Penny Bennett	Chair, Group Audit Committee	Appointed 25/03/2004
Pat Corless	Chair, Group Remuneration Committee	Appointed 25/03/2004
Nina Del Monte	Chair, Hanover in Hackney Limited	Appointed 26/09/2002
Angela Gillibrand		Appointed 22/09/2004
Stephen Hallett	Interim Group Chief Executive	Resigned 1/11/2006
Bruce Moore	Group Chief Executive	Appointed 1/12/2006
Jill Preston		Appointed 25/03/2004
David Priestnall	Deputy Group Chair	Appointed 13/09/2001
Jim Saunders		Reappointed 05/05/2004
John Steele	Chair, Hanover Property Management Limited	Appointed 13/09/2001

References in **bold** designate changes during the financial year.

Advisers and bankers:

Bankers	Principal solicitors	Auditors
Barclays Bank plc 1 Churchill Place Canary Wharf London E14 5HP	Winckworth Sherwood 35 Great Peter Street Westminster London SW1P 3LR DX 2312 VICTORIA	BDO Stoy Hayward LLP Emerald House East Street Epsom Surrey KT17 1HS

Board, Executives and Secretary

Executives and Secretary

Group Management Team

Vera Brearey	Group Retirement Housing Director	Appointed 1/3/ 2007
Gavin Cansfield	Group Performance and Participation Director	Appointed 1/3/2007
Norman Courts	Group Property Director	Appointed 18/9/2006
Bobby Davis	Group People Director	Appointed 1/3/2007
Stephen Hallett	Interim Group Chief Executive	Resigned 20/11/2006
Barry Hindson	Group Partnership and Innovation Director	
Bruce Moore	Group Chief Executive	Appointed 1/12/2006
Terry Noys	Group Finance Director	Resigned 27/10/2006
Jim Preston	Group Director of Housing Services	Resigned 31/01/2007
Paul Watson	Group ExtraCare and Services Director	Appointed 1/3/2007

Secretary

Michael Fuller	Secretary, Hanover Housing Association
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Registered Office:

Hanover House, 1 Bridge Close, Staines, TW18 4TB

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.

Report of the Board

for the year ended 31 March 2007

The board present their report and financial statements for the year ended 31 March 2007.

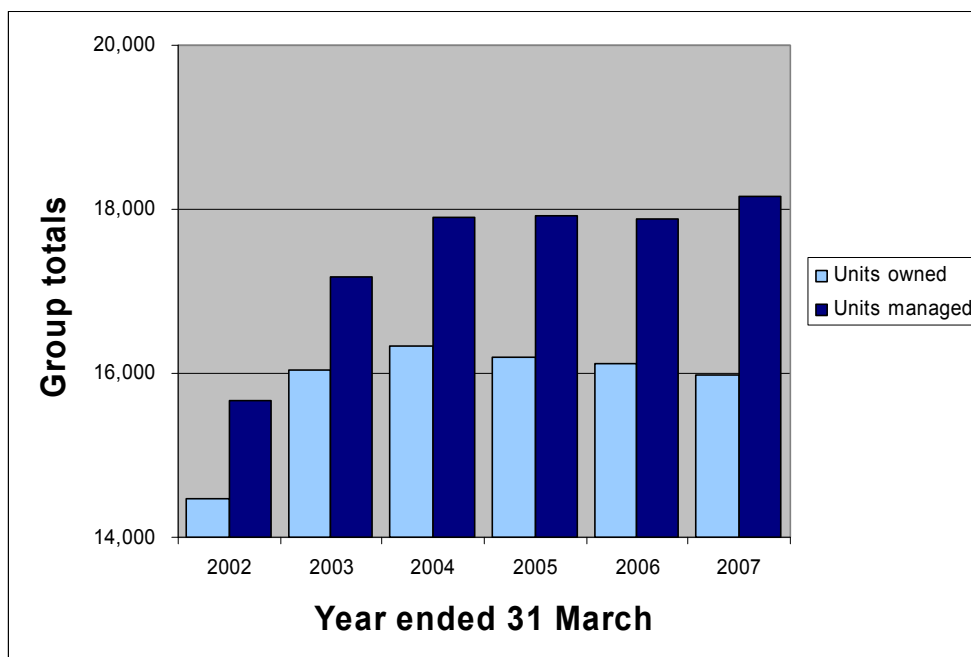
Review of the business

Principal activities

The Hanover Housing Group¹ is a collection of organisations that specialise in the design, development and management of housing, support and services for older people. As a group we provide over 18,000 properties to rent and for sale, and are continuously developing new housing and equity models that make our homes more accessible to a greater number of people. Details of all subsidiaries are shown in note 29 of the financial statements. The main organisations in the Hanover Group are:

- Hanover Housing Association (HHA), which is a charitable registered social landlord (RSL) with properties in over 200 local authority areas across England. Most of the association's housing stock is designed and managed to assist people aged over 55 to live their lives independently, with a growing emphasis on Extra Care facilities. HHA also operates a home improvement agency, Hanover at Home, in several locations.
- Hanover in Hackney Limited (HiH), which is a charitable RSL that provides housing for older people in the London Borough of Hackney.
- Hanover Friends (HF), which is a joint venture with the charity Friends of the Elderly that provides a mixture of residential care and retirement housing for older people.
- Hanover Property Management Limited (HPML), which provides management services to owners of leasehold retirement schemes across England and estate agency services to their leaseholders.

Units under management



As at 31 March 2007, the group managed a total of 18,156 properties (2006: 17,888) of which 15,977 properties (88.0%) were owned by the group (2006: 16,110 (90.1%)).

As at 31 March 2007, 1,473 of the properties owned by HHA were Extra Care properties (2006: 1,371), representing 13.3% (2006: 12.3%) of HHA's social housing stock.

As at 31 March 2007, HPML managed 5,607 properties (2006: 5,308) and HiH owned and managed 832 (2006: 833) units.

Note 34 of the financial statements provides further information on units owned and managed by the group.

¹ Hanover Housing Group is a registered business name of Hanover Housing Association
Hanover Housing Association | Financial statements to 31 March 2007

Report of the Board

for the year ended 31 March 2007

Our objectives and strategies

This year has seen the start of a process to review the management and organisation of the Hanover Group.

The appointment of Lord Best as Chair in September 2006 is a positive change for the group. Lord Best brings with him a wealth of experience and credentials. Lord Best is well respected within the sector. Hanover is very happy to have attracted such a high calibre Chair.

In December 2006, Bruce Moore was appointed as Group Chief Executive. Bruce is a qualified solicitor and MBA with extensive experience in the housing and care sectors.

Also in December 2006, following consultation with the new Group Chief Executive and senior executives, the board agreed a new strategic focus for the group.

Hanover's Mission is:

- ***To deliver excellent living environments and tailored services that support independence and individuality for older people.***

Hanover's Vision is:

- ***By 2012 to be the number one provider for older people looking for high quality housing and related services.***

Hanover's Strategic Priorities are:

- ***Enhancing the quality of existing services provided to residents***
- ***Developing new housing and Extra Care schemes***
- ***Developing extended services which support our objectives (on a sound financial basis)***
- ***Pursuing opportunities for growth through partnership, collaboration and mergers***
- ***Developing our people as a core part of our service proposition***

This vision puts Hanover at the forefront of the retirement housing sector and means that we are continually striving to evaluate and develop our services to meet the changing needs of our residents.

In order to give greater emphasis to issues of operational performance and to develop the cohesive sense of purpose and commitment that will be needed to achieve Hanover's goals, the board approved the Group Chief Executive's proposal in February 2007 for the creation of a new and expanded Group Management Team (GMT) of eight executives to replace the previous Corporate Management Team and a restructuring of the existing divisional structure within HHA and across the group.

A significant aspect of this is the introduction of distinct management arrangements for Extra Care schemes that will be separate from the management of Hanover's other rented retirement housing. With nearly 2,000 Extra Care properties now in management or being developed, Hanover is the leader in the provision of Extra Care housing. This activity can now justifiably operate as a specialist service with its own dedicated management arrangements. Hanover's rented retirement housing will also benefit from this separation as it will avoid attention being diverted away from the many challenges and potential opportunities within HHA's portfolio of retirement housing schemes.

Report of the Board

for the year ended 31 March 2007

Business dynamics - risks and uncertainties

The group is affected by a wide range of external factors. Some of the more important factors include:

- Income restrictions – the group's organisations are to a large extent restricted in the fees that they can charge their customers, thus restricting future income levels.
- Supporting People – this source of government funding currently provides the group with £5.0m (7.0%) of its turnover (2006: £6.3m (9.6%)). As this funding is reduced, Hanover will need to consider the nature and level of support service that it is able to sustain. Significant shifts in funding may present challenges to the traditional estate manager role and the consequential impact may be greater than merely the value of the Supporting People funding.
- Levels of funding – HHA's ability to develop new properties is dependent upon its ability to generate funds from outright or shared ownership sales as well as the availability of development grant from the Housing Corporation and Department of Health.

Development and Property Services

In the past six months a full review has been carried out on the design brief and specification for Extra Care properties to ensure that Hanover are building to the latest government and Housing Corporation guidelines. The revised design brief allows an up to date value for money assessment to be implemented to ensure that Hanover can develop a high quality product across the country. Standardisation will also allow life cycle costs to be properly assessed and reduced.

In 2006/07, Hanover has been working on developing schemes containing 827 apartments throughout England with a total scheme cost of £122 million. The New Larchwood scheme in Brighton, completed in September 2006, received a European Design Award for being an excellent Extra Care development.

The Technical team completed circa 90% of their planned budget works in 2006/07, amounting to £13 million. Work has begun on reducing the number of contractors used for responsive repairs so that cost savings can be achieved. The aim is also to reduce the number of planned works programme contractors whilst still ensuring value for money.

An asset management strategy is being prepared and will be published in September 2007. Inspections are being carried out across all HHA properties by Drivers Jonas, Chartered Surveyors. This information will be fed back and stored on a database to be maintained by a new Asset Management team, which will be recruited in 2007/08.

Continuous improvement

HHA is committed to embedding a culture of continuous improvement within the group and regularly reviews its activities in order to find more efficient and effective ways of providing its services and delivering greater value for money. Recent initiatives include the establishment of an in-house procurement function and the implementation of computerised purchase order processing for use in 2007/08.

We will be looking to deliver improvement across the organisation from central procurement functions through to ongoing improvements in the services that we deliver to our customers. We are currently reviewing the approach to continuous improvement to build on the success to date whilst ensuring that there is a clear link to quality, customer satisfaction and performance issues.

Report of the Board

for the year ended 31 March 2007

Performance indicators (PIs)

To help support delivery against its key strategies, the group employs a range of quantitative and qualitative financial and non-financial PIs under a range of headings, including: housing management, asset management, human resources and financial management.

Performance in the period

Housing Corporation assessment

HHA maintained a clean Housing Corporation assessment of four green traffic lights for its effectiveness in the areas of financial viability, governance, management and property development.

Decent Homes

As at 31 March 2007, 100% (2006: 100%) 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. As at the same date, 692 (81%) of HiH's homes met DHS (2006: 517 (61%)) and HiH is well on track to meet the 100% target. This compares with an overall sector performance for 2006 of 84.5% of properties meeting DHS.

Customer services

Performance against some of HHA's more important customer focused PIs was:

	2007	2007 Internal target	2006	2005
Percentage repairs complete within target timescales	93.1%	>95%	91%	89%
Arrears	1.69%	< 1.90%	1.95%	1.97%
Void loss percentage	1.04%	<1.00%	1.04%	1.42%
Lettings to applicants from BME communities	4.78%	> 4.25%	4.18%	3.09%

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, 7 days or 28 days. HHA records the time taken from when the repair was reported to when it was carried out.

HHA's performance once again shows an improvement over the prior year and although the internal target for this year was not met, the gap has narrowed over the course of the year. This continually improving performance is a direct result of positive steps taken by HHA in relation to suppliers, staff and systems.

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. Performance was also better than the target set internally and considerably better than the average performance of the sector.

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 schemes 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 was in line with both target and the previous year.

Report of the Board

for the year ended 31 March 2007

BME lettings: *the cumulative quantity of lettings to black and minority ethnic applicants as a percentage of total lettings - excluding transfers.* HHA's performance was better than both the previous year and target. Specific issues are generally recognised to exist in respect to attracting BME applicants into sheltered housing and consequently the average of 14% across all RSLs is higher. However, HHA has held a series of training workshops with frontline staff and seen a number of initiatives by schemes to develop links with local ethnic communities during the year. HHA will continue to develop its approach in this area.

Building on this good solid performance, HHA intends to pursue a holistic approach to performance management with the objective being a performance dashboard. Some measures will require almost permanent visibility whilst others will be warning lights that only appear when corrective action is required. A key indicator of success will be a strong link between strategic objectives and the performance system. Central to this approach will be regular sampling of customer satisfaction.

Resident involvement

HHA is in the process of finalising an Involvement Partnership Agreement with residents that meets the requirements of a tenants' compact. The agreement - which has been developed by the residents, staff and board working together - notes some of the successes of involvement.

The Residents' Council and the board have been keen to reduce the timescales for kitchen and bathroom replacements as financial resources become available. Hanover now holds regular scheme inspections, allowing residents to tell HHA what they think needs doing to upkeep and enhance grounds and buildings.

Working at a local level with HHA, residents have made a whole host of improvements to the quality of life on individual schemes, examples include: improving specifications for cleaning and gardening contracts, deterring cold callers by erecting signs and increasing community spirit by holding social activities, open days and forging community links. Many other improvements have resulted from residents taking part in HHA's continuous improvement programme.

Staffing

Staff turnover for the group has remained around the 18% mark although sickness absence has slightly increased during the period. This is against a background of considerable change and restructuring within the group and reflects a degree of uncertainty during a year where a number of the top team have either retired or left to begin new challenges. For the organisation, the uncertainty has brought the challenge of balancing the working day with having the time and resource to establish work plans with developments for the future.

The Human Resources department have focused on planning for new training projects, including a national programme in customer service and values. They have also installed a new benefits platform and are reviewing a number of elements of the organisation's reward package, including a full scale review of the group's defined contribution pension scheme and a national pay review for estate managers.

The new Chief Executive's arrival has led to a new direction: people have been placed at the forefront of strategic priorities, feedback has been sought on how staff currently view the organisation, and new structures are being implemented.

Employee involvement

The group is a dispersed organisation and therefore uses of a variety of channels to communicate to, and consult with, its employees. 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.

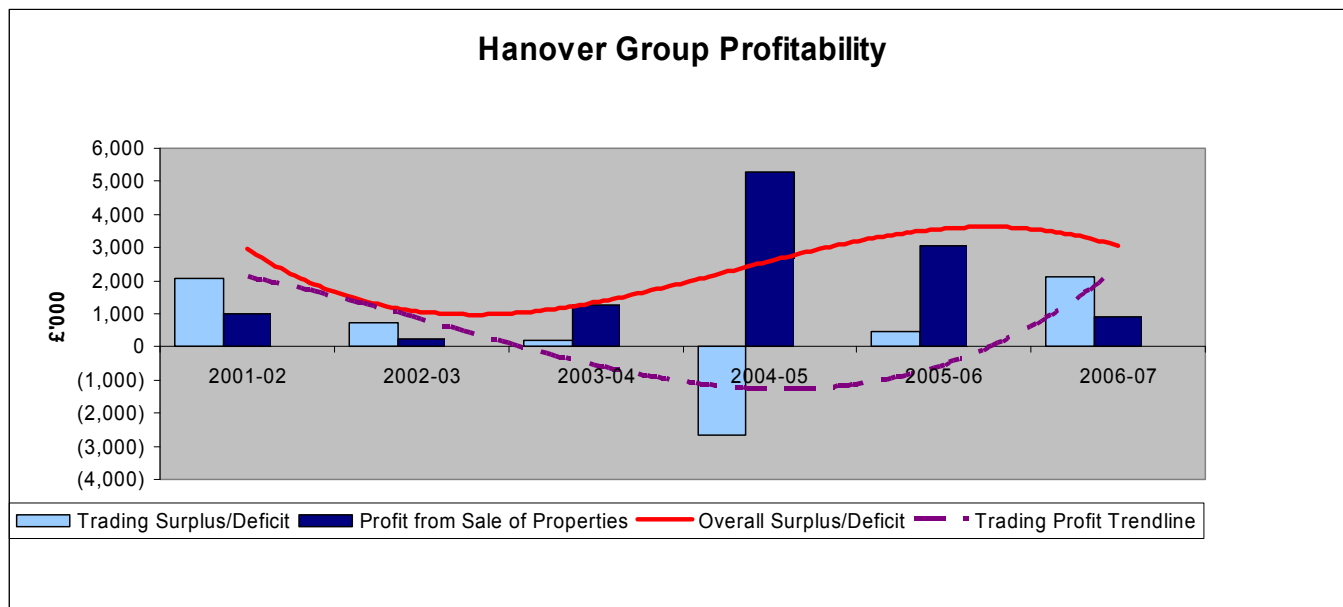
Report of the Board

for the year ended 31 March 2007

Financial review

Financial results

This year's surplus reflects the improving trend in the underlying trading performance of the group.



The group surplus on ordinary activities after tax was £3.1m as compared to £3.5m in the previous year. The main reason for this year on year decline was a substantially lower surplus on disposals of fixed assets. The previous year's accounts included a large surplus arising from the sale of a scheme owned by HiH that was not considered suitable for refurbishment.

The group's turnover increased by 7.4% to £70.9m. The group's main focus is social housing activities, which account for 96.7% of the turnover. The components of turnover are shown in notes 2 and 3 of the financial statements.

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. However, central overhead costs have actually fallen year on year, largely as a result of lower staff costs.

The operating surplus was £11.8m, which is an improvement of £1.6m over the prior period and represents an increase in operating margin from 15.4% to 16.6%. This reflects the greater increase in turnover relative to operating costs. Note 35 of the financial statements shows the relative contributions of each main group entity to these results.

The pension liability has fallen by £2,054k from £10,130k to £8,076k. One of the main factors behind this improvement in funding levels is an increase in the discount rate used for valuing liabilities at 31 March 2007, arising from improved yields on the corporate bonds used as the basis for this calculation; although this benefit was offset in part by improved life expectancy. The net effect of these changes is a reduction in the present value of the underlying value of scheme liabilities and is reported as the actuarial gain in the statement of recognised surpluses and deficits.

Report of the Board

for the year ended 31 March 2007

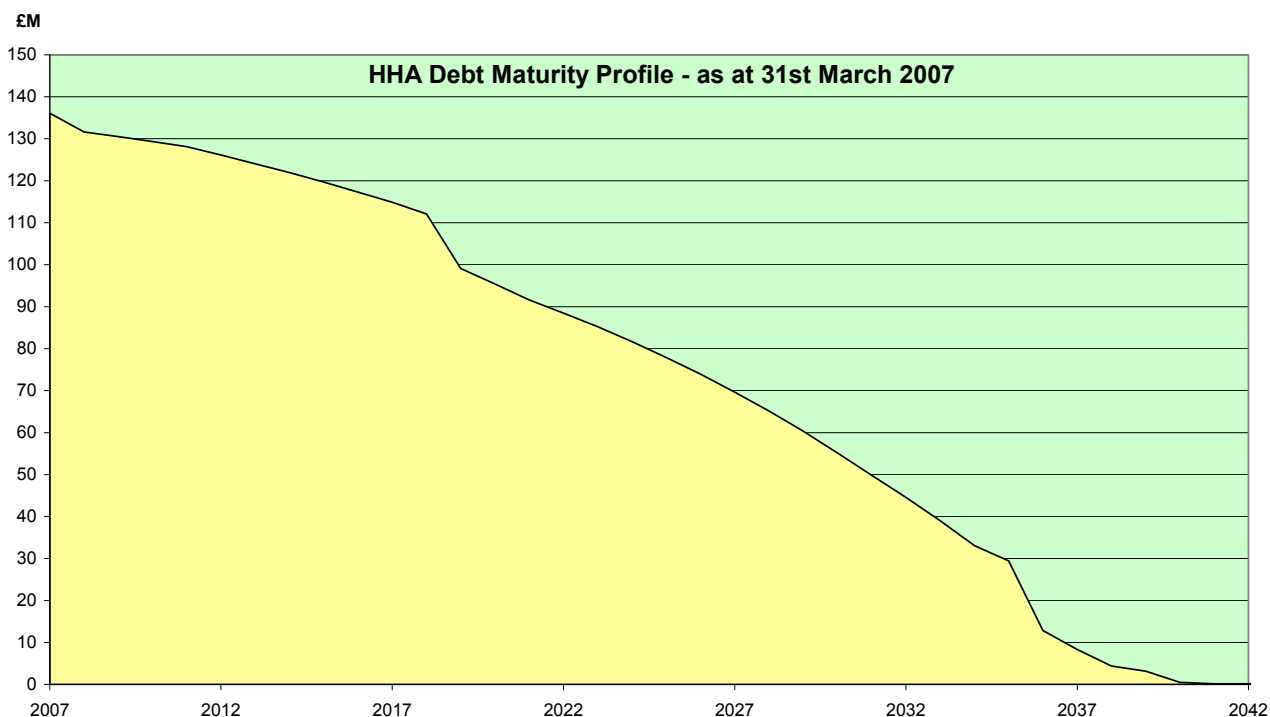
Capital structure and treasury policy

The group finances its operations by a combination of government grants, housing loans from commercial banks and retained surpluses. No entity within the group pays dividends.

During the year the group negotiated new thirty year loan facilities that are a mix of secured and unsecured money at reduced margins. The group's borrowing facilities and net debt at the end of the year were:

Gross debt	2006/07	2005/06	Loans	2006/07	2005/06
Maturity	£m	£m		£m	£m
0-1 year	6.2	2.0	Fixed rate	112.6	108.7
1-2 years	2.5	2.2	Variable rate	35.7	24.8
2-5 years	6.1	3.6	Total draw down	148.3	133.5
5-10 years	24.2	66.8			
10-20 years	49.6	38.9	Available facility	201.1	202.2
20-30 years	68.9	28.4			
Total	157.5	141.9			
				2006/07	2005/06
Cash & short-term deposits	3.5	2.1		£m	£m
			Overdraft	1.7	0.9
Net debt	154.0	139.8	Available facility	2.5	2.5
Secured on group's property	155.8	141.0	Borrowing facilities	203.6	204.7

Average debt levels were reduced by enhanced cash management and the accelerated receipt of public sector grants.



Gearing decreased from 46% in 2006 to 44% at the end of 2007. 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% limit set by HHA's bankers.

Report of the Board

for the year ended 31 March 2007

The group has a treasury function that operates to a strategy approved annually by the board. Treasury activities are designed to control risk, especially from volatility in interest rates and counterparty credit risk, on a cost effective basis rather than to generate profit.

- Speculative transactions are not permitted.
- Foreign currency transactions are not permitted.
- Borrowings should be primarily medium and long-term.
- An appropriate amount of reasonably priced funding should be available to meet current requirements as well as forecast growth.
- Committed facilities should be kept to a minimum of 115% of peak borrowing requirements.
- Gearing should be kept below 80% at the consolidated level and lower than 75% for HHA.
- Interest cover should be at least 150%.
- Within certain limits, treasury instruments may be used to mitigate exposure to adverse movements in interest rates.

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 association's weighted average interest rate paid fell to 6.66% for the year ended 31 March 2007 (2006: 6.91%); the majority of the group's debt is held by HHA. The group remains largely insulated from rate changes due to its policy of fixing the majority of its loan facilities.

At the current fixed: variable split, a rise in interest rates of 1% would increase interest payable by £257k per annum.

The group manages interest rate risk through a combination of fixed interest debt and interest rate swaps. The group's target is to have up to 85% of the gross debt portfolio attracting a fixed rate of interest. At 31 March 2007, 76% of the debt portfolio was at a fixed rate (2006: 80%). In recent years the ratio has comfortably exceeded that required by any of the group's lenders.

The group remains in compliance with all its financial covenants, which are primarily based on gearing and interest cover.

Cash flow

The net cash inflow in 2007 was £0.9m (2006: £0.4m outflow), which was £1.3m higher than in 2006. The net cash inflow from operating activities of £20.7m (2006: £16.8m) was lifted by the improved operating surplus and an increase in creditors. Net interest paid was broadly similar to the prior year. The amount paid out in respect of new fixed assets rose significantly year on year, reflecting the association's increased development activity. Despite healthy grant receipts, the net investment in capital works required the group to borrow additional funds to support its development activities. Note 26 to the financial statements contains the detailed cash flow disclosures.

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).

Fixed assets

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

Housing 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 £219m (2006: £213m). 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 existing properties have suffered from any impairment during the year. One property under construction at 31 March 2007 has been impaired due to a significant rise in the anticipated costs of construction following a change in contractors that was necessitated by the original contractor entering into administration.

Report of the Board

for the year ended 31 March 2007

Group highlights - five year summary	2007	2006	2005	2004	2003
For the year ended 31 March	£m	£m	£m	£m	£m
Group income & expenditure account					
Total turnover	70.9	66.0	60.3	55.1	48.3
Operating surplus	11.8	10.2	6.7	7.0	7.7
Interest payable	10.0	10.0	9.7	7.1	7.3
Surplus after interest and tax	3.1	3.5	2.6	1.4	0.9
Group balance sheet					
Tangible fixed assets, net of depreciation	476.1	435.7	417.4	396.4	346.2
SHG & other capital grants	251.3	217.4	204.3	199.5	185.2
Net current liabilities	11.7	20.4	25.7	4.9	3.8
Net debt	154.0	139.8	145.2	135.1	98.6
Total reserves	55.0	49.7	47.1	52.7	51.3
Statistics					
Operating margin	16.6%	15.4%	11.1%	12.7%	15.9%
Surplus for the year as % of turnover	4.3%	5.3%	4.4%	2.6%	2.0%
Gearing (net debt as % of reserves plus grants plus housing depreciation)	44%	46%	52%	49%	39%
Accommodation managed at year end					
Total housing stock owned (number of units/dwellings)	15,977	16,110	16,199	16,341	16,032
Total housing stock managed (number of units/dwellings)	18,156	17,888	17,925	17,907	17,185

Report of the Board

for the year ended 31 March 2007

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.

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.

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.

Board members and Group Management Team

The present board members and the members of the Group Management Team are set out on pages 3 & 4.

Corporate 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 one board member currently exceeds the recommended maximum. The board is content with this exception in order to ensure continuity of experience within the board.

The board

The board bears ultimate responsibility for all group activities; these responsibilities include:

- Corporate strategy and approving, policies and plans to achieve it.
- Defining and upholding the values and objectives of the group.
- Ensuring the group's long term financial viability.
- Appointing the Group Chief Executive.
- Appointing the majority of members of the governing bodies of group members.
- Acting on behalf of HHA in its role as corporate trustee in the case of almshouse trusts.

The board has a maximum membership of twelve. Certain subsidiaries are permitted to nominate board members. The board members are drawn from a wide range of backgrounds so as to ensure that there is an optimum mix of skills and experience to fulfil the function of the board. Board members are subject to a contract for services setting out their obligations, under which they are remunerated for their services and appraised annually.

The board met nine times during the financial year.

Report of the Board

for the year ended 31 March 2007

Delegation

The board delegates some of its responsibilities to functional committees. Each committee has clear terms of reference and delegated authority established within standing orders. After each meeting they report back to the board, where their recommendations are fully reviewed and approved, as appropriate. As at 31 March 2007 the board had established these committees:

- **Group Audit Committee**

The committee is responsible for:

- Overseeing all aspects of governance and internal control.
- Ensuring that risks are properly assessed and controlled.
- Ensuring the group conducts its affairs to the highest standards of probity.
- Overseeing the operation of the Group Internal Audit Service.
- Ensuring that any audit findings are properly actioned.
- Reviewing the audited accounts and external auditors' report and ensuring that the processes involved are effective and that control issues are appropriately addressed.

- **Group Remuneration Committee**

The committee is responsible for:

- Determining and approving the salary, terms and conditions of employment, superannuation and benefits of executives.
- Reviewing, and advising the board, on changes to general terms and conditions of employment for all staff.

- **Nominations Committee**

The committee is responsible for:

- Recommending membership of the group board and that of other bodies to which HHA is entitled to make appointments

Following discussion and agreement with residents and in accordance with a recommendation from the Audit Commission, the Residents' Council ceased to be a committee of the board but became a consultative body.

- **Group Management Team**

GMT comprises the Group Chief Executive, the Group Finance Director, Group Property Director, Group Performance and Participation Director, Group Retirement Housing Director, Group Extra Care and Services Director, Group Partnership and Innovation Director and Group People Director. Members of this group are referred to as executives. The GMT meets regularly (at least monthly) and is responsible for directing, monitoring and co-ordinating the group's day to day operations within the policy and strategic framework set by the board.

Executives only receive remuneration for their employment in HHA and not in connection with any boards or committees on which they serve. They are not members of the association and hold no interest in the share capital.

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.

Report of the Board

for the year ended 31 March 2007

Individual responsibility: each board member is obliged to:

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

- 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.
- 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.

Procedure for electing Resident Board Member

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

Report of the Board

for the year ended 31 March 2007

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 the 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.

Responsibility for internal control systems and review of their effectiveness

The board acknowledges responsibility for the group's system of internal control and for reviewing its effectiveness. This responsibility applies to all group entities. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and provides reasonable, not absolute, assurance against material misstatement or loss.

The board has established a framework to assess the effectiveness of the internal control system. This framework has been in place throughout the year to 31 March 2007 and up to the date of approval of the financial statements.

The process the board uses to review internal control effectiveness, together with key elements of the control framework includes:

- **Control environment**

The organisation structure has clearly defined levels of responsibility and authority, supported by documented controls and procedures appropriate to the specific areas concerned.

- **Financial monitoring procedures**

The board approve the annual budget, review quarterly performance, balance sheets and cash flows against plan, and receive explanations from management on significant variances.

- **Risk management**

The group's senior managers identify 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.

- **Management assurances**

The Group Chief Executive, group directors and chief executives of the various subsidiaries and joint ventures prepare formal statements, acknowledging responsibility for the internal control and risk management systems in their businesses and divisions and confirming that they have reviewed the effectiveness of those systems.

- **Internal Audit**

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

Report of the Board

for the year ended 31 March 2007

- **Group Audit Committee**

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. The Group Audit Committee meets quarterly and reports its findings to the board after each meeting as well as in an annual summary.

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 £6,235 (2006: £19,801) in funding from the Big Lottery Fund.

Statement as to disclosure of information to auditors

The current board members have taken reasonable steps to make themselves aware of any information needed by the group's auditors for the purpose of their audit and to establish that the auditors are aware of that information.

Board members are not aware of any relevant audit information of which the group's auditors are unaware.

Auditors

The board believes that an audit tender should be undertaken at appropriate intervals. A comprehensive audit tender process, involving the incumbent auditors and other appropriate audit firms, was recently concluded. The process involved an in-depth assessment of tendering parties' expertise, industry experience, audit staff and leadership quality. The outcome of the process was a recommendation from the Group Audit Committee, approved by the board, that KPMG LLP be appointed. A resolution to appoint KPMG LLP as auditors to HHA and the group will be proposed at the next annual general meeting.

The Report of the Board was approved on 1 August 2007 and signed on its behalf by:



Michael Fuller
Secretary
1 August 2007

Report of the independent auditors

To the members of Hanover Housing Association

We have audited the financial statements of Hanover Housing Association for the year ended 31 March 2007 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

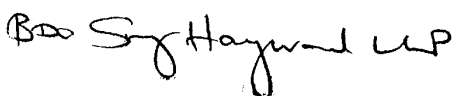
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 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 & 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: 1 August 2007

Income and expenditure accounts

for the year ended 31 March 2007

	Note	Group		Association	
		Restated		Restated	
		2007	2006	2007	2006
		£'000	£'000	£'000	£'000
Turnover	2	70,885	65,988	57,776	53,411
Operating costs	2	(59,088)	(55,824)	(45,968)	(43,614)
Operating surplus	2	11,797	10,164	11,808	9,797
Surplus/(deficit) on disposal of fixed assets	4	933	3,033	511	(254)
Interest receivable and other income	5	414	406	420	429
Interest payable and similar charges	6	(10,023)	(9,957)	(9,416)	(9,597)
Other finance cost	33	(51)	(169)	(80)	(180)
Surplus on ordinary activities before tax	7	3,070	3,477	3,243	195
Tax on surplus on ordinary activities	8	(2)	(2)	-	-
Surplus on ordinary activities after tax	23	3,068	3,475	3,243	195

All amounts relate to continuing activities.

The accompanying notes form part of these financial statements.

Statements of total recognised surpluses and deficits

for the year ended 31 March 2007

	Note	Group		Association	
		Restated		Restated	
		2007	2006	2007	2006
		£'000	£'000	£'000	£'000
Surplus for the financial year		3,068	3,475	3,243	195
Actuarial gain/(loss) on pension schemes	33	2,410	(1,190)	2,143	(1,200)
Unrealised (deficit)/surplus on revaluation of long term investments	25	(179)	53	(179)	53
Total recognised surpluses and deficits relating to the year		5,299	2,338	5,207	(952)
Prior period adjustment	36	202	(8,658)	0	(8,350)
Total recognised surpluses and deficits since the last financial statements		5,501	(6,320)	5,207	(9,302)

The accompanying notes form part of these financial statements.

Balance sheets

as at 31 March 2007

	Note	Group		Association	
		2007 £'000	2006 Restated £'000	2007 £'000	2006 Restated £'000
Tangible fixed assets					
Housing properties - cost	11	511,890	463,881	483,133	439,762
Less: Social Housing Grant	11	(225,483)	(210,899)	(225,483)	(210,899)
Less: Other public grants	11	(25,838)	(6,539)	(25,638)	(6,339)
Less: Depreciation		(41,286)	(33,731)	(39,033)	(32,563)
		219,283	212,712	192,979	189,961
Other fixed assets	12	5,466	5,573	4,935	4,961
		224,749	218,285	197,914	194,922
Long term investments	13	4,034	4,185	3,834	3,985
Total fixed assets		228,783	222,470	201,748	198,907
Current assets					
Stock	14	3,155	712	3,155	712
Debtors	15	8,729	9,666	12,517	12,650
Investments	16	184	422	-	-
Cash at bank and in hand	17	3,312	1,696	255	141
		15,380	12,496	15,927	13,503
Creditors: amounts falling due within one year	18	(27,099)	(32,932)	(21,811)	(26,610)
Net current liabilities		(11,719)	(20,436)	(5,884)	(13,107)
Total assets less current liabilities		217,064	202,034	195,864	185,800
Creditors: amounts falling due after more than one year	19	153,460	142,099	140,160	133,699
Provision for liabilities and charges	21	558	134	383	134
Pension liability	33	8,076	10,130	7,917	9,770
Capital and reserves					
Share capital	22	-	-	-	-
Revenue reserves	23	51,111	46,254	45,533	40,087
Restricted reserves	24	3,346	2,725	1,511	1,571
Investment revaluation reserve	25	513	692	360	539
		217,064	202,034	195,864	185,800

The accompanying notes form part of these financial statements.

These financial statements were approved by the board on 1 August 2007 and signed on its behalf by:


Lord R Best
 Chair – Board Member


A Gillibrand
 Board Member


M Fuller
 Secretary

Consolidated cash flow statement

for the year ended 31 March 2007

		2007	2006
	Note	£'000	£'000
Net cash inflow from operating activities	26	20,730	16,771
Returns on investments and servicing of finance	26	(9,738)	(9,524)
Taxation	26	(1)	(3)
Capital expenditure and financial investment	26	(25,169)	(1,880)
Cash (outflow) / inflow before use of liquid resources and financing		(14,178)	5,364
Management of liquid resources	26	238	(142)
Financing	26	14,791	(5,597)
Increase / (decrease) in cash in the year	26	851	(375)

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2007

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.

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.

Notes to the financial statements

for the year ended 31 March 2007

1 Accounting policies (continued)

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 years	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.

Notes to the financial statements

for the year ended 31 March 2007

1 Accounting policies (*continued*)

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 and 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.

Interest free loans

Some residents of Hanover Friends 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.

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.

Notes to the financial statements

for the year ended 31 March 2007

1 Accounting policies (*continued*)

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 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/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.

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.

Notes to the financial statements

for the year ended 31 March 2007

1 Accounting policies (*continued*)

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.

Notes to the financial statements

for the year ended 31 March 2007

2 Turnover, operating costs and operating surplus

The Group	2007			Restated 2006		
	Turnover £'000	Operating costs £'000	Operating surplus £'000	Turnover £'000	Operating costs £'000	Operating surplus £'000
Income and expenditure from social housing lettings (note 3)						
Housing accommodation	64,437	(53,561)	10,876	60,104	(50,747)	9,357
Other income and expenditure from social housing lettings						
Supporting People contract income	1,509	(1,284)	225	1,602	(1,538)	64
Other – social housing income	2,623	(2,617)	6	2,297	(2,072)	225
	68,569	(57,462)	11,107	64,003	(54,357)	9,646
Non social housing activities						
Management services	1,902	(1,481)	421	1,715	(1,324)	391
Other	414	(145)	269	270	(143)	127
Total	70,885	(59,088)	11,797	65,988	(55,824)	10,164

Notes to the financial statements

for the year ended 31 March 2007

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

The Association	2007			Restated 2006		
	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	54,296	(43,061)	11,235	50,529	(40,844)	9,685
Other income and expenditure from social housing lettings						
Supporting People contract income	707	(611)	96	814	(883)	(69)
Other – social housing income	2,544	(2,296)	248	1,902	(1,887)	15
	57,547	(45,968)	11,579	53,245	(43,614)	9,631
Non social housing activities						
Management services	-	-	-	-	-	-
Other	229	-	229	166	-	166
Total	57,776	(45,968)	11,808	53,411	(43,614)	9,797

Notes to the financial statements

for the year ended 31 March 2007

3 Particulars of income and expenditure from social housing lettings

<i>Supported housing and housing for older people</i>	Group		Association	
	2007	Restated 2006	2007	Restated 2006
	£'000	£'000	£'000	£'000
Income from social housing lettings				
Rent receivable net of identifiable service charges and loss from voids	42,052	39,470	38,048	35,650
Service charges receivable	14,953	12,525	13,378	11,025
Charge for support services	3,576	4,557	2,598	3,583
Care fees receivable	3,336	3,155	-	-
Net rental income and fees receivable	63,917	59,707	54,024	50,258
Revenue grants from local authorities and other agencies	36	53	36	53
Other property and service income	484	344	236	218
Total income from social housing lettings	64,437	60,104	54,296	50,529
Expenditure on social housing lettings				
Management	(16,768)	(16,432)	(14,777)	(14,712)
Services	(14,679)	(13,257)	(12,481)	(11,066)
Care and support	(6,110)	(6,874)	(2,336)	(3,188)
Rent losses from bad debts	(21)	(109)	(11)	(68)
Routine maintenance	(6,568)	(6,219)	(5,878)	(5,321)
Major repairs expenditure	(1,539)	(1,224)	(1,054)	(861)
Depreciation of housing properties	(7,379)	(6,491)	(6,287)	(5,582)
Impairment of housing properties	(183)	-	(183)	-
Other costs	(314)	(141)	(54)	(46)
Total expenditure on social housing lettings	(53,561)	(50,747)	(43,061)	(40,844)
Operating surplus from social housing lettings	10,876	9,357	11,235	9,685
Void losses	(532)	(611)	(370)	(408)

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 restated following a decision to reassess the basis on which income and expenditure are allocated.

Notes to the financial statements

for the year ended 31 March 2007

4 Surplus/(deficit) on disposal of fixed assets

	Group		Association	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Proceeds of sale	1,209	4,153	648	503
Less: Net book value from fixed assets	(203)	(1,450)	(118)	(1,136)
Social Housing Grant abated	-	396	-	396
Associated costs	(73)	(66)	(19)	(17)
Surplus/(deficit) on disposal of fixed assets	933	3,033	511	(254)

5 Interest receivable and other income

	Group		Association	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Interest receivable from banks, building societies and other investments	414	406	278	290
Interest receivable from subsidiary undertakings	-	-	142	139
Interest receivable from banks, building societies and other investments	414	406	420	429

6 Interest payable and similar charges

	Group		Association	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Interest payable on bank loans, overdrafts and other loans	9,521	9,849	8,914	9,489
Interest payable on Recycled Capital Grant Fund	16	17	16	17
Less: Interest capitalised in housing properties*	486	91	486	91
	10,023	9,957	9,416	9,597

The rate used to capitalise interest in respect of housing properties is 6.5% (2006: 6.68%).

* In both 2007 and 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.

Notes to the financial statements

for the year ended 31 March 2007

7 Surplus on ordinary activities before tax

	Group		Association	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Surplus on ordinary activities before tax is stated after charging:				
Depreciation	9,388	8,803	8,142	7,776
Impairment loss	183	-	183	-
Operating leases of offices	895	958	733	813
Operating leases of cars and equipment	320	363	279	333
Auditors' remuneration:				
- in their capacity as auditors	94	87	68	64
- in respect of other services	11	39	8	35

8 Tax on surplus on ordinary activities

	Group		Association	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
UK corporation tax:				
Current tax on profits of the year	3	2	-	-
Under provision in respect of previous year	(1)	-	-	-
	2	2	-	-

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

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	3	2
Corporation tax on profit on ordinary activities at 19% (2006 – 19%)	1	1
Effects of:-		
Expenses not deductible for tax purposes	1	1
Depreciation in excess of capital allowances	1	-
	3	2

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

Notes to the financial statements

for the year ended 31 March 2007

9 Directors' emoluments

The directors are defined as the board, including the Group Chief Executive, together with the other members of the Group Management Team. The emoluments of the non-executive board directors were £122,000 (2006: £140,000); the Group Chief Executive received no additional emoluments in respect of board duties.

The emoluments of the other directors were as follows:	2007	2006
	£'000	£'000
Emoluments (including pension contributions and benefits in kind)	629	781
Emoluments, paid to the highest paid director:		
For service paid through the payroll (excluding pension contributions and including benefits in kind)	-	118
Fees payable to a professional services company for providing the services of the interim Group Chief Executive for the period 1 April 2006 to 20 December 2006	210	-
Compensation for loss of office	-	73
	210	191

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	
	2007	2006	2007	2006
	No.	No.	No.	No.
Office staff	379	397	324	334
Estate staff	508	522	230	231
	887	919	554	565

	Group		Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Staff costs for the above persons:				
Wages and salaries	19,459	19,231	12,743	12,663
Social security costs	1,622	1,579	1,100	1,083
Pension costs (note 33)	1,429	1,616	1,040	1,205
	22,510	22,426	14,883	14,951

Included in the above group costs is £1,703,000 (2006: £1,579,000) paid in respect of Hanover Property Management Limited estate based staff that is recharged to the relevant schemes

Notes to the financial statements

for the year ended 31 March 2007

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 2006 (restated)	447,380	4,507	11,994	463,881
Additions	9,905	-	38,312	48,217
Schemes completed	9,787	-	(9,787)	-
Disposals	(92)	(116)	-	(208)
At 31 March 2007	466,980	4,391	40,519	511,890
Social Housing Grant				
At 1 April 2006 (restated)	(202,685)	(2,906)	(5,308)	(210,899)
Receivable for year	-	-	(14,584)	(14,584)
Schemes completed	(1,020)	-	1,020	-
Disposals	-	-	-	-
At 31 March 2007	(203,705)	(2,906)	(18,872)	(225,483)
Other public grants				
At 1 April 2006 (restated)	(200)	-	(6,339)	(6,539)
Receivable for year	-	-	(19,299)	(19,299)
Schemes completed	(4,459)	-	4,459	-
Disposals	-	-	-	-
At 31 March 2007	(4,659)	-	(21,179)	(25,838)
Depreciation				
At 1 April 2006 (restated)	(33,693)	(38)	-	(33,731)
Charge for the year	(7,379)	-	-	(7,379)
Impairment	-	-	(183)	(183)
Disposals	7	-	-	7
At 31 March 2007	(41,065)	(38)	(183)	(41,286)
Net book value:				
At 31 March 2007	217,551	1,447	285	219,283
At 31 March 2006 (restated)	210,802	1,563	347	212,712

*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 £11,444,000, which was split between £9,905,000 that was capitalised and £1,539,000 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 £24,049,000 had been completed by 31 March 2007.

Notes to the financial statements

for the year ended 31 March 2007

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 2006	423,262	4,507	11,993	439,762
Additions	5,175	-	38,312	43,487
Schemes completed	9,787	-	(9,787)	-
Disposals	-	(116)	-	(116)
At 31 March 2007	438,224	4,391	40,518	483,133
Social Housing Grant				
At 1 April 2006	(202,685)	(2,906)	(5,308)	(210,899)
Receivable for year	-	-	(14,584)	(14,584)
Schemes completed	(1,020)	-	1,020	-
Disposals	-	-	-	-
At 31 March 2007	(203,705)	(2,906)	(18,872)	(225,483)
Other public grants				
At 1 April 2006	-	-	(6,339)	(6,339)
Receivable for year	-	-	(19,299)	(19,299)
Schemes completed	(4,459)	-	4,459	-
Disposals	-	-	-	-
At 31 March 2007	(4,459)	-	(21,179)	(25,638)
Depreciation				
At 1 April 2006	(32,525)	(38)	-	(32,563)
Charge for the year	(6,287)	-	-	(6,287)
Impairment loss	-	-	(183)	(183)
Disposals	-	-	-	-
At 31 March 2007	(38,812)	(38)	(183)	(39,033)
Net book value:				
At 31 March 2007	191,248	1,447	284	192,979
At 31 March 2006	188,052	1,563	346	189,961

* 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 £6,229,000, which was split between £5,175,000 that was capitalised and £1,054,000 that was charged to the income and expenditure account.

Notes to the financial statements

for the year ended 31 March 2007

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

	Group		Association	
	Restated			
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Completed housing and other properties comprise:				
Freeholds	191,489	185,013	165,858	162,714
Long leaseholds	11,275	11,072	10,403	10,421
Short leaseholds	17,336	17,511	17,096	17,235
	220,100	213,596	193,357	190,370

The total net book value, after deducting both accumulated depreciation and Social Housing Grant, of housing properties held under finance leases is £5,257,000 (2006: £5,275,000). Depreciation charged during the year on these assets was £119,000 (2006: £118,000).

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 £225,848,000 (2006: £219,750,000).

12 Other fixed assets

The Group	Scheme equipment	Leasehold/freehold office premises	Plant, machinery, fixtures and vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2006	10,358	1,886	9,069	21,313
Additions	1,515	33	356	1,904
Disposals	-	-	(6)	(6)
At 31 March 2007	11,873	1,919	9,419	23,211
Depreciation				
At 1 April 2006	(7,908)	(855)	(6,977)	(15,740)
Charge for year	(938)	(162)	(909)	(2,009)
Disposals	-	-	4	4
31 March 2007	(8,846)	(1,017)	(7,882)	(17,745)
Net book value:				
At 31 March 2007	3,027	902	1,537	5,466
At 31 March 2006	2,450	1,031	2,092	5,573

Notes to the financial statements

for the year ended 31 March 2007

12 Other fixed assets (continued)

The Association	Scheme equipment £'000	Leasehold/ freehold office premises £'000	Plant, machinery, fixtures and vehicles £'000	Total £'000
Cost				
At 1 April 2006	10,079	1,541	8,632	20,252
Additions	1,447	33	351	1,831
Disposals	-	-	(6)	(6)
At 31 March 2007	11,526	1,574	8,977	22,077
Depreciation				
At 1 April 2006	(7,864)	(786)	(6,641)	(15,291)
Charge for year	(868)	(126)	(861)	(1,855)
Disposals	-	-	4	4
At 31 March 2007	(8,732)	(912)	(7,498)	(17,142)
Net book value:				
At 31 March 2007	2,794	662	1,479	4,935
At 31 March 2006	2,215	755	1,991	4,961

13 Long term investments

	Group		Association	
	2007	Restated 2006	2007	2006
	£'000	£'000	£'000	£'000
Treasury Stock				
8 3/4% Treasury Stock 2017	653	694	653	694
8% Treasury Stock 2021	1,400	1,486	1,400	1,486
Bonds				
European Investment Bank	215	230	215	230
North British Housing Association	251	270	251	270
Northern Counties Housing Association	271	289	271	289
Bank investments				
Dexia	1,044	1,016	1,044	1,016
Investment properties	200	200	-	-
	4,034	4,185	3,834	3,985

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.

Notes to the financial statements

for the year ended 31 March 2007

14 Stock

	Group		Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Work in progress on properties held for outright sale	3,155	712	3,155	712
Completed properties held for outright sale	-	-	-	-
	3,155	712	3,155	712

15 Debtors

	Group		Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Amounts receivable within one year:				
Rent and service charge arrears	1,183	1,235	914	974
Less: bad debt provision	(342)	(363)	(216)	(227)
	841	872	698	747
Deferred service charge debtors	206	101	206	101
Social Housing Grant receivable	1,000	4,990	1,000	4,990
Amounts owed by group undertakings	-	-	980	1,157
Other debtors, prepayments and accrued income	6,253	3,415	5,873	2,886
	8,300	9,378	8,757	9,881
Amounts receivable after one year:				
Loans to subsidiary undertakings	-	-	3,331	2,481
Deferred service charge debtors	429	288	429	288
	429	288	3,760	2,769
Total debtors	8,729	9,666	12,517	12,650

16 Current asset investments

	Group		Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Short term deposits	184	422	-	-

Notes to the financial statements

for the year ended 31 March 2007

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	
	Restated		Restated	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Housing loans	4,484	1,075	4,484	1,075
Bank overdrafts	1,657	892	1,657	892
Finance leases	48	61	48	61
Trade creditors	3,453	1,738	3,252	1,605
Amounts owed to group undertakings	-	-	19	-
Social Housing Grant received in advance	-	8,452	-	8,452
Other public grants received in advance	-	6,555	-	6,555
Interest free loans	3,266	3,859	-	-
Other creditors including taxation	3,686	3,034	3,094	2,552
Accruals and deferred income	10,505	7,266	9,257	5,418
	27,099	32,932	21,811	26,610

19 Creditors: amounts falling due after more than one year

	Group		Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Housing loans	143,806	132,391	130,506	123,991
Tenancy nominations	13	11	13	11
Finance leases	7,496	7,516	7,496	7,516
	151,315	139,918	138,015	131,518
Recycled Capital Grant Fund (note 20)	365	399	365	399
Other long term creditors	1,780	1,782	1,780	1,782
	153,460	142,099	140,160	133,699

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.

Notes to the financial statements

for the year ended 31 March 2007

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

Housing loans from banks, building societies, local authorities and others comprises: £148,290,000 (2006: £133,466,000) secured by charges on housing properties and land and £nil (2006: £nil) that is unsecured. The loans are at varying rates of interest and repayable in instalments due as follows:

	Group		Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Between one and two years	2,446	2,158	2,446	2,158
Between two and five years	5,773	3,386	5,773	3,386
In five years or more	135,587	126,847	122,287	118,447
	143,806	132,391	130,506	123,991

At the year end, the group had loan and overdraft facilities arranged, but undrawn, of £43.5m and £2.5m respectively (2006: £61.2m and £2.5m). 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	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Within one year	48	61	48	61
Between two and five years	358	293	358	293
In five years or more	7,138	7,223	7,138	7,223
	7,544	7,577	7,544	7,577

20 Recycled capital grant fund

	Group		Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
At 1 April 2006	399	-	399	-
Grants recycled	-	382	-	382
Interest accrued	16	17	16	17
	415	399	415	399
Withdrawals:				
New build	(50)	-	(50)	-
Major repairs to existing stock	-	-	-	-
At 31 March 2007	365	399	365	399

Notes to the financial statements

for the year ended 31 March 2007

21 Provision for liabilities and charges

	The Group		The Association	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
At 1 April 2006	134	497	134	363
Provided in year	424	9	249	9
Released in year	-	(372)	-	(238)
At 31 March 2007	558	134	383	134

The provision at 31 March 2007 is for potential uninsured claims and insurance excesses totalling £134,000 (2006: £134,000), £249,000 in respect of a provision for pension liability at Care and Repair (Cheltenham) Limited underwritten by Hanover Housing Association and £175,000 relating to planned staff redundancies at Hanover in Hackney Limited.

22 Share capital

	2007	2006
	£	£
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 and 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	
	2007	Restated 2006	2007	Restated 2006
	£'000	£'000	£'000	£'000
At 1 April 2006	46,205	18,210	40,087	14,933
Prior year adjustment (note 36)	49	(8,658)	-	(8,350)
At 1 April 2006 (restated)	46,254	9,552	40,087	6,583
Surplus on ordinary activities after tax	3,068	3,475	3,243	195
Actuarial gain / (loss) on pension schemes	2,410	(1,190)	2,143	(1,200)
Transfer (to) / from restricted & designated reserves	(621)	34,417	60	34,509
At 31 March 2007	51,111	46,254	45,533	40,087

Notes to the financial statements

for the year ended 31 March 2007

24 Restricted reserves

	Special reserves £'000	Major repairs £'000	Renewals £'000	Total 2007 £'000	Total 2006 £'000
The Group					
At 1 April 2006	2,671	52	2	2,725	37,142
Transfer from / (to) income and expenditure account	673	(52)	-	621	(34,417)
At 31 March 2007	3,344	-	2	3,346	2,725
The Association					
At 1 April 2006	1,516	53	2	1,571	36,080
Transfer to income and expenditure account	(7)	(53)	-	(60)	(34,509)
At 31 March 2007	1,509	-	2	1,511	1,571

25 Investment revaluation reserve

	Group		Association	
	2007 £'000	Restated 2006 £'000	2007 £'000	2006 £'000
At 1 April 2006	539	639	539	486
Prior period adjustment (note 36)	153	-	-	-
At 1 April 2006 (restated)	692	639	539	486
(Decrease) / increase in long term investments	(179)	53	(179)	53
At 31 March 2007	513	692	360	539

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

Notes to the financial statements

for the year ended 31 March 2007

26 Notes on the consolidated cash flow statement

	2007	Restated
	£'000	2006
		£'000
Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	11,797	10,164
Pension charge	305	81
Depreciation and impairment	9,571	8,803
Change in stock	(2,443)	(712)
Change in debtors	(4,063)	553
Change in creditors	5,139	(1,755)
Change in provisions	424	(363)
Net cash inflow from operating activities	20,730	16,771
Analysis of cash flow headings:		
Returns on investment and service of finance		
Interest received	396	322
Interest paid	(10,134)	(9,846)
	(9,738)	(9,524)
Taxation		
UK corporation tax paid	(1)	(3)
Capital expenditure and financial investment		
Construction and purchase of housing properties	(48,217)	(26,706)
Purchase of other fixed assets	(1,904)	(1,900)
Social Housing Grant received	4,517	13,600
Other public grants received	19,299	9,039
Cost of disposal of fixed assets	(73)	(66)
Proceeds from sale of fixed assets	1,209	4,153
Net cash outflow from capital expenditure and financial investment	(25,169)	(1,880)
Management of liquid resources		
Decrease / (increase) in cash on short term deposit	238	(142)

Notes to the financial statements

for the year ended 31 March 2007

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

Financing

	2007 £'000	Restated 2006 £'000
Repayment of loans	(1,176)	(20,856)
New secured loans	16,000	15,280
New unsecured loans	-	-
Capital element of finance lease rental payments	(33)	(21)
Net cash inflow / (outflow) from financing	14,791	(5,597)

Reconciliation of net cash inflow to movement in net debt

Increase / (decrease) in cash in the year	851	(375)
Cash (inflow) / outflow from debt increase / decrease	(14,791)	5,597
Cash (inflow) / outflow from management of liquid resources	(238)	142
Change in net debt resulting from cash flows	(14,178)	5,364
Net debt at 1 April	(139,817)	(145,181)
Net debt at 31 March	(153,995)	(139,817)

Analysis of changes in net debt

	Restated At 1 April 2006 £'000	Cash flow £'000	Non Cash flow £'000	At 31 March 2007 £'000
Cash at bank and in hand	1,696	1,616	-	3,312
Bank overdraft	(892)	(765)	-	(1,657)
	804	851	-	1,655
Debt due after one year	(132,391)	(12,500)	1,085	(143,806)
Debt due within one year	(1,075)	(2,324)	(1,085)	(4,484)
Finance leases	(7,577)	33	-	(7,544)
Other liquid resources	422	(238)	-	184
	(139,817)	(14,178)	-	(153,995)

Notes to the financial statements

for the year ended 31 March 2007

27 Capital commitments

	Group		Association	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	69,226	48,246	69,028	47,916
Capital expenditure that has been authorised by the board but not yet contracted for	1,635	23,024	-	16,664

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 housing properties transferred from the London Borough of Hackney. Under the terms of that contract £24,049,000 (2006: £19,421,000) has been completed as at 31 March 2007, a further £198,000 (2006: £330,000) has been contracted for and £1,635,000 (2006: £5,273,000) 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
	2007 £'000	2007 £'000	2006 £'000	2006 £'000
The Group				
Leases expiring within one year	39	81	-	68
Leases expiring between one and five years	360	210	141	234
Leases expiring after five years	450	-	685	6
	849	291	826	308
The Association				
Leases expiring within one year	39	80	-	68
Leases expiring between one and five years	360	169	141	203
Leases expiring after five years	405	-	640	6
	804	249	781	277

Notes to the financial statements

for the year ended 31 March 2007

29 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 & 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 & 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.

30 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.

The Hanover Housing Association Charitable Trust:

HHA Board members form the Council of Management of the Trust.

31 Contingent liabilities

The association has performance guarantees with Barclays Bank for £10,779 (2006: £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.

Notes to the financial statements

for the year ended 31 March 2007

32 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.

33 Pension obligations

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

		2007	2006
		£000	£000
Surrey County Council Pension Fund	(Association)	(7,917)	(9,770)
London Borough of Hackney Pension Fund		(159)	(360)
Total pension liability	(Group)	(8,076)	(10,130)

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 2007.

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

	31 March 2007	31 March 2006	31 March 2005
	% per annum	% per annum	% per annum
Retail price inflation	3.2	3.1	2.9
Increases in salaries	4.7	4.6	4.4
Increases in pensions and deferred pensions	3.2	3.1	2.9
Discount rate	5.4	4.9	5.4

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations 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 2007 £m	Expected return 2007 %	Fair value 2006 £m	Expected return 2006 %	Fair value 2005 £m	Expected return 2005 %
Equities	1,266.9	7.8	1,192.6	7.4	923.9	7.7
Bonds	305.0	4.9	280.2	4.6	225.6	4.8
Property	106.9	5.8	90.0	5.5	74.4	5.7
Cash	33.0	4.9	26.9	4.6	25.5	4.8
Total	1,711.8	7.1	1,589.7	6.8	1,249.4	7.0
	(average)		(average)		(average)	

The net pension liability was:

	2007 £000	2006 £000	2005 £000
The fair value of the above assets related to HHA was	23,693	21,460	16,430
The value placed on the liabilities related to HHA was	(31,610)	(31,230)	(24,780)
The deficit related to HHA at 31 March was	(7,917)	(9,770)	(8,350)

Analysis of amount charged to operating surplus:

	2007 £000	2006 £000
Employer service cost	1,056	1,000
Past service cost	28	-
Curtailement cost	9	30
Total operating charge	1,093	1,030

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

	2007 £000	2006 £000
Expected return on employer assets	1,474	1,180
Interest on pension scheme liabilities	(1,554)	(1,360)
Net return	(80)	(180)

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations continued

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

	2007	2006
	£000	£000
Actual return less expected return on pension scheme assets	-	2,910
Experience gains and losses on liabilities	1	10
Changes in assumptions	2,142	(4,120)
Actuarial gain / (loss) on assets and liabilities	2,143	(1,200)

Movement in pension liability during the year:

	2007	2006
	£000	£000
Pension liability at the beginning of the year	(9,770)	(8,350)
Current service cost	(1,084)	(1,000)
Employer contributions	883	990
Curtailments	(9)	(30)
Net return on assets	(80)	(180)
Actuarial (losses)/gains	2,143	(1,200)
Pension liability at the end of the year	(7,917)	(9,770)

History of experience gains and losses in the year:

	31 March	31 March	31 March	31 March	31 March
	2007	2006	2005	2004	2003
	£000	£000	£000	£000	£000
Difference between expected and actual return on scheme assets:					
Amount	-	2,910	610	1,680	(3,200)
Percentage of scheme assets	0.0%	13.5%	3.7%	13.6%	(33.7)%
Experience gains and losses on pension liabilities:					
Amount	1	10	345	825	-
Percentage of the present value of pension liabilities	0.0%	0.0%	1.4%	3.9%	-
Amount recognised in statement of total recognised gains and losses:					
Amount	2,143	(1,200)	915	1,175	(5,600)
Percentage of the present value of pension liabilities	6.8%	(3.8)%	3.7%	5.6%	(29.5)%

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (*continued*)

Stakeholder Pension Schemes

Hanover Housing Group closed its defined benefit pension scheme to new employees on 30 June 2003. Employees joining from 1 July 2003 had 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.

With effect from 1 January 2007, new employees had the option of being admitted to a contributory defined contributions scheme with **Scottish Equitable** Stakeholder Pension Scheme and all employees in the Standard Life Stakeholder Pension Scheme were transferred to Scottish Equitable. 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 £211k for Standard Life and £91k for Scottish Equitable – total contributions £302k (2006: £315k).

No contributions in respect of these schemes were outstanding or prepaid at the balance sheet date.

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 Scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007. From April 2007 there are two benefit structures available. These are final salary with a 1/60th accrual rate and final salary with a 1/80th accrual rate. Participating employers must choose which benefit structure that they wish to offer to their employees.

Hanover Friends has decided to continue to offer the 1/60th accrual benefit structure to employees from 1 October 2007.

The Trustee commissions an actuarial valuation of the scheme every 3 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 29 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 2005 by a professionally qualified actuary using the "projected unit credit" method.

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (continued)

SVCO (continued)

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

	% pa
- Investment return pre retirement	6.10
- Investment return post retirement	4.80
- Rate of salary increases	4.00
- Rate of pension increases:	
for pensionable service pre 6 April 2005	2.50
for pensionable service post 5 April 2005	2.25
- Rate of price inflation	2.50

The market value of the scheme's assets at the valuation date was £33.2 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £6.7 million (equivalent to a past service funding level of 83%).

The long-term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary 1/60th accrual rate	20.0% comprising employer contributions of 13.0% and member contributions of 7.0%

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

In view of the past service shortfall it was agreed that the joint contribution rates shown in the table below would be payable with effect from 1 October 2007.

Benefit structure	Joint contribution rate (% of pensionable salaries)
Final salary 1/60th accrual rate	22.7% comprising employer contributions of 15.7% and member contributions of 7.0%

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. In the case of Hanover Friends this reduction applies until 30 September 2008.

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. Hanover Friends currently pays an age loading of 2.0% which is payable until 30 September 2008.

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%.

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 31 March 2022.

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (*continued*)

SVCO (*continued*)

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

A copy of the recovery plan has been sent to the Pensions Regulator. The Regulator had not issued his response to the recovery plan as at the date of the date of approval of these financial statements.

The next actuarial valuation of the Scheme will be carried out as at 30 September 2008. Actuarial reports will be prepared as at 30 September 2006 and 30 September 2007 in line with statutory regulations.

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 3 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 7 active members of the scheme employed by Hanover Friends. Hanover Friends has closed the scheme to new entrants.

During the accounting period Hanover Friends paid contributions at the rate of 10%.

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.

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (*continued*)

CARE (*continued*)

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

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

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 the 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 2007.

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

	31 March 2007	31 March 2006	31 March 2005
	% per annum	% per annum	% per annum
Retail price inflation	3.2	3.1	2.9
Increases in salaries	4.7	4.6	4.4
Increases in pensions and deferred pension	3.2	3.1	2.9
Discount rate	5.4	4.9	5.4

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (continued)

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 2007 £m	Expected return 2007 %	Fair value 2006 £m	Expected return 2006 %	Fair value 2005 £m	Expected return 2005 %
Equities	477.6	7.8	433.1	7.4	331.1	7.7
Property	91.5	5.8	78.4	5.5	66.4	5.7
Bonds	91.5	4.9	76.2	4.6	69.1	4.8
Cash	26.1	4.9	17.7	4.6	6.1	4.8
Total	671.7	7.1	605.4	6.7	472.7	7.0
		(average)		(average)		(average)

The net pension liability was:

	2007 £000	2006 £000	2005 £000
The fair value of the above assets related to HiH was	3,051	2,570	1,820
The value placed on the liabilities related to HiH was	(3,210)	(2,930)	(2,160)
The deficit related to HiH at 31 March was	(159)	(360)	(340)

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:

	2007 £000	2006 £000
Employer service cost	282	242
Past service cost	-	-
Curtailment cost	-	3
Total operating charge	282	245

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (*continued*)

London Borough of Hackney Pension Fund (*continued*)

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

	2007	2006
	£000	£000
Expected return on employer assets	180	135
Interest on pension scheme liabilities	(151)	(124)
Net return	29	11

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

	2007	2006
	£000	£000
Actual return less expected return on pension scheme assets	69	358
Experience gains and losses on liabilities	1	3
Changes in assumptions	197	(351)
Actuarial gain on assets and liabilities	267	10

Movement in pension liability during the year:

	2007	2006
	£000	£000
Pension liability at the beginning of the year	(360)	(340)
Current service cost	(282)	(242)
Employer contributions	187	204
Curtailments	-	(3)
Net return on assets	29	11
Actuarial gains	267	10
Pension liability at the end of the year	(159)	(360)

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (continued)

London Borough of Hackney Pension Fund (continued)

History of experience gains and losses in the year:

	31 March 2007 £000	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000
Difference between expected and actual return on scheme assets:				
Amount	69	358	82	528
Percentage of scheme assets	2.2%	13.9%	4.5%	12.3%
Experience gains and losses on pension liabilities:				
Amount	1	3	(43)	177
Percentage of the present value of pension liabilities	0.0%	0.1%	(2.0)%	3.8%
Amount recognised in statement of total recognised gains and losses:				
Amount	267	10	54	409
Percentage of the present value of pension liabilities	8.3%	0.3%	2.5%	8.7%

Social Housing Pension Scheme (SHPS)

Care and Repair (Cheltenham) Limited participates in the Social Housing Pension Scheme (SHPS). The scheme is funded and is contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

The scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007. From April 2007 there are three benefit structures available, namely:

- Final salary with a 1/60th accrual rate.
- Final salary with a 1/70th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Care and Repair (Cheltenham) Limited has elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 31 March 2007.

The Trustee commissions an actuarial valuation of the Scheme every 3 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, in respect of each benefit structure, so that the scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate

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.

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (continued)

Social Housing Pension Scheme (SHPS) (continued)

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 3 active members of the scheme employed by Care and Repair (Cheltenham) Limited. Care and Repair (Cheltenham) Limited 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 2005 by a professionally qualified actuary using the projected unit method. The market value of the scheme's assets at the valuation date was £1,278 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £283 million, equivalent to a past service funding level of 82%.

The scheme actuary has prepared an actuarial report that provides an approximate update on the funding position of the scheme as at 30 September 2006. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the scheme to £1,515 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £235 million, equivalent to a past service funding level of 87%. Annual funding updates of the SHPS are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the scheme since the last full valuation.

Since the contribution rates payable to the scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2005.

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

	% pa
- Investment return pre retirement	7.2
- Investment return post retirement	4.8
- Rate of salary increases to 30 September 2010	5.0
- Rate of salary increases from 1 October 2010	4.0
- Rate of pension increases	2.5
- Rate of price inflation	2.5

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (continued)

Social Housing Pension Scheme (SHPS) (continued)

The valuation was carried out using the PA92C2025 mortality table for non-pensioners and PA92C2013 mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

	Males	Females
	Assumed life expectancy in years at age 65	Assumed life expectancy in years at age 65
Non- pensioners	20.4	23.3
Pensioners	19.4	22.4

The long-term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	17.6
Final salary with a 1/70th accrual rate	15.3
Career average revalued earnings with a 1/60th accrual rate	14.1

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

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £283 million would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1 April 2007. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

With effect from 1 April 2007 the employer and employee contribution rates for Care and Repair (Cheltenham) Limited will be 11.7% and 6.1% of pensionable salaries respectively.

Employers that participate in the scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

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 30 September 2020.

Notes to the financial statements

for the year ended 31 March 2007

33 Pension obligations (*continued*)

Social Housing Pension Scheme (SHPS) (*continued*)

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SHPS and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2008. An Actuarial Report will be prepared as at 30 September 2007 in line with statutory regulations.

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. 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.

Care and Repair (Cheltenham) Limited has closed SHPS. Hanover Housing Association, has agreed to underwrite the debt in respect of this scheme. The Scheme Actuary has estimated the employer debt that would have been payable if Care and Repair (Cheltenham) Limited had withdrawn from the SHPS as at 30 September 2005 as £249,000; this amount has been provided in the accounts of Hanover Housing Association for the year-ended 31 March 2007.

Notes to the financial statements

for the year ended 31 March 2007

34 Housing stock in management

	2007	2007	2007	2006	2006	2006
	Managed by the Group	Managed by the Association	Managed by non- Group body	Managed by the Group	Managed by the Association	Managed by non- Group body
Owned by the Group:						
Designated housing for older people (sheltered housing)	10,442	9,610	-	10,576	9,743	-
Housing for older people, some special design features (Extra Care housing)	1,394	1,394	40	1,292	1,292	40
Supported housing	79	79	-	79	79	-
Total housing for older people and supported housing	11,915	11,083	40	11,947	11,114	40
Care bed spaces	-	-	162	-	-	163
General needs	170	170	-	170	170	-
Shared ownership/LSOP	217	-	-	222	-	-
Other leasehold	3,675	-	-	3,770	1	-
Other rented	-	-	-	1	1	2
Total owned and managed	15,977	11,253	202	16,110	11,286	205
Not owned by the Group:						
Non-Group rented	414	414	-	357	357	-
Associated organisations rented	258	258	-	258	258	-
Total rented	672	672	-	615	615	-
Non-Group leased	1,507	-	-	1,163	-	-
Total managed but not owned	2,179	672	-	1,778	615	-
Total accommodation in management	18,156	11,925	202	17,888	11,901	205

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

Notes to the financial statements

for the year ended 31 March 2007

35 Group results

	Hanover Housing Association £'000	Hanover in Hackney £'000	Hanover Friends £'000	Hanover Property Management Limited £'000	Care and Repair (Cheltenham) Limited £'000
2007					
Turnover	57,776	6,104	4,848	2,070	286
Operating surplus/(deficit)	11,808	442	(504)	(31)	(68)
(Deficit)/surplus on disposal of fixed assets	511	(16)	149	-	-
Net interest (payable)/receivable	(8,996)	(656)	(5)	36	12
Other finance (cost)/income	(80)	29	-	-	-
Surplus/(deficit) on ordinary activities before tax	3,243	(201)	(360)	5	(56)
Net assets	47,404	6,721	10,170	206	206
	number	number	number	number	number
Employee numbers (FTE)	545	53	124	157	8
	£'000	£'000	£'000	£'000	£'000
2006 - Restated					
Turnover	53,411	5,762	4,803	1,842	297
Operating surplus/(deficit)	9,797	741	(577)	(24)	89
Surplus on sale 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

Notes to the financial statements

for the year ended 31 March 2007

36 Prior year adjustments

The valuation at which each individual housing property owned by Hanover Friends was recorded in the charity's accounting records was not split between land and buildings. Consequently, freehold land has been incorrectly depreciated in previous years. During the year Hanover Friends has undertaken an exercise to apportion the original housing properties' valuations between freehold land and buildings. Depreciation charges and disposals have been recalculated. The effect of this prior period adjustment is to have reduced accumulated depreciation and increased net assets by £49,000 (2006: £32,000). This is represented by an increase in the accumulated reserves of £49,000 (2006: £32,000).

One of Hanover Friends' properties had been incorrectly included in housing properties but has been reclassified as an investment property and accounted for in accordance with SSAP 19 "Investment properties". The effect of this prior year adjustment is that the property is included with long term investments at its open market value of £200,000 rather than its historic cost net book value of £47,000. The net increase in net assets is represented by an equivalent increase in the investment revaluation reserve of £153,000.

In the year ended 31 March 2006, prior period year adjustments were made in respect of the introduction of FRS 17 and the resulting requirement to recognise pension liabilities on the balance sheet, which resulted in a reduction in opening group reserves of £8,690k and £8,350k in HHA's reserves.

37 Transfer of engagement

On 24 January 2007, Care and Repair in Bath and North East Somerset Limited (an Industrial & Provident Society) had a special resolution for transfer of engagements to Hanover Housing Association under the Industrial & Provident Societies Act 1965 registered by the Financial Services Authority. This transfer included fixed assets with a book value of £1,765, which were fair valued at £nil, and net current assets with a book, and fair value, of £101,598. The current assets included £107,592 of cash, which was brought into Hanover Housing Association's accounts as income because the carrying forward of negative goodwill would not be justified in these circumstances.