

Financial Statements Key Housing Association Limited

For the year ended 31 March 2014

Contents

Legal and Administrative details:	1
Report of the Management Committee	2 - 11
Report of the Independent Auditors:	12
Consolidated Income and Expenditure Account:	13
Society Income and Expenditure Account:	14
Reconciliation of movements in Group's and Society's funds:	15
Consolidated Balance Sheet:	16
Balance Sheet	17
Consolidated Cash Flow Statement:	18
Cash Flow Statement:	19
Notes to the Financial Statements	20-40

Legal and administrative details

Scottish Charity registration number:	SC006652
Financial Conduct Authority registration number:	1938R (S)
Scottish Housing Regulator registration number:	HEP141
Registered office:	70 Renton Street Glasgow G4 0HT
Committee members:	Joanna Pearson (Chairperson) William Mooney (Vice Chairperson) Sandra Blair (Vice Chairperson) Angus Turner (Secretary) Gillian Anderson Anne Finnegan Margot Duggan Duncan Sim David Meechan David Le Sage Alex Davidson John Paterson
Chief Executive:	M Matheson
Secretary:	A Turner
Bankers:	Clydesdale Bank plc 120 Bath Street Glasgow, G2 2EN Bank of Scotland plc 55 Bath Street Glasgow, G2 2DJ
Solicitors:	BTO Solicitors 48 St Vincent Street Glasgow, G2 5HS Naftalin Duncan & Co 534 Sauchiehall Street Glasgow, G2 3LX
External Auditors:	Grant Thornton UK LLP Chartered Accountants Registered Auditors 4 Hardman Square Spinningfields Manchester, M3 3EB
Internal Auditors:	Chiene and Tait 61 Dublin Street Edinburgh EH3 6NL

Report of the management committee

The Management Committee has pleasure in presenting its report together with the audited consolidated financial statements for the year ended 31 March 2014.

Structure, Governance and Management

Background

Key Housing Association Limited (hereafter referred to as "Society") is a registered housing association incorporated under the Industrial and Provident Societies Act 1965, which provides housing and support to adults with learning disabilities. The group refers to Key Housing Association Limited (KEY), Community Lifestyles Limited (Community Lifestyles) and KHA Developments Limited (KHA).

Community Lifestyles provides individualised home and community support services to adults with learning disabilities mainly in housing not provided by the Society. Support services provided by Key and Community Lifestyles are funded through contracts with local authorities. Community Lifestyles is a registered charity and is limited by guarantee. It remains under common control of Key Housing Association Limited.

KHA was incorporated on 24 November 2011. The principal activity of KHA is the redevelopment of housing which is used for the support of adults with learning disabilities. KHA is a limited company. It remains under common control of Key Housing Association Limited.

Membership

The Management Committee members at 31 March 2014 were Joanna Pearson (Chairperson), William Mooney (Vice Chairperson), Sandra Blair (Vice Chairperson), Angus Turner (Secretary), Gillian Anderson, Anne Finnegan, Margot Duggan, Duncan Sim, David Meechan, David Le Sage, Alex Davidson and John Paterson. All the Management Committee hold a £1 share in the Society.

Employee issues

The Society has an equal opportunities policy which seeks to ensure that, in its role as employer, landlord and service provider, it does not discriminate against people on the grounds of sex, marital status, religion, sexual orientation, age, disability, colour, race, nationality or ethnic or national origins.

In respect of health and safety and welfare at work, the Society has a health and safety policy and a training programme covering a comprehensive range of relevant health and safety issues, including emergency aid and moving and handling. The Society has a full-time health and safety officer as well as a health and safety committee for all office based health and safety issues.

In employee relations, the Society recognises Trade Union representation for support service based and office based employees and senior management meet regularly with Union representatives to discuss, and where appropriate negotiate, relevant matters relating to the activities of the Society.

Objectives and activities

The Society's Management Committee agrees objectives and strategies for the Society normally within a 3-year strategic plan timescale. The strategic plan incorporates the long term funding of the Society. In the course of the year a revised Strategic Plan for the period to 2016 was adopted.

The Society operates a policy manual which is reviewed and updated on an annual basis. Areas of policy include committee control and responsibility, housing management, maintenance, development, finance and HR. These include the following specific policies:

Governance - Committee Control and Accountability – Standing Orders and Code of Conduct, Policy on Gifts and Hospitality, Policy on Payments, Benefits and Corporate Accountability, Policy on Disclosure of Interest, Policy for Payment of Committee Member Expenses, Delegation of Authority from the

Report of the management committee (continued)

Management Committee, Complaints Procedure, Training Policy, Membership Policy, Risk Management Strategy, Equal Opportunities Policy, Participation Policy, Health and Safety Policy, , Whistleblowing, Openness & Confidentiality, Sustainability, Information and Communication .Technologies, IT Strategy, Data Protection, Insurances, Anti-fraud and Corruption, Media Guidelines, Performance Measurements and Business Continuity Planning.

Housing Management – Allocations Policies, Rent Policy, Arrears Policy, Estate Management Policy, Harassment Policy, Voids Management Policy, Recovery of Charges, Sub-letting, Lodgers, Assignment, Charging for Services, Legal Action, Abandonment, Furnished Lets and Anti-social Behaviour.

Maintenance – Maintenance Standards, Tenant feedback on repairs and maintenance, Monitoring of Emergency Repairs and Pre and post inspections.

Development – Development Procurement, CDM Regulations and Building Defects.

Finance – Treasury Management Policy, Internal Audit, Charging for Services, Reserves and Purchasing and Procurement.

Human Resources – Training, Staff Retirals, Criminal Convictions, Salaries, Support through Illness, Staff Welfare, No Smoking, Redundancy and Grievance Policy.

The treasury management policy aims to ensure that the Society's funds are safeguarded and wisely invested, and that loan finance is negotiated within parameters agreed by the Management Committee.

The Society's rent policy aims to achieve a committed rental income that enables the Society to offer a high quality management and maintenance service to all tenants. The policy ensures that rents are viable, affordable and sustainable in the local housing context.

The long-term stock maintenance and repair policy aims to maintain a cost effective, responsive and reactive repair service to all tenants within the parameters of a 10 year strategic and 3 year implementation programme for planned and major repairs. This is within a longer term 60 year major repair profile and links with the reserve policy to ensure that sufficient reserves are in place to meet these future costs.

Achievements and performance

During the year to 31 March 2014 there was a continuation of the previous year's pattern of funding restrictions, with limited inflationary increases in funding levels from local authorities, and continuing downward pressure on our support service costs.

The funding of public services, including social care, continues to be seriously affected by ongoing constraints within the public finances in the UK, and in particular the restrictions on local authority spending at a time of increasing need for social care services.

Local authorities continue to base their activities on planning assumptions for the period to, at least, 2015 projecting an increasing gap between available resources (which will reduce) and need (which will increase).

During the year a number of local authorities required cuts in spending on social care, and KEY responded as positively as possible while retaining integrity in our support services. In the course of the year preparations for the introduction of the Self Directed Support Act were taking place across every local authority area, heralding a major change in the way that social care is provided in Scotland. KEY's Strategic Plan has for some years anticipated this and preparations have been underway to ensure that our

Report of the management committee (continued)

support and our back up systems are congruent with people having greater control over their support and its funding.

Our Strategic Plan recognises that the challenge for KEY is to tap into the non-financial resources that exist throughout our communities and to focus directly on the quality of life outcomes for the people we support. KEY has had many years of experience in doing this, and in connecting with local communities to enhance the opportunities for those we support to have enriched lives beyond formal social care.

We have continued to work closely with a number of local authorities on increasingly individualised approaches to support, and see this as a very positive commitment to ensuring people who need support can have as much control and choice as possible. We will continue to focus on making sure that our support helps people to have a good life, regardless of whether the person we support is funding directly or whether the funding is through a local authority.

The introduction of self-directed support in a whole systems approach to changing social care occurred in two local authority areas where KEY supports a substantial number of people (Glasgow and North Lanarkshire). These processes were partly to release funds for new demand, and partly to effect savings for the Councils. While there was some reduction in the support levels provided, new support arrangements were also commissioned. In the year to 31 March 2013 there was an increase in support hours provided in Glasgow of 4.12% and a small decrease in the year to 31 March 2014 of 1.6%. In North Lanarkshire a small decrease of 4.89% in 2013 turned into a large increase of 15.9% in the year to 31 March 2014. The overall position across KEY for the year to 31 March 2014 was an increase in support hours provided of 4.52% (1940 hours per week), compared to an increase of 2.53% (1,056 hours per week) for the previous year. This is a relatively strong performance against a backdrop of funding cuts and the implementation of SDS affecting a substantial proportion of the people we support.

At 31 March 2014, KEY supported 1,312 people in 14 local authority areas. In the course of the year, new support arrangements were established for 177 people. This compared to 130 new arrangements in the previous financial year. The overall level of support provided (hours per week) at 31 March 2014 was 44,882, an increase from the March 2013 level of 42,882 hours.

In the course of the year, a focus on staff training was maintained. KEY continued to develop its work as an accredited SVQ centre, to progress accreditation in accordance with the requirements of the Scottish Social Services Council. At 31st March 2014, KEY employed 1647 contracted staff (311 full time and 1336 part time) and on average a further 400 on a relief basis. This compares to 1557 contracted staff (315 full time and 1242 part time) and on average a further 400 on a relief basis as at 31 March 2013.

KEY also continued with an ambitious programme of sub-division of shared housing, and accessing alternative housing for people when required, and was successful in obtaining funding from the Scottish Government in the course of the year. Work was completed at the housing at Stranraer, where 7 flats, including fully accessible short stay accommodation, were created, and also at Weir Street in Coatbridge, where 2 larger properties were subdivided into 4 flats. Planning work was progressed on remodelling work to housing at Clark Street, Stirling during the year.

The reduction in the burden of tendering that was a feature of 2012/13 continued, with a greater use of framework agreements in line with government guidance, and the introduction of self-directed support in some areas.

With the overall transfer to reserves of £987,836 for the year the reserves of the Group total £19,878,226 as at 31 March 2014. KEY's reserves were increased by £608,351 to a total of £14,881,392 as at 31 March 2014.

Report of the management committee (continued)

Community Lifestyles has continued to focus its work in Glasgow, providing highly individualised support to people with often very complex needs. The net income for the year to 31 March 2014 for Community Lifestyles Ltd was £379,392 (2013 £471,740). Community Lifestyles Ltd has reserves of £4,996,714 as at 31 March 2014.

Community Lifestyles was affected in a similar way to KEY by the implementation of Self Directed Support (SDS) by Glasgow City Council. After a substantial reduction in hours of support provided in the year to 31 March 2012, (a total reduction of 1,721 hours per week over the year), there was an increase in the year to 31 March 2013 of 462 hours per week provided, and in the year to 31 March a further increase of 710 hours per week. New support arrangements were developed for 77 people, an increase over the previous year's figure of 35 people.

This was the second full year of operation of KHA Developments Ltd which took forward the planned remodelling of the shared flats at Coatbridge. Total turnover for the year was £497,921 with operating costs of £497,828.

The works at the new offices in Renton Street, Glasgow were completed in June 2013 and staff moved in shortly thereafter.

Value for money

Over the past 3 years, we have taken forward a number of initiatives to improve value for money from services and goods purchased, and in our support service activity. The context has been the downward pressure on our funding from local authorities for support services, both in the form of funding standstills or cuts and also reductions in the level of support for individuals, and we have been reviewing our central costs and service management costs in the light of these funding changes. An underlying element to this has been the salary freeze that started in 2009 and continued during 2012/13, ending on 1 April 2013 with a small 1% increase in salaries.

The main elements of these initiatives are described below:

Central services and costs

We undertake regular review of our main cost centres, such as telecomms, insurance, cleaning services, printing and stationary. We are in the third year of significant savings on telephone costs, and took forward a tendering exercise towards the end of 2013/14 for our insurance services, following a tendering exercise 3 years ago which effected significant savings. The 2014 tender exercise resulted in a reduction of 16% in insurance premiums across the Group. Supplier review of printing and stationary has also contributed savings. In overall terms, and excluding a one off cost related to the Savoy Tower lease, non-staffing management costs in 2013/14 were 4% higher than in 2012/13 reflecting inflationary increases to cost, some additional one off costs in respect of the office move and reflecting an overall increase to the level of activity.

We finalised a trial of epapers for Board and Committee meetings, equipping members with tablet devices, and rolled this out to all Board members (KEY and Community Lifestyles) for all meetings in 2013/14, with significant savings in paper, printing and administration costs.

Head office costs

With completion of work to our new head office premises in Glasgow, and the expiry of the Savoy Tower lease in January 2014, we have seen a reduction in costs associated with leasing premises.

Report of the management committee (continued)

Support service activity

We have continued to reduce staff replacement costs related to training by developing more localised training facilities, and by developing e-learning for a number of core courses. We worked with an external e-learning provider Aurion, to create our first practice based e-module. This module will be used prior to employment for relief register and contracted staff and will be supplemented with e-modules relating to safe handling and emergency aid. These modules will replace the one-day taught course currently being delivered to relief register staff. As well as making significant savings, with over £13,000 spent last year on Relief Register salary costs alone, this will also be a useful pre-employment module for contracted staff. It is expected that we will start using these induction modules from April.2014 As well as creating this module, Aurion also provided capacity-building training to help trainers become more confident in designing e-modules. It is anticipated that e-learning will figure more prominently over the next few years and this will be a useful addition to the range of training and development approaches currently used including taught training, workbooks, coaching and mentoring. Work is underway to prioritise topics for conversion into e-learning formats..

In our support service management we have continued to rationalise management structures where appropriate, ensuring the maintenance of an appropriate quality of management input. In the course of the year we reorganised management structures in Falkirk and Dumfries, expanding the remits for experienced managers to allow non-replacement of a retiring or promoted manager. In the previous three years we have reorganised management structures to an area basis in Glasgow, Inverness, Easter Ross, East and West Dunbartonshire, and North Ayrshire.

These efficiencies have been focused on enabling further growth within existing management structures and resources, and in the course of the year we increased the number of people we support across Scotland by 74, compared to the previous year's figure of 77, and support hours provided by 1,940 (previous year 1,056).

Internal financial control

The Committee is responsible for keeping proper books of accounts with respect to the group's transactions and its assets and liabilities, and for maintaining a satisfactory system of control over the group's books of account and transactions. The Committee is also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

It is the Committee's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. The systems are in the process of review, but key elements are in place at the moment:

- i formal policies and procedures to restrict the unauthorised use of the Society's assets
- ii experienced and suitably qualified staff take responsibility for important business functions
- iii forecasts and budgets are prepared which allow the Committee and management to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term. Managements accounts are prepared and significant variances from budget are investigated as appropriate.

Report of the management committee (continued)

- iv major business risks and the financial implications are identified and monitored
- v all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures by the Management Committee
- vi the appointment by the Management Committee of internal auditors to carry out a programme of internal audit of the Society's policies and control systems.
- vii the Management Committee review reports from management, internal and external auditors to provide reasonable assurance that the control procedures in place are being followed.

The Management Committee has reviewed the effectiveness of the system of internal controls in existence in the Society for the year ended 31 March 2014. In the opinion of the Committee, no weaknesses were found in the internal controls which would result in material loss, contingencies, or uncertainties requiring disclosure in the financial statements.

Financial review

The group generated an operating surplus of £943,831 (2013: £1,419,271) for the year ending 31 March 2014 and a surplus after interest of £987,836 (2013: £1,519,461).

KEY generated an operating surplus of £617,253 (2013: £1,014,752) and a surplus after interest of £608,351 (2013: £1,047,696).

Reserves

In line with recommended practice, the reserves which had been previously designated for specific purposes will no longer be disclosed separately and have been released to the revenue reserve during the year. These included reserves for major repairs and future training commitments as well as other smaller reserves. The Group and KEY will continue to internally monitor these sums but they will no longer be separately disclosed in the financial statements.

Going concern

After making enquiries, the Management Committee has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. The Management Committee receive regular cash flow and financial reports during the year to enable an informed assessment to be made. For this reason, it continues to adopt the going concern basis in the financial statements.

Plans for future periods

In the course of the year, the Management Committee approved revised Strategic Plans for the period to 2016 for Housing and Support activities. The Plans included assessment of the current operating environment, and associated risks and opportunities, with Risk Registers included for Housing and Support activities which detail the main risks and actions being taken to mitigate these risks.

The main objectives for KEY Housing Association for the next three years in its support activity remain similar to the previous Plan, and are as follows;

Objective 1

Flexible individual support services that meets people's desired outcomes and gives people as much control as possible over their life.

Report of the management committee (continued)

Objective 2

Stability, vision and commitment in the governance of KEY.

Objective 3

Support services that are cost effective, fully funded and delivered in response to variety of procurement arrangements.

Objective 4

A skilled, committed, creative and qualified workforce focused on delivering outcome focused support.

Objective 5

Central services that are responsive to requirements of personalised and self directed individual services.

Objective 6

Support services that promote inclusion, participation and build both personal and community capacity.

For each Objective there is a range of Strategies and Targets detailing how the Objectives are to be achieved, with timescales. One of the most important drivers of the strategies is the public policy direction of increasing personalisation of social care, embodied in the Self Directed Support Act. All of KEY's strategies are aligned to this, while recognising that it is a 10 year programme of public policy change and that competence and effectiveness in the existing social care procurement, funding and quality control environment must be maintained and developed as well as competence in the development of increasingly personalised services.

For KEY's Housing activity, the Housing Strategic Plan reflects the following objectives;

Objective 1

To achieve a housing service that meets individual needs and enables housing choice.

Objective 2

To achieve a housing service that provides housing that is well managed and maintained, and is desirable accommodation in the short and long term.

Objective 3

To achieve a housing service that is adequately funded.

As with the Support Services Strategic Plan, each Housing Objective has a range of Strategies and Targets.

Progress against targets for both Plans will be considered by the Management Committee on an annual basis.

The introduction of pension auto enrolment will be a significant development for Community Lifestyles, where pension take-up to date has been low, and plans are well advanced for both the administration of this and the financial implications, which have been incorporated in financial planning.

Report of the management committee (continued)

Principal risks and uncertainties

The Society is committed to ensuring that it responds to, and manages, any challenges that may impact on the organisation. The Society recognises that a certain amount of risk is inevitable if the organisation is to achieve its priorities. A risk management framework is in place to assist with taking informed decisions regarding the risks that impact on the Society's priorities, whether Strategic or Operational.

Principle risks identified through the Society's strategic risk register which have the potential to seriously affect the performance, future prospects or reputation of the Society are detailed below along with mitigating actions being taken by the Society.

For Support activity:

Risks	Actions to Mitigate
Losing services/not winning tenders/missing tender opportunities	Having sufficient staff resources to progress tender processes, and a co-ordinated approach to tender submissions. Regular review of service costs/profile and planning to adjust costs where required (including management structures and time). Registered with Public Contracts Scotland tender notification service.
Funding cuts - Costs driven to below acceptable quality threshold. Not being able to assure quality.	Regular operational reviews. Development and implementation of EFQM framework. Information flow through supervision and worker meetings. Comprehensive training programme/ Team training, Cascade briefings and staff newsletters. Supportive management, with regular professional supervision. Comprehensive policies, procedures and training. Serious incident reporting system and follow up. Access to independent counselling through ECS. BSS training when required. Introduction to Practice and managers' courses for all workers, and team training, seek to promote consistency in standards. Codes of Conduct distributed to all workers and used as a basis for initial and ongoing professional development.
Pension scheme deficit grows; or loss of income inhibits capacity to meet deficit	Build reserves and revalue assets to meet future liability

Other areas of inherent risk that are being given particular focus in our strategic priorities are;

- 1 Ensuring we are prepared for personalisation
- 2 Ensuring our cost base is affordable to purchasers
- 3 Ensuring our policies and practices for health and safety, and guarding against abuse, are adequate
- 4 Ensuring our IT systems are adequate to our current and future needs.

Report of the management committee (continued)

For Housing activity:

In our Housing activity, the main risk areas relate to the introduction of the Social Housing Charter, and new and related reporting requirements from the Scottish Housing Regulator, with which we must ensure compliance, and the introduction of welfare reforms.

The main risks and actions to mitigate these are as follows;

Risks	Actions to mitigate
Poor satisfaction rating from tenants on quality of service received	Regular tenant satisfaction survey in place to ensure KEY is meeting needs of tenants and responding to issues which arise. Overall focus on tenant satisfaction in all activity
Failure to meet requirements of Social Housing Charter and associated reporting requirements	Reporting requirements were captured for April 2013 in preparation for 2014 commencement
Income eroded due to impact of impending welfare reform changes	Active involvement in gathering information on proposed changes and working group set up to co-ordinate response across KEY.
Failure to meet requirements of SHR	Committee review of compliance against SHR Regulatory Framework

Pensions related risks

There are two areas of additional and ongoing costs that arise in 2014/15 and which will grow in extent over the ensuing 5 years. The first arises from the duty on employers to auto-enrol staff into a pension scheme. These costs have been assessed and included in the 5 year financial projections. They are considered to be containable within these projections, but will feature in funding discussions with local authorities and in setting rates for tenders, SDS rates and other support activities, as well as in rent setting.

The second relates to KEY's contribution to the SHAPS scheme deficit, which is a long term cost and which is due to rise very significantly in 2014/15. The level of this payment has yet (July 2014) to be finalised with SHAPS, and the increase will be from £737,000 to a figure between £1.2M and £1.93M.

It is anticipated that this uncertainty will be resolved during 2014, but until then, there is a large measure of uncertainty about our financial projections, and a number of important decisions are being held in abeyance until the payment level is finalised. The Committee has taken a number of steps to mitigate the risks associated with this issue. As from 1 June 2013, KEY moved all of its staff who were in the Defined Benefit (CARE 120th) scheme to the SHAPS Defined Contribution Scheme, thus limiting the liability to past service deficit. Secondly, KEY appointed legal and financial advisers to assist in its dealings with SHAPS over the deficit. Thirdly, as detailed above, the Society has deferred a number of important decisions until the uncertainty over the level of contribution to the deficit is resolved.

Report of the management committee (continued)

The SHAPS pension deficit is revised on a 3 yearly basis following the scheme's triennial valuation. The next such valuation is due in 2015, effective from April 2017. The interim report of scheme funding in 2013 suggested that the position in relation to scheme assets has improved and that the overall scheme deficit has reduced by approx 10%. However, this will not affect deficit contribution levels over the next 3 years.

Statement of the Management Committee's Responsibilities

The Management Committee is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 legislation in the United Kingdom and registered social housing legislation requires the Management Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and group at the end of the year and of the surplus or deficit of the society for the year then ended.

In preparing those financial statements the committee of management is required to:

- select suitable accounting policies and apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material 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 Society will continue in business.

The Management Committee is responsible for keeping and maintaining a satisfactory system of control over proper accounting records which disclose with reasonable accuracy at any time the financial position of the RSL and group, and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2012. The Management Committee is also responsible safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Committee confirm that:

- so far as each committee member is aware, there is no relevant audit information of which the Society's auditors are unaware; and
- the members of the Management Committee have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

Auditors

A resolution to reappoint Grant Thornton UK LLP as auditors of the Society will be proposed at the Annual General Meeting to be held on 16 September 2014.

Approved by the Management Committee and signed on behalf of the Committee.



Angus Turner

Secretary

20 August 2014

Independent auditor's report to the members of Key Housing Association Limited

We have audited the financial statements of Key Housing Association Limited for the year ended 31 March 2014 which comprise the group and Society income and expenditure accounts, the group and Society reconciliations of movements in funds, the group and Society balance sheets, the group and Society cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with regulations made under Sections 87 and 98(7) of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and the auditor

As explained more fully in the Statement of Management Committee's Responsibilities set out on page 11, the Management Committee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group and parent Society's affairs as at 31 March 2014 and of the group and Society's income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Registered Social Landlord's Determination of Accounting Requirements 2012.

Matters on which we are required to report by exception

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

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



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

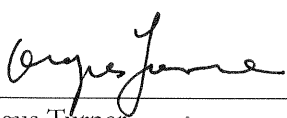
Date: 1 September 2014

Consolidated income and expenditure account


	Notes	2014 £	2013 £
Turnover	1a	51,043,484	49,188,068
Operating costs	1a	<u>(50,099,653)</u>	<u>(47,768,797)</u>
Operating surplus		943,831	1,419,271
Interest receivable	7	149,190	210,880
Interest payable	7	<u>(105,185)</u>	<u>(110,690)</u>
Surplus for the year	4	<u>987,836</u>	<u>1,519,461</u>

These financial statements were approved by the Management Committee on 20 August 2014.

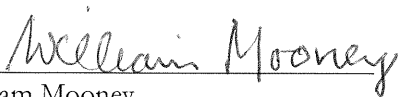
Signed on behalf of the Management Committee



Angus Turner Secretary



John Paterson Committee Member



William Mooney Vice Chairperson

There were no material recognised gains or losses for either year, other than the surplus above.

The results for the year relate wholly to continuing activities.

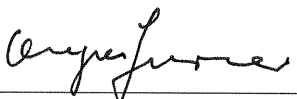
The accompanying accounting policies and notes form an integral part of these financial statements.

Society income and expenditure account

	Notes	2014 £	2013 £
Turnover	1b	39,918,794	38,928,694
Operating costs	1b	<u>(39,301,541)</u>	<u>(37,913,942)</u>
Operating surplus		617,253	1,014,752
Interest receivable	7	96,283	143,634
Interest payable	7	<u>(105,185)</u>	<u>(110,690)</u>
Surplus for the year	4	<u>608,351</u>	<u>1,047,696</u>

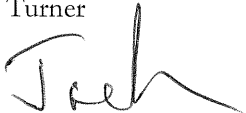
These financial statements were approved by the Management Committee on 20 August 2014.

Signed on behalf of the Management Committee



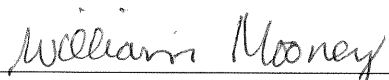
Angus Turner

Secretary



John Paterson

Committee Member



William Mooney

Vice Chairperson

There were no material recognised gains or losses for either year, other than the surplus above.

The results for the year relate wholly to continuing activities.

The accompanying accounting policies and notes form an integral part of these financial statements.

Reconciliation of movements in Group's and Society's funds

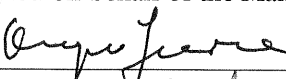
	Consolidated		The Society	
	2014 £	2013 £	2014 £	2013 £
Opening funds	18,890,390	17,370,929	14,273,041	13,225,345
Total recognised surpluses relating to the year	987,836	1,519,461	608,351	1,047,696
Closing funds	<u>19,878,226</u>	<u>18,890,390</u>	<u>14,881,392</u>	<u>14,273,041</u>

Consolidated balance sheet

	Notes	2014 £	2013 (Restated – see Note 9) £
Tangible Fixed Assets			
Housing properties less depreciation	9	42,210,952	41,832,506
Less: HAG & other grants	9	(32,473,673)	(32,417,287)
		<u>9,737,279</u>	<u>9,415,219</u>
Other fixed assets	10a	2,866,960	2,065,846
		<u>12,604,239</u>	<u>11,481,065</u>
Current Assets			
Investments	11	579,094	552,182
Debtors	12	5,391,635	4,491,710
Cash at bank and in hand		<u>7,867,163</u>	<u>8,937,349</u>
		<u>13,837,892</u>	<u>13,981,241</u>
Creditors: amounts falling due within one year	13	<u>(4,556,308)</u>	<u>(4,294,301)</u>
Net current assets		<u>9,281,584</u>	<u>9,686,940</u>
Total assets less current liabilities		<u>21,885,823</u>	<u>21,168,005</u>
Creditors: amounts falling due after one year	14	<u>(1,857,597)</u>	<u>(1,999,337)</u>
Provisions for liabilities	15	<u>(150,000)</u>	<u>(278,278)</u>
Net assets		<u><u>19,878,226</u></u>	<u><u>18,890,390</u></u>
Capital and Reserves			
Designated reserves	17a	-	5,962,065
Revenue reserves	18	<u>19,878,226</u>	<u>12,928,325</u>
	19	<u><u>19,878,226</u></u>	<u><u>18,890,390</u></u>

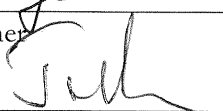
These financial statements were approved by the Management Committee on 20 August 2014.

Signed on behalf of the Management Committee



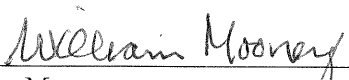
Angus Turner

Secretary



John Paterson

Committee Member



William Mooney

Vice Chairperson

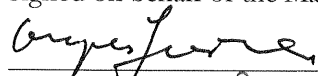
The accompanying accounting policies and notes form an integral part of these financial statements.

Balance sheet

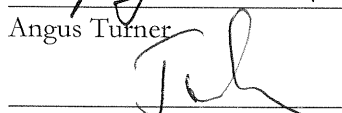
		2014 £	2013 (Restated – see Note 9) £
	Notes		
Tangible Fixed Assets			
Housing properties less depreciation	9	42,210,952	41,832,506
Less: HAG & other grants	9	(32,473,673)	(32,417,287)
		<u>9,737,279</u>	<u>9,415,219</u>
Other fixed assets	10b	2,819,666	2,032,619
		<u>12,556,945</u>	<u>11,447,838</u>
Current Assets			
Investments	11	579,094	552,182
Debtors	12	4,109,045	3,422,798
Cash at bank and in hand		<u>3,438,865</u>	<u>4,555,546</u>
		<u>8,127,004</u>	<u>8,530,526</u>
Creditors: amounts falling due within one year	13	<u>(3,794,960)</u>	<u>(3,427,708)</u>
Net current assets		<u>4,332,044</u>	<u>5,102,818</u>
Total assets less current liabilities		16,888,989	16,550,656
Creditors: amounts falling due after one year	14	(1,857,597)	(1,999,337)
Provisions for liabilities	15	<u>(150,000)</u>	<u>(278,278)</u>
Net assets		<u>14,881,392</u>	<u>14,273,041</u>
Capital and Reserves			
Designated reserves	17b	-	4,611,228
Revenue reserves	18	<u>14,881,392</u>	<u>9,661,813</u>
	19	<u>14,881,392</u>	<u>14,273,041</u>

These financial statements were approved by the Management Committee on 20 August 2014.

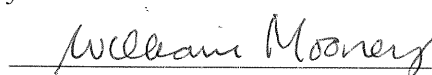
Signed on behalf of the Management Committee


Angus Turner

Secretary


John Paterson

Committee Member


William Mooney

Vice Chairperson

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated cash flow statement

	Notes	2014 £	2014 £	2013 £	2013 £
Net cash inflow from operating activities	20a		708,756		2,357,925
Returns on investments and servicing of finance					
Interest received		149,190		210,880	
Interest paid		(105,185)		(110,690)	
Net cash inflow from investments and servicing of finance			44,005		100,190
Capital expenditure					
Acquisitions and construction of housing properties		(989,593)		(1,569,773)	
Payment to acquire other fixed assets		(993,348)		(588,000)	
Sale of fixed assets		6,300		14,300	
Capital grants received		315,069		518,593	
Net cash outflow from capital expenditure			(1,661,572)		(1,624,880)
Purchase of current asset investments			(26,912)		(40,002)
Financing					
Loans repaid		(134,463)		(126,653)	
Net cash outflow from financing			(134,463)		(126,653)
(Decrease)/increase in cash	21a		(1,070,186)		666,580

The accompanying accounting policies and notes form an integral part of these financial statements.

Cash flow statement

	Notes	2014 £	2014 £	2013 £	2013 £
Net cash inflow from operating activities	20b		687,441		1,246,667
Returns on investments and servicing of finance					
Interest received		96,283		143,634	
Interest paid		(105,185)		(110,690)	
Net cash (outflow)/inflow from investments and servicing of finance			(8,902)		32,944
Capital expenditure					
Acquisitions and construction of housing properties		(989,593)		(1,569,773)	
Payment to acquire other fixed assets		(965,621)		(557,391)	
Sale of fixed assets		6,300		14,300	
Capital grants received		315,069		518,593	
Net cash outflow from capital expenditure			(1,633,845)		(1,594,271)
Purchase of current asset investments			(26,912)		(40,002)
Financing					
Loans repaid		(134,463)		(126,653)	
Net cash outflow from financing			(134,463)		(126,653)
Decrease in cash	21b		(1,116,681)		(481,315)

The accompanying accounting policies and notes form an integral part of these financial statement.

Notes to the consolidated financial statements

Principal accounting policies

Key Housing Association Limited is incorporated under the Industrial and Provident Societies Acts and is a housing association registered with the Scottish Government under the Housing (Scotland) Act 2010.

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards and comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. The financial statements are also prepared in accordance with the Statement of Recommended Practice: Accounting by Registered Social Housing Providers Update 2010 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2012.

The accounting policies of the Society have remained unchanged during the year and are set out below:

Turnover

Turnover represents rental income earned in the period recognised on a time basis and grants of a revenue nature from local authorities and the Scottish Government for the provision of support services in the period are recognised in line with the provision of the service.

Basis of consolidation

These financial statements consolidate those of Key Housing Association and of its subsidiary undertakings drawn up to 31 March 2014 as obliged by statute. Surpluses or deficits on intra-group transactions are eliminated in full.

Going concern

The Management Committee have assessed that the group and Society have adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason the financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business.

Fixed assets and depreciation

Housing properties are stated at cost less HAG and depreciation. The cost of properties includes land cost, all construction costs, professional fees and development administration costs.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in net rental income over the lives of the properties, thereby enhancing the economic useful lives of the properties are capitalised as improvements.

The group separately identifies the major components which comprise its housing properties, and charges depreciation, so as to write off the cost of each component to its estimated residual value, on a straight line basis, over its estimated useful economic life. Where Housing Association Grant (HAG) has been allocated to a component, the depreciable amount is arrived at on the basis of original cost, less the proportion of HAG and other grants attributable to the component, less residual value.

Notes to the consolidated financial statements

Principal accounting policies (cont)

The group depreciates the major components of its housing properties over the following years with the corresponding annual rates:

Land	Not depreciated
Buildings	50 years (2%)
Kitchens	18 years (5.56%)
Bathrooms	20 years (5%)
Heating Systems	15 years (6.67%)
Roof Structure and coverings	50 years (2%)
Windows	25 years (4%)

No depreciation is charged on assets during the course of construction.

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on the following basis:

Office equipment and furniture	-	10% per annum reducing balance method
Motor vehicles	-	20% - 33% per annum straight line method
Computer equipment	-	25% per annum reducing balance method
Office Accommodation	-	2.5% per annum straight line method

Depreciation is charged on these fixed assets from the year of purchase but no charge is made in the year of disposal.

Housing Association Grant and other capital grants

Where developments have been financed wholly or partly by Housing Association Grant (HAG) or other capital grants, the cost of those developments has been reduced by the amount of the grant received. It is allocated to the land and structure components of the associated assets in proportion to their cost. Grant receivable in respect of identifiable components is allocated to these components. The amount of the grant received is shown separately on the balance sheet. HAG is repayable in certain circumstances primarily following the sale of a property for which HAG was received.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the income and expenditure account. Upon disposal of the associated property, the group is required to recycle these proceeds, as such a contingent liability is disclosed to reflect this.

Leased assets

Operating leases and the payments made under them are charged to the income and expenditure account on a straight line basis over the term of the lease.

Notes to the consolidated financial statements

Principal accounting policies (cont)

Provisions

Dilapidations provision

The group and Society have an operating lease on buildings which contains standard clauses obliging the group to reinstate the properties to their original condition at the commencement of the lease. It is the group's policy to provide for these liabilities at the point at which an event occurs which would require the properties to be restored.

Onerous lease provision

The group and Society have a lease that is onerous. Where the unavoidable costs of meeting the obligations under an onerous lease exceed the economic benefits expected to be received under it, it is the group's policy to recognise and measure the present obligation under the contract as a provision.

Retirement Benefits

Defined Benefit Scheme

The group participates in the centralised SFHA defined benefits pension scheme. Retirement benefits to employees of the Society are funded by contributions from all participating employers and employees. The Society is unable to identify its share of the underlying assets and liabilities.

Contributions are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across all participants taken as a whole. The expected cost of pension provision is charged to the income and expenditure account so as to spread the cost over the period of service of employees.

From 1 June 2013, members were moved to a defined contribution option within the scheme and will therefore accrue no further benefit within the defined benefit scheme. The Group and KEY continue to contribute towards the past service deficit of the defined benefit scheme and these have been included in the revenue expenditure for the year.

Defined Contribution Scheme

The group also participates in a defined contribution scheme. The pension costs charged against operating profits are contributions payable to the scheme in respect of the financial year.

Investments

Quoted investments are included in the financial statements at market value which is defined as mid price.

Reserves

In line with recommended practice, the reserves which had been previously designated for specific purposes will no longer be disclosed separately within the financial statements and have been released to the revenue reserve in the year. These included reserves for major repairs and future training commitments as well as other smaller reserves. The Group and KEY will continue to internally monitor these sums but they will no longer be separately disclosed in the financial statements.

Mortgages

Mortgage loans are advanced by private institutions and local authorities under the terms of individual mortgage deeds in respect of each property or housing development. Advances are only available in

Notes to the consolidated financial statements

respect of those developments which have been given approval for Housing Association Grant by the Scottish Government.

1a Particulars of turnover, operating costs and operating surplus or deficit - Consolidated

	Turnover	Operating Costs	Operating Surplus	Operating Surplus
	2014 £	2014 £	2014 £	2013 £
Social Lettings	3,479,742	2,768,814	710,928	866,002
Other activities	47,563,742	47,330,839	232,903	553,269
Total	51,043,484	50,099,653	943,831	1,419,271
2013	49,188,068	47,768,797	1,419,271	

1b Particulars of turnover, operating costs and operating surplus or deficit - The Society

	Turnover	Operating Costs	Operating Surplus / (Deficit)	Operating Surplus
	2014 £	2014 £	2014 £	2013 £
Social Lettings	3,479,742	2,768,814	710,928	866,002
Other activities	36,439,052	36,532,727	(93,675)	148,750
Total	39,918,794	39,301,541	617,253	1,014,752
2013	38,928,694	37,913,942	1,014,752	

Notes to the consolidated financial statements (continued)

2 Particulars of turnover, operating costs and operating surplus from social letting activities – Consolidated and The Society

	General Needs Housing 2014 £	Supported Housing accommodation 2014 £	Total 2014 £	Total 2013 £
Rent receivable net of service charge	542,500	2,517,511	3,060,011	2,924,150
Service charges	16,509	434,077	450,586	430,989
Gross income from rents and service charges	559,009	2,951,588	3,510,597	3,355,139
Less voids	(6,171)	(24,684)	(30,855)	(25,951)
Total turnover from social letting activities	552,838	2,926,904	3,479,742	3,329,188
Management & maintenance administration costs	(159,667)	(638,666)	(798,333)	(834,155)
Service costs	(35,576)	(668,581)	(704,157)	(603,990)
Planned & cyclical maintenance including major repairs	(120,645)	(482,581)	(603,226)	(400,637)
Reactive maintenance costs	(58,407)	(252,227)	(310,634)	(289,144)
Depreciation of social housing/loss on disposal of replaced components	(70,492)	(281,972)	(352,464)	(335,260)
Operating costs for social letting activities	444,787	2,324,027	2,768,814	2,463,186
Operating surplus	108,051	602,877	710,928	866,002
Operating surplus – 2013	130,624	735,378	866,002	

Notes to the consolidated financial statements (continued)

3a Particulars of turnover, operating costs and operating surplus from other activities – Consolidated

	Grants from Scottish Ministers 2014 £	Support funding 2014 £	Total Turnover 2014 £	Operating Costs 2014 £	Operating (deficit) / Surplus 2014 £	Operating (deficit) / Surplus 2013 £
Development activities	10,387	-	10,387	202,799	(192,412)	(148,508)
Care activities	-	47,553,355	47,553,355	47,128,040	425,315	701,777
Other activities	<u>10,387</u>	<u>47,553,355</u>	<u>47,563,742</u>	<u>47,330,839</u>	<u>232,903</u>	<u>553,269</u>
Other activities - 2013	<u>6,532</u>	<u>45,852,348</u>	<u>45,858,880</u>	<u>45,305,611</u>	<u>553,269</u>	

3b Particulars of turnover, operating costs and operating surplus from other activities – The Society

	Grants from Scottish Ministers 2014 £	Other Revenue Grants 2014 £	Total Turnover 2014 £	Operating Costs 2014 £	Operating (deficit) / Surplus 2014 £	Operating (deficit) / Surplus 2013 £
Development activities	10,387	-	10,387	202,892	(192,505)	(148,534)
Care activities	-	36,428,665	36,428,665	36,329,835	98,830	297,284
Other activities	<u>10,387</u>	<u>36,428,665</u>	<u>36,439,052</u>	<u>36,532,727</u>	<u>(93,675)</u>	<u>148,750</u>
Other activities - 2013	<u>6,532</u>	<u>35,592,974</u>	<u>35,599,506</u>	<u>35,450,756</u>	<u>148,750</u>	

Notes to the consolidated financial statements (continued)

4 Surplus of income over expenditure before transfer to reserves

	Consolidated		The Society	
This is stated after:	2014 £	2013 £	2014 £	2013 £
Depreciation:				
- property	342,045	318,758	342,045	318,758
- other fixed assets	192,234	169,247	178,574	161,121
Loss/(gain) on disposal of fixed assets	4,119	12,421	4,119	5,448
External auditors remuneration:				
- external audit services	29,500	25,673	17,167	16,525
- management of cash	9,076	9,383	4,276	7,658
- consultancy	59,109	27,000	46,309	27,000
Internal auditors remuneration:				
- internal audit services	10,368	11,980	10,368	11,980
Operating lease costs:				
- motor vehicles	22,830	21,080	22,830	21,080
- land and buildings	721,595	623,940	678,845	580,800

5 Remuneration

Remuneration in respect of the directors of the Society was as follows:

	Consolidated		The Society	
	2014 £	2013 £	2014 £	2013 £
Salary	141,754	141,599	141,754	141,599
Pension contributions	6,894	6,455	6,894	6,455
	148,648	148,054	148,648	148,054

Number of staff and directors in the year whose emoluments (net of pension) fall into the following bands:

	2014	2013
More than £60,000 but not more than £70,000	1	1
More than £70,000 but not more than £80,000	1	1

Following the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007, those staff reporting directly to the director and earning more than £60,000 are regarded as directors. Under this definition there are two directors (2013 two).

The emoluments of the highest paid director who is the Chief Executive are £74,195 (2013: £71,920).

Notes to the consolidated financial statements (continued)

5 Remuneration (cont)

The Chief Executive has no personal pension arrangements. Pension contributions in respect of the Chief Executive amounted to £3,705 (2013: £3,380) and for the other director were £3,190 (2013: £3,075).

The Management Committee did not receive any remuneration during the year for their services to the Group.

	Consolidated		The Society	
	2014	2013	2014	2013
	£	£	£	£
Expenses paid to members of the Management Committee	703	793	703	793

	Consolidated		The Society	
	2014	2013	2014	2013
	£	£	£	£
Staff costs during the year:				
Wages and Salaries	40,241,022	38,704,458	31,760,597	30,476,451
Social security costs	3,026,369	2,982,781	2,321,934	2,288,655
Other pension costs	1,328,262	984,472	1,293,277	958,446
	44,595,653	42,671,711	35,375,808	33,723,552

In addition to expenditure on direct salaries, the group incurred £840,948 (2013: £881,349) expenditure on the use of agency staff. For KEY this was £594,592 (2013: £701,274).

The average weekly number of persons employed by the group and the full time equivalent (FTE) was as follows:

	Consolidated		The Society		
	2014	2013	2014	2014	2013
	average	average	average	FTE	average
	weekly	weekly	weekly		weekly
Head office	88	86	88	82	86
Services	2,532	2,411	2,047	1,265	1,956
	2,620	2,497	2,135	1,347	2,042
					1,300

Notes to the consolidated financial statements (continued)

5 Remuneration (continued)

Retirement benefits

Defined benefits

The group participates in the Scottish Housing Associations' Pension Scheme ('the Scheme').

Following an assessment of employer covenants, members of the Final salary 60th scheme were transferred to a Career Average Revalued Earnings with a 1/120th accrual rate from 1 April 2012. Members were contracted back into the second state pension. From 1 July 2013 members were transferred to a defined contribution option within the scheme and accrue no further defined contribution benefits. Contribution rates continued at 5.1% employer and 4.7%. Both the Group and KEY continue to make contributions towards the past service deficit of the scheme.

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

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

The last formal valuation of the Scheme was performed as at 30 September 2012 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £394 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £304 million, equivalent to a past service funding level of 56.4%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2013. 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 £470 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £272 million, equivalent to a past service funding level of 63%. If the 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.

At the year end there was £103,256 (2013 £97,928) pension contributions outstanding for the group and £100,478 (2012 £95,431) outstanding for Key Housing Association Limited only. This represents one month's contributions and is split between ongoing contributions and past service deficit. Total employer contributions were £988,424 (2013 £951,461) for the group and £963,861 (2013 £928,377) for Key Housing Association Limited only. As at the balance sheet date there were 183 active members of the scheme employed by the group and 176 by Key Housing Association Limited. The group continues to offer the Scheme to its employees.

Since April 2011 separate payments have been made to fund the past service deficit of the scheme. For the year to 31 March 2014 these totalled £752,987 for the Group and £737,188 for KEY. These sums are included in the total employer pension contributions above. Following the scheme valuation at 30 September 2012, the scheme has advised that there will be significant increases to the deficit contributions from 1 April 2014 and KEY's contributions are set to rise to between £1.2M and £1.93M depending on agreement with the Scheme.

Notes to the consolidated financial statements (continued)

5 Remuneration (continued)

Retirement benefits (continued)

Defined contribution

The Group also offers a defined contribution pension scheme. Employer contributions for the year were £38,106 (2013 £34,464) for the group and £35,126 (2013 £31,602) for Key Housing Association Limited only. Included in creditors as at 31 March 2013 is £4,362 (2013 £5,056) in respect of the defined contribution scheme for the group and £3,930 (2013 £4,628) for Key Housing Association Limited only. This represents one month's contribution. As at the balance sheet date there were 57 active members of the scheme employed by the group and 52 by Key Housing Association Limited.

As at 30 September 2013 active members of the Growth Plan transferred to the Flexible Retirement Plan. This transfer resulted in a debt on withdrawal liability which was £249,504 for the Group and £242,043 for KEY. This has been treated as revenue expenditure for the year.

Auto Enrolment

From 1 November 2013, eligible employees who were not active members of the other pension schemes were automatically enrolled into the Flexible Retirement Plan with contribution levels meeting minimum statutory requirements. Employer contributions for the year were £56,589 (2013 £Nil). As at the year end there were £99,343 (2013 £Nil) pension contributions outstanding. There were 1,054 active members as at 31 March 2014.

6 Creditor payments

The group policy is to pay purchase invoices at the end of the month following receipt. On average, invoices are paid within 45 days of receipt.

Notes to the consolidated financial statements (continued)

7 Interest receivable and payable

	Consolidated		The Society	
	2014 £	2013 £	2014 £	2013 £
Interest receivable and similar income:				
Bank deposit interest	146,994	208,492	94,087	141,246
Union commission	2,196	2,388	2,196	2,388
	<u>149,190</u>	<u>210,880</u>	<u>96,283</u>	<u>143,634</u>
Interest payable and similar charges:				
Bank loans and other loan	(105,185)	(110,690)	(105,185)	(110,690)
	<u>44,005</u>	<u>100,190</u>	<u>(8,902)</u>	<u>32,944</u>

8 Taxation

The Society has charitable status (No SC006652) and is therefore exempt from taxation under Section 505 of the Income and Corporation Taxes Act 1988.

Notes to the consolidated financial statements (continued)

9 Fixed assets – housing land and buildings – Consolidation and The Society

	2014	2013 (restated)
Cost	£	£
At 1 April 2013 – restated (see note below)	43,890,515	42,718,478
Additions	989,593	1,569,773
Disposals	(280,923)	(397,736)
	<u>44,599,185</u>	<u>43,890,515</u>
At 31 March 2014		
Less: Housing Association Grant		
At 1 April 2013	31,409,971	31,259,019
Received during the year	315,069	518,593
Disposals	(258,683)	(367,641)
	<u>31,466,357</u>	<u>31,409,971</u>
At 31 March 2014		
Health Board and Local Authority Grants		
At 1 April 2013	1,007,316	1,007,316
Received during the year	-	-
	<u>1,007,316</u>	<u>1,007,316</u>
At 31 March 2014		
Total Grants	<u>32,473,673</u>	<u>32,417,287</u>
Property Depreciation		
At 1 April 2013	2,058,009	1,752,844
Charge for the year	342,045	318,758
Disposals	(11,821)	(13,593)
	<u>2,388,233</u>	<u>2,058,009</u>
At 31 March 2014		
Total Cost less depreciation	42,210,952	41,832,506
Total Grants	(32,473,673)	(32,417,287)
Net Book Value (restated in 2013)	<u>9,737,279</u>	<u>9,415,219</u>

During the year the management of the Society identified that the office premises at 70 Renton Street had been included in housing land and buildings. This fixed asset has been reclassified in notes 10a and 10b as other fixed assets owned by the Society. A cost of £1,717,988 was incurred in the prior year, with no depreciation charged given the asset was in the course of construction. This assets purchase and construction was completed in the current year and has therefore been categorised as Office Accommodation in notes 10a and 10b.

Notes to the consolidated financial statements (continued)

10a Fixed assets – other – Consolidated

	Motor Vehicles £	Computers and Furniture £	Improvements to leasehold property £	Office Accommodation £	Total £
Cost					
At 1 April 2013 – restated (see Note 9)	303,456	1,117,893	472,962	1,717,988	3,612,299
Additions	70,776	151,914	-	770,658	993,348
Disposals	(31,959)	-	(472,962)	-	(504,921)
At 31 March 2014	342,273	1,269,807	-	2,488,646	4,100,726
Less Depreciation					
At 1 April 2013	176,008	897,483	472,962	-	1,546,453
Charge for the year	60,308	69,680	-	62,246	192,234
Disposals	(31,959)	-	(472,962)	-	(504,921)
At 31 March 2014	204,357	967,163	-	62,246	1,233,766
Net book value					
At 31 March 2014	137,916	302,644	-	2,426,400	2,866,960
At 31 March 2013 – restated (see Note 9)	127,448	220,410	-	1,717,988	2,065,846

10b Fixed assets – other – The Society

	Motor Vehicles £	Computers and Furniture £	Improvements to leasehold property £	Office Accommodation £	Total £
Cost					
At 1 April 2013 – restated (see Note 9)	303,456	1,053,213	472,962	1,717,988	3,547,619
Additions	70,776	124,187	-	770,658	965,621
Disposals	(31,959)	-	(472,962)	-	(504,921)
At 31 March 2014	342,273	1,177,400	-	2,488,646	4,008,319
Less Depreciation					
At 1 April 2013	176,008	866,030	472,962	-	1,515,000
Charge for the year	60,308	56,020	-	62,246	178,574
Disposals	(31,959)	-	(472,962)	-	(504,921)
At 31 March 2014	204,357	922,050	-	62,246	1,188,653
Net book value					
At 31 March 2014	137,916	255,350	-	2,426,400	2,819,666
At 31 March 2013 – restated (see Note 9)	127,448	187,183	-	1,717,988	2,032,619

Notes to the consolidated financial statements (continued)

11 Investments

At 31 March 2014 and at 31 March 2013, Key Housing Association Limited held 100% control over its subsidiary undertaking Community Lifestyles Limited, a company limited by guarantee whose principal activity is the support of adults with learning disabilities. KEY is the only member of Community Lifestyles and approves the appointment of the directors of Community Lifestyles Limited.

In January 2012, KHA Developments Limited was set up as a design and build subsidiary of Key Housing Association Limited. The company began trading in February 2012. KEY is the only shareholder of KHA Developments Limited and approves the appointment of the directors of KHA Developments.

The Group and Key Housing Association Limited have quoted investments held via Fidelity as follows:

Quoted investments	Consolidated		The Society	
	2014 £	2013 £	2014 £	2013 £
Market value at 1 April	552,182	512,180	552,182	512,180
Unrealised gains on investments	26,912	40,002	26,912	40,002
Market value at 31 March	579,094	552,182	579,094	552,182
Historical cost at 31 March	500,000	500,000	500,000	500,000

The following investments represent over 5% of the portfolio:

	Holding	Value at 31 March 2014 £	% holding
Legal and General European Index Trust R Inc.	38,747	77,611	14.05%
Legal and General UK Index R Inc.	58,016	80,004	14.48%
Legal and General US Index Trust R Inc.	33,548	70,116	12.69%
M&G UK Inflation Linked Corporate Bond GPB A Inc	43,103	47,827	8.7%

Notes to the consolidated financial statements (continued)

12 Debtors: falling due within one year

	Consolidated		The Society	
	2014 £	2013 £	2014 £	2013 £
Other debtors and prepayments	337,948	353,141	284,499	255,310
Arrears for rent and service charge	58,108	54,361	58,108	54,361
Local authority revenue grant receivable	4,995,579	4,084,208	3,726,256	3,078,123
Amounts owed by subsidiary undertakings:				
Community Lifestyles Limited	-	-	40,182	35,004
	<u>5,391,635</u>	<u>4,491,710</u>	<u>4,109,045</u>	<u>3,422,798</u>

13 Creditors: falling due within one year

	Consolidated		The Society	
	2014 £	2013 £	2014 £	2013 £
Share Capital (see Note 16)	378	368	378	368
Mortgage interest due	-	109	-	109
Local authority grants repayable	-	-	-	-
Accruals and deferred grant income	832,153	862,774	391,817	443,331
Loans (see Note 14)	141,125	133,848	141,125	133,848
Prepayments of rent and service charge	90,431	92,238	90,431	92,238
Social security and other taxes	1,449,729	1,555,488	1,120,477	1,125,401
Other creditors	2,042,492	1,649,476	2,037,238	1,493,447
Amounts due to subsidiary undertakings:				
Community Lifestyles Limited	-	-	10,894	31,801
KHA Developments Limited	-	-	2,600	107,165
	<u>4,556,308</u>	<u>4,294,301</u>	<u>3,794,960</u>	<u>3,427,708</u>

Notes to the consolidated financial statements (continued)

14 Creditors: falling due after more than one year – Consolidation and The Society

	2014 £	2013 £
Total bank loans outstanding:		
Payable in one year or less	141,125	133,848
Payable within one to two years	147,845	141,125
Payable within two to five years	491,141	467,312
Payable over five years	1,218,611	1,390,900
	1,998,722	2,133,185
Less payable within one year	(141,125)	(133,848)
Total bank loans due after one year	1,857,597	1,999,337

Bank loans and housing loans are secured by a fixed charge over certain properties of the Society.

The loans are repayable in equal monthly instalments and are secured over 25 or 30 years.

The highest rate of interest payable during the year was 5.76% and the lowest 1.4%.

15 Provisions for liabilities and charges

	The Group		The Society	
	2014 £	2013 £	2014 £	2013 £
Dilapidations provisions				
Brought forward at 1 April	150,000	-	150,000	-
Provided in year	-	150,000	-	150,000
	150,000	150,000	150,000	150,000
Onerous lease provisions				
Brought forward at 1 April	128,278	-	128,278	-
Provided in year	-	128,278	-	128,278
Utilised in year	(128,278)	-	(128,278)	-
	-	128,278	-	128,278
Total	150,000	278,278	150,000	278,278

The dilapidation provision is in respect of a property occupied by the Group where a tenant repairing lease has been entered into. The provision represents the Management Committee's best estimate of the liability which will be incurred in respect of dilapidations taking into account the current state and condition of the building and after consulting internally and taking account of all externally available information. Until final agreement has been reached in respect of this property the final liability is not certain.

The Savoy Tower lease expired in January 2014, rental payments were settled in full during the financial year ended 31 March 2014 and the onerous lease provision is therefore no longer required.

Notes to the consolidated financial statements (continued)

16 Share capital – Consolidated and The Society

	2014 £	2013 £
Shares of £1 each fully paid and issued at:		
Brought forward at 1 April	368	371
Shares issued during the year	16	-
Shares written off during the year	(6)	(3)
Shares of £1 each fully paid at 31 March	<u>378</u>	<u>368</u>

The Society issued 16 new shares in the year. The shares have limited rights with no rights to dividends, redemptions or winding up. Each shareholder has the right to vote at the General Meetings of the Society. Under FRS 25, these shares are classified as liabilities rather than shareholder funds. As a result of this the share capital is now included in creditors due in less than one year.

17a Designated reserves – Consolidated

	Remodelling Reserve £	Support Related Maintenance Reserve £	Training Reserve £	Major Repairs & Cyclical Maintenance £	Furniture Renewal £	Reserve for Quality Assurance £	Total £
Balance at 1 April 2013	303,350	216,583	1,814,266	2,038,119	1,469,747	120,000	5,962,065
Transfer to revenue reserve	(303,350)	(216,583)	(1,814,266)	(2,038,119)	(1,469,747)	(120,000)	(5,962,065)
Balance at 31 March 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

In line with recommended practice, the reserves which had been previously designated for specific purposes will no longer be disclosed separately and have been released to the revenue reserve in the year. None of these reserves were restricted. The Group and KEY will continue to internally monitor these sums but they will no longer be separately disclosed in the financial statements.

17b Designated reserves – The Society

	Remodelling Reserve £	Support Related Maintenance Reserve £	Training Reserve £	Major Repairs & Cyclical Maintenance £	Furniture Renewal £	Total £
Balance at 1 April 2013	303,500	98,013	701,999	2,038,119	1,469,747	4,611,228
Transfer to revenue reserve	(303,500)	(98,013)	(701,999)	(2,038,119)	(1,469,747)	(4,611,228)
Balance at 31 March 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Reserve movements for the Society during the year are as per the Group. See note 17a above.

Notes to the consolidated financial statements (continued)

18 Revenue reserves

	Consolidated		The Society	
	2014	2013	2014	2013
	£	£	£	£
Balance at 1 April 2013	12,928,325	11,229,256	9,661,813	8,418,260
Surplus for year	987,836	1,519,461	608,351	1,047,696
Transfers from designated reserves	5,962,065	179,608	4,611,228	195,857
Balance at 31 March 2014	19,878,226	12,928,325	14,881,392	9,661,813

19 Reconciliation of total shareholders' funds

	Consolidated		The Society	
	2014	2013	2014	2013
	£	£	£	£
Balance at 1 April 2013	18,890,390	17,370,929	14,273,041	13,225,345
Surplus for year	987,836	1,519,461	608,351	1,047,696
Balance at 31 March 2014	19,878,226	18,890,390	14,881,392	14,273,041

20a Reconciliation of operating surplus to net cash flow from operating activities - Consolidated

	2014	2013
	£	£
Operating surplus	943,831	1,419,271
Loss on disposal of fixed assets	4,119	12,422
Depreciation charges	534,279	488,005
Increase in debtors	(899,925)	(345,633)
Increase in creditors	126,452	783,860
	708,756	2,357,925

20b Reconciliation of operating surplus to net cash flow from operating activities – The Society

	2014	2013
	£	£
Operating surplus	617,253	1,014,752
Loss on disposal of fixed assets	4,119	5,449
Depreciation charges	520,619	479,879
Increase in debtors	(686,247)	(868,028)
Increase in creditors	231,697	614,615
	687,441	1,246,667

Notes to the consolidated financial statements (continued)

21a Reconciliation of net cash flow to movement in net debt – Consolidated

	2014 £	2013 £
(Decrease) / Increase in cash in the year	(1,070,186)	666,580
Loans repaid	134,463	126,653
Cash used to increase liquid resources	26,912	40,002
Change in net debt	(908,811)	833,235
Net debt at 1 April 2013	7,356,346	6,523,111
Net debt at 31 March 2014	<u>6,447,535</u>	<u>7,356,346</u>

21b Reconciliation of net cash flow to movement in net debt – The Society

	2014 £	2013 £
Decrease in cash in the year	(1,116,681)	(481,315)
Loans repaid	134,463	126,653
Cash used to increase liquid resources	26,912	40,002
Change in net debt	(955,306)	(314,660)
Net debt at 1 April 2013	2,974,543	3,289,203
Net debt at 31 March 2014	<u>2,019,237</u>	<u>2,974,543</u>

22a Analysis of change in net debt – consolidated

	At 1 April 2013 £	Cash flows £	At 31 March 2014 £
Cash at hand	8,937,349	(1,070,186)	7,867,163
Debt due	(2,133,185)	134,463	(1,998,722)
Cash asset investments	552,182	26,912	579,094
	<u>7,356,346</u>	<u>(908,811)</u>	<u>6,447,535</u>

Notes to the consolidated financial statements (continued)

22b Analysis of change in net debt – The Society

	At 1 April 2013 £	Cash flows £	At 31 March 2014 £
Cash at hand	4,555,546	(1,116,681)	3,438,865
Debt due	(2,133,185)	134,463	(1,998,722)
Cash asset investments	552,182	26,912	579,094
	<u>2,974,543</u>	<u>(955,307)</u>	<u>2,019,237</u>

23 Capital commitments – Consolidation and The Society

	2014 £	2013 £
Contracted for but not provided for in the financial statements	<u>45,820</u>	<u>778,644</u>
Authorised by the Management Committee but not contracted for	<u>284,458</u>	<u>266,971</u>

The capital commitments are made up of the on-going remodelling programme of the Society and will be funded through a combination of government grant, local authority funding and reserve.

24a Operating lease commitments – Consolidated

	Land & Buildings 2014 £	Other 2014 £	Land & Buildings 2013 £	Other 2013 £
Annual commitments expiring within the following periods post year end:				
One year or less	393,986	-	535,814	5,121
Between two and five years	120,075	45,466	133,656	46,582
In five years or more	6,960	-	9,000	-
	<u>521,021</u>	<u>45,466</u>	<u>678,470</u>	<u>51,703</u>

24b Operating lease commitments – The Society

	Land & Buildings 2014 £	Other 2014 £	Land & Buildings 2013 £	Other 2013 £
Annual commitments expiring within the following periods post year end:				
One year or less	393,986	-	535,814	5,121
Between two and five years	76,935	45,466	90,516	46,582
In five years or more	6,960	-	9,000	-
	<u>477,881</u>	<u>45,466</u>	<u>635,330</u>	<u>51,703</u>

Notes to the consolidated financial statements (continued)

25 Contingent liabilities – Consolidation and The Society

The Group has received Housing Association Grant (HAG), which has been used to fund the acquisition and development of housing properties and their components. At 31 March 2014, the Group had disposed of components which had received £8,557,130 (2013: £8,298,447) of grant funding. Although the disposal of these components has not given rise to a relevant event for the purpose of recycling the grant (as the Group retains the property asset) the Group does have a future obligation to recycle the grant if the property is disposed of. It is not the intention of the Group to dispose of property assets therefore no provision has been made in these financial statements.

26 Housing stock – Consolidation and The Society

	Units under Management Mainstream 2014	Units under Management Mainstream 2013	Units under Management Supported 2014	Units under Management Supported 2013
Housing accommodation for letting:				
New build	127	133	561	554
Rehabilitation	-	-	22	22
	<u>127</u>	<u>133</u>	<u>583</u>	<u>576</u>
Registered accommodation:				
Number of bed spaces	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

There are no new units under development for either year.

27 Legislative provisions

The Society is incorporated under the Industrial and Provident Societies Act 1965, and registered by the Registrar of Friendly Societies.

28 Related party – subsidiary undertakings

In August 1995, Key Housing Association set up a subsidiary company, Community Lifestyles Limited. This company provided individualised home and community support services to adults with learning difficulties, mainly in housing not provided by the Society. This is provided under contracts with local authorities.

From August 1998 Community Lifestyles became a registered charity and limited by guarantee. It remains under common control of Key Housing Association Limited.

The transactions of the related parties during the year have consisted of net recharges totalling £923,171 (2013: £476,497) by Key Housing Association to Community Lifestyles for staff costs and other overheads. At 31 March 2014, Community Lifestyles owed Key Housing Association £40,182 (2013: £35,004) in respect of sundry items. Included in the year end creditors is £10,894 (2013: £31,801) in respect of sundry items payable to Community Lifestyles.

In January 2012, KEY set up a design and build subsidiary company called KHA Developments. KHA Developments had turnover of £497,921 for the year ended 31 March 2014 and operating costs of £497,828. All turnover was received from Key Housing Association Ltd. At the year end, KEY owed KHA Developments £2,600 (2013: £107,165) in respect of outstanding invoices.