

KEY HOUSING ASSOCIATION LIMITED

Report and Consolidated Financial Statements

For the year ended 31 March 2016

KEY HOUSING ASSOCIATION LIMITED

Report and Financial Statements For the year ended 31 March 2016

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KEY HOUSING ASSOCIATION LIMITED

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 OHT

Management Committee

Joanna Pearson (Chairperson)
William Mooney (Vice Chairperson)
Angus Turner
Gillian Anderson
Anne Finnegan
Duncan Sim
David Meechan
David Le Sage
John Paterson
Sheenagh Simpson
Agnes Kelly
Michael McKernon
Laura Finnan-Cowan (appointed 27 January 2016)
Alex Davidson (resigned 6 May 2015)
Sandra Blair (Vice Chairperson) (resigned 27 January 2016)

Executive Officer	Malcolm Matheson, Chief Executive
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Other Executive Officers

Secretary	James Kearns
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Bankers

Clydesdale Bank plc
120 Bath Street
Glasgow
G2 2EN

Bank of Scotland plc
55 Bath Street
Glasgow
G2 5HS

Solicitors

BTO Solicitors
48 St Vincent Street
Glasgow
G2 5HS

Naftalin Duncan & Co
534 Sauchiehall Street
Glasgow
G2 3LX

External Auditor

Scott-Moncrieff
Allan House
25 Bothwell Street
Glasgow
G2 6NL

Internal Auditor

Chiene and Tait LLP
61 Dublin Street
Edinburgh
EH3 6NL

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For year ended 31 March 2016

The Management Committee has pleasure in presenting its report together with the audited consolidated financial statements for the year ended 31 March 2016.

Structure, Governance and Management

Background

Key Housing Association Limited (hereafter referred to as "Association") is a registered Social landlord incorporated under the Co-operative and Community Benefit Societies Act 2014, which provides housing and support to people with 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 people with disabilities mainly in housing not provided by the Association. 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 disabilities. KHA is a limited company. It remains under common control of Key Housing Association Limited, which holds 100% of the share capital of KHA.

Membership

The Management Committee members at 31 March 2016 were Joanna Pearson (Chairperson), William Mooney (Vice Chairperson), Angus Turner (Vice Chairperson – appeals), Gillian Anderson, Anne Finnegan, Duncan Sim, David Meechan, David Le Sage, John Paterson, Sheenagh Simpson, Michael McKernon, Agnes Kelly and Laura Finnan-Cowan.

Employee issues

The Association 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 Association 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 Association 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 Association 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 Association.

Objectives and activities

The Association's Management Committee agrees objectives and strategies for Association normally within a 3 year strategic plan timescale. The strategic plan incorporates the long term funding of Association. During the year ended 31 March 2016, a review process was commenced of the existing Strategic Plan for the period 2013 – 2016, with a view to a revised Group Strategic Plan being in place by October 2016.

The Association 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:

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Objectives and activities (cont'd)

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 Management Committee, Complaints Procedure, 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 Association's funds are safeguarded and wisely invested, and that loan finance is negotiated within parameters agreed by the Management Committee.

Association's rent policy aims to achieve a committed rental income that enables Association 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.

Achievements and performance

During the year to 31 March 2016 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, 2018 projecting an increasing gap between available resources (which will reduce) and need (which will increase).

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Achievements and performance (cont'd)

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 light of the introduction of the Self Directed Support Act in 2014, local authorities brought a variety of processes into place to meet their obligations under the Act. In most areas this has affected new people receiving social care for the first time, and apart from the two authorities (Glasgow and North Lanarkshire) that had already implemented new arrangements on a whole systems basis, the effect on KEY and the people we support continued to be limited in the course of the year to March 2016. KEY's Strategic Plan has for some years anticipated the move to greater personalisation of social care, and preparations have been underway to ensure that our 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 and assets 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.

Following the development of specific strategies on Supporting People with Autism, and Dementia, during 2015/16, we continued, as part of a wider strategic move to articulate with a wider audience about the scope and nature of our work, to develop our strategies on Supporting Young People, People in Transition and people with Mental Health issues.

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 overall position across KEY for the year to 31 March 2016 was an increase in support hours provided of 3.7% (1,715 hours per week) , compared to an increase of 4.34% (1,944 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 2016, KEY supported 1,475 people in 15 local authority areas. In the course of the year, new support arrangements were established for 244 people. This compared to 179 new arrangements in the previous financial year. The overall level of support provided (hours per week) at 31 March 2016 was 48,481, an increase from the March 2015 level of 46,766 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 31 March 2016, KEY employed 1,799 contracted staff (304 full time and 1,495 part time) and on average a further 517 on a relief basis. This compares to 1,734 contracted staff (313 full time and 1,421 part time) and on average a further 536 on a relief basis as at 31 March 2015.

KEY is nearing completion of an ambitious programme of sub-division of shared housing, and accessing alternative housing for people when required, which has been ongoing for several years and has provided individualised housing options and greater choice for people in relation to their housing. In the course of the year KEY was successful in obtaining funding from the Scottish Government which allowed work to be progressed on remodeling housing at Golspie and Fort William, the latter including short breaks accommodation.

As this is the first year of implementation of FRS 102, the overall reserve position has been adjusted as at 1 April 2014, the 2015 figures have been restated and the 2016 figures follow the revised accounting treatments. With the overall transfer to reserves of £800,043 for the year the reserves of the Group total £13,812,409 as at 31 March 2016. KEY's reserves were increased by £952,381 to a total of £8,450,682 as at 31 March 2016.

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Achievements and performance (cont'd)

Community Lifestyles has continued to focus its work in Glasgow, providing highly individualised support to people with often very complex needs. The net expenditure for the year to 31 March 2016 for Community Lifestyles Ltd was £150,526 (2015: net income £673,982). Community Lifestyles Ltd has reserves of £5,361,551 as at 31 March 2016.

As at 31 March 2016, Community Lifestyles supported 395 people with total direct support of 14,269 hours per week. New support arrangements were developed for 69 people, compared with the previous year's figure of 63 people.

This was the third full year of operation of KHA Developments Ltd which saw the completion of the planned remodeling of the shared flats at St Ninians, Stirling. Total turnover for the year was £84,500 with operating costs of £86,313.

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.

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. Following the successful 2015 tender exercise in respect of our insurance services, which resulted in a reduction of 16% in insurance premiums across the Group, a major supplier review of telephones was undertaken during the year, resulting in a substantial saving. We have continued to make significant savings in time and cost through the use of e-papers for all Board and Committee meetings across KEY and Community Lifestyles.

Head office costs

With the move to our new head office premises in Glasgow in June 2013 we reduced our running costs in comparison with the previous leased arrangements, and work commenced on purchased premises at Kerr Street, Bridgeton, to replace the leased accommodation at Brook Street in Glasgow, which will provide a Glasgow base for KEY and Community Lifestyles.

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. Following the creation of our first practice based e-module (in conjunction with external e-learning provider Aurion), for use prior to employment with relief register and contracted staff, we have continued development work on further e-learning modules, the first to be completed being Adult Support and Protection, with a Medication Administration module in preparation. The Preparing for Practice 4 module suite provides modules on Moving and Handling, First Aid in Emergency situations, Infection Control and Food Hygiene. These modules replace the one-day taught course previously 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 is also a useful pre-employment module for contracted staff. We have further engaged added value by developing these modules "in house", following the Aurion 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.

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Value for money (cont'd)

Support service activity

Over the past 5 years, we have re organised management structures to an area basis in Inverness, Easter Ross, East and West Dunbartonshire, North Ayrshire, Falkirk and Dumfries. In Glasgow we have further integrated our service management with a Consortium arrangement between KEY and Community Lifestyles, with co-location of management teams planned for Kerr Street. This enables a more strategic and efficient approach to service management and development, and underpins our successful application for the Glasgow social care framework. In the course of the year we increased support provided in 10 of the 15 local authority areas in which we work, this being on an incremental basis from existing service networks and building on existing management structures, allowing an efficient and effective increase in overall activity.

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 97, compared to the previous year's figure of 67, and support hours provided by 1,715 (previous year 1,944).

Internal financial control

The Committee is responsible for keeping proper books of accounts with respect to the Association's and Group's transactions and its assets and liabilities, and for maintaining a satisfactory system of control over the Association's and 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 Association's and 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 Association or Group 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. Key elements of such systems are:

- i) formal policies and procedures to restrict the unauthorised use of Association's or Group'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;
- 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 Association'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; and
- (viii) Formal practices have been established for instituting appropriate action to correct weaknesses identified from the reports of the external auditor and internal auditor.

The Management Committee has reviewed the effectiveness of the system of internal controls in existence in Association for the year ended 31 March 2016. 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.

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Financial review

The group generated an operating surplus of £1,451,184 (2015: loss of £563,296) for the year ending 31 March 2016 and a surplus after interest of £800,043 (2015: loss of £1,364,674).

KEY generated an operating surplus of £1,620,771 (2015: loss of £1,216,757) and a surplus after interest of £952,381 (2015: loss of £2,038,976).

Reserves

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

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 monitored progress with the Strategic Plans for the period to 2016 for Housing and Support activities. The Plans included an 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 within the Strategic Plan for support activity for KEY 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.

Objective 2

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

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

Stability, vision and commitment in the governance of KEY.

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Plans for future periods

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 is considered by the Management Committee on an annual basis.

Principal risks and uncertainties

The Association is committed to ensuring that it responds to, and manages, any challenges that may impact on the organization, and 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 Association's priorities, whether Strategic or Operational.

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

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Principal risks and uncertainties (cont'd)

For Support activity:

Risks	Actions to Mitigate
Being unprepared for personalisation.	Maintain focus on individualisation of support. Engage positively with LA's over personalisation initiatives. Develop an internal personalisation development team to develop policies and processes that fit the requirements of personalisation. Keep managers informed of developments in self-directed support/in control. Develop policies/procedures that are appropriate to personalisation.
Not being able to resource the processes required for evidence based self-assessment and tendering.	Strategic Plan reflects development of Quality Assurance Framework Develop information systems to gather accurate information and knowledge across KEY for evidence based self assessments Development of TAG structure to reflect C I requirements for self-assessment and involvement
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 . 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.

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

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

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Principal risks and uncertainties (cont'd)

For Housing activity:

In our Housing activity, the main risk areas relate to compliance with 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 are in place to ensure KEY is meeting the 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 now captured.
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. Initial phases of welfare reform (bedroom tax) have had little impact. Future uncertainly remains over universal credit and also the successor to housing benefit for supported accommodation
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 arose in 2014/15 and which will grow in extent over the ensuing 5 years. The first arises from the duty on employers to auto-enroll 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 rose very significantly in 2015/16. In the course of 2014/15 agreement was reached on a concession based on a longer recovery period, reviewable after the scheme revaluation in 2016. The concession is based on a minimum deficit contribution of £1.2M in 2015/16, rising by 3% pa in 2016/17, when the scheme deficit recovery plan will be reviewed based on the 2016 scheme revaluation.

The interim report of scheme funding in 2015 suggested that the position in relation to scheme assets has improved and that the overall scheme deficit has reduced to £198m from the level of £304M in 2012.

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 Association and group at the end of the year and of the surplus or deficit of Association and group for the year then ended.

KEY HOUSING ASSOCIATION LIMITED

Report of the Management Committee (incorporating the Strategic Report) For the year ended 31 March 2016

Statement of the Management Committee's Responsibilities

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 and Registered Social Housing Providers SORPS;
- 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 Association and Group 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 Association 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.

Disclosure of information to the auditor

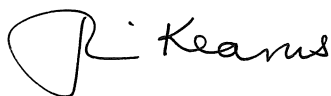
The Management Committee confirm that:

- so far as each committee member is aware, there is no relevant audit information of which Association's auditor is 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 Association's auditor is aware of that information.

Auditor

A resolution to re-appoint Scott-Moncrieff, Chartered Accountants, as auditor will be put to the members at the Annual General Meeting.

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



James Kearns
Secretary

Date: 31 August 2016

KEY HOUSING ASSOCIATION LIMITED

Independent Auditor's report to the members of Key Housing Association Limited For the year ended 31 March 2016

We have audited the financial statements of Key Housing Association Limited for the year ended 31 March 2016 which comprise the Consolidated and Association's Statement of Comprehensive Income, the Consolidated and Association Statement of Financial Position, the Consolidated and Association Statement of Changes in Capital and Reserves, the Consolidated and Association's Statements of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law, FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice for Social Housing Providers issued in 2014.

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

Respective responsibilities of the Management Committee and the Auditor

As explained more fully in the Statement of Management Committee's Responsibilities set out on page 11 the Committee members are 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 (APB'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/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Association's affairs as at 31 March 2016 and of the Group's and the Association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice for Social Housing Providers issued in 2014; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefits Societies (Group Accounts) Regulations 1969, Part 6 of the Housing (Scotland) Act 2010, and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator.

KEY HOUSING ASSOCIATION LIMITED

Independent Auditor's report to the members of Key Housing Association Limited (cont'd) For the year ended 31 March 2016

Matters on which we are required to report by exception

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

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

Scott - Moncrieff

Scott-Moncrieff

Chartered Accountants
Statutory Auditor
25 Bothwell Street
Glasgow
G2 6NL

Dated: 31 August 2016

KEY HOUSING ASSOCIATION LIMITED

Report of the Auditor to the Management Committee of Key Housing Association on Corporate Governance Matters For the year ended 31 March 2016

In addition to our audit of the Financial Statements, we have reviewed your statement on page 6 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2009/4 issued by the Financial Reporting Council. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on page 6 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through enquiry of certain members of the Management Committee and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Management Committee's Statement on Internal Financial Control appropriately reflects the Association's compliance with the information required by the relevant Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls.



Scott-Moncrieff
Chartered Accountants
Statutory Auditor
25 Bothwell Street
Glasgow G2 6NL

Dated: 31 August 2016

KEY HOUSING ASSOCIATION LIMITED

Consolidated Statement of Comprehensive Income For the year ended 31 March 2016

	Notes	2016 £	Restated 2015 £
Turnover	4	55,846,182	53,660,568
Operating expenditure	4	(54,394,998)	(54,223,864)
Operating surplus/(deficit)	8	1,451,184	(563,296)
Interest receivable	11	67,437	80,707
Interest payable	11	(702,462)	(937,933)
Movement in market value of investments		(16,116)	55,848
Surplus/(deficit) for the year	8	800,043	(1,364,674)
Other comprehensive income		-	-
Total comprehensive income		800,043	(1,364,674)

The results for the year relate wholly to continuing activities.

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

Included in operating expenditure is a remeasurement gain of £204,000 (2015: a loss of £3,427,983) in respect of the remeasurement of the SHAPS past service deficit liability as detailed in note 23.

KEY HOUSING ASSOCIATION LIMITED

Association Statement of Comprehensive Income For the year ended 31 March 2016

	Notes	2016 £	Restated 2015 £
Turnover	5	44,999,836	42,821,070
Operating expenditure	5	(43,379,065)	(44,037,827)
Operating surplus/(deficit)	8	1,620,771	(1,216,757)
Interest receivable	11	44,188	51,866
Interest payable	11	(696,462)	(929,933)
Movement in market value of investments		(16,116)	55,848
Surplus/(deficit) for the year	8	952,381	(2,038,976)
Other comprehensive income		-	-
Total comprehensive income		952,381	(2,038,976)

The results for the year relate wholly to continuing activities.

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

Included in operating expenditure is a remeasurement gain of £203,000 (2015: a loss of £3,409,000) in respect of the remeasurement of the SHAPS past service deficit liability as detailed in note 23.

KEY HOUSING ASSOCIATION LIMITED

Consolidated Statement of Financial Position As at 31 March 2016

	Notes	2016 £	Restated 2015 £
Tangible fixed assets			
Housing properties	13	16,012,159	16,000,829
Other fixed assets	14	3,893,270	2,791,401
		<u>19,905,429</u>	<u>18,792,230</u>
Current assets			
Investments	15	618,826	634,942
Debtors	17	5,769,232	5,011,571
Cash and cash equivalents	16	6,939,322	7,743,020
		<u>13,327,380</u>	<u>13,389,533</u>
Creditors: amounts falling due within one year	18	(5,753,200)	(4,347,294)
Net current assets		<u>7,574,180</u>	<u>9,042,239</u>
Total assets less current liabilities		27,479,609	27,834,469
Creditors: amounts falling due after more than one year	19	(13,666,818)	(14,671,725)
Provisions for liabilities	25	-	(150,000)
Net assets		<u>13,812,791</u>	<u>13,012,744</u>
Capital and reserves			
Share capital	26	382	378
Revenue reserves		<u>13,812,409</u>	<u>13,012,366</u>
		<u>13,812,791</u>	<u>13,012,744</u>

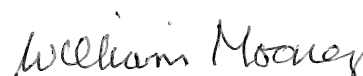
The financial statements were authorised for issue by the Management Committee on 31 August 2016 and were signed on its behalf by:



James Kearns
Secretary



David Meehan
Committee Member



William Mooney
Vice Chairperson

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

Regulated number: 1938R(S)

KEY HOUSING ASSOCIATION LIMITED

Association Statement of Financial Position As at 31 March 2016

	Notes	2016 £	Restated 2015 £
Tangible fixed assets			
Housing properties	13	16,012,159	16,000,829
Other fixed assets	14	2,886,915	2,724,454
		<u>18,899,074</u>	<u>18,725,283</u>
Current assets			
Investments	15	618,827	634,943
Debtors	17	4,302,114	3,777,976
Cash at bank and in hand	16	2,865,622	2,811,010
		<u>7,786,563</u>	<u>7,223,929</u>
Creditors: amounts falling due within one year	18	(4,677,154)	(3,754,130)
Net current assets		<u>3,109,409</u>	<u>3,469,799</u>
Total assets less current liabilities		22,008,483	22,195,082
Creditors: amounts falling due after more than one year	19	(13,557,419)	(14,546,403)
Provisions for liabilities	25	-	(150,000)
Net assets		<u>8,451,064</u>	<u>7,498,679</u>
Capital and reserves			
Share capital	26	382	378
Revenue reserves		<u>8,450,682</u>	<u>7,498,301</u>
		<u>8,451,064</u>	<u>7,498,679</u>

The financial statements were authorised for issue by the Management Committee on 31 August 2016 and were signed on its behalf by:



James Kearns
Secretary



David Meechan
Committee Member



William Mooney
Vice Chairperson

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

KEY HOUSING ASSOCIATION LIMITED

Consolidated Statement of Changes in Capital and Reserves As at 31 March 2016

	Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2015 as restated	378	13,012,366	13,012,744
Total comprehensive income for the year	-	800,043	800,043
Shares issued during the year	4	-	4
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	382	13,812,409	13,812,791
	<hr/>	<hr/>	<hr/>

	Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2014 as restated	378	14,377,040	14,377,418
Total comprehensive income for the year	-	(1,364,674)	(1,364,674)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2015 as restated	378	13,012,366	13,012,744
	<hr/>	<hr/>	<hr/>

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

KEY HOUSING ASSOCIATION LIMITED

Association Statement of Changes in Capital and Reserves As at 31 March 2016

	Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2015 as restated	378	7,498,301	7,498,679
Total comprehensive income for the year	-	952,381	952,381
Shares issued during the year	4	-	4
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	382	8,450,682	8,451,064
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2014 as restated	378	9,537,277	9,537,655
Total comprehensive income for the year	-	(2,038,976)	(2,038,976)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2015 as restated	378	7,498,301	7,498,679
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

KEY HOUSING ASSOCIATION LIMITED

Consolidated Statement of Cash Flows For the year ended 31 March 2016

	Notes	2016 £	Restated 2015 £
Net cash generated from operating activities	27a	1,249,380	638,020
Cashflows from investing activities			
Payments to acquire and improve housing stock		(545,894)	(676,618)
Purchase of other property, plant and equipment		(1,337,730)	(129,484)
Gain from sale of property, plant and equipment		1,944	24,124
Interest received		67,437	80,707
HAG and other capital grants received		-	168,639
		<u>(1,814,243)</u>	<u>(532,632)</u>
Cashflows from financing activities			
Interest paid		(90,462)	(97,933)
Housing loans repaid		(148,373)	(140,598)
		<u>(238,835)</u>	<u>(238,531)</u>
Net change in cash and cash equivalents		<u>(803,698)</u>	<u>(133,143)</u>
Cash and cash equivalents at beginning of year		<u>7,743,020</u>	<u>7,876,163</u>
Cash and cash equivalents at end of the year		<u><u>6,939,322</u></u>	<u><u>7,743,020</u></u>

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

KEY HOUSING ASSOCIATION LIMITED

Association Statement of Cash Flows For the year ended 31 March 2016

	Notes	2016 £	Restated 2015 £
Net cash generated from operating activities	27b	1,172,370	133,076
Cashflow from investing activities			
Payments to acquire and improve housing stock		(545,894)	(676,618)
Purchase of other property, plant and equipment		(379,161)	(90,411)
Proceeds from sale of property, plant and equipment		1,944	24,124
Interest received		44,188	51,866
HAG and other capital grants received		-	168,639
		<u>(878,923)</u>	<u>(522,400)</u>
Cashflows from financing activities			
Interest paid		(90,462)	(97,933)
Housing loans repaid		(148,373)	(140,598)
		<u>(238,835)</u>	<u>(238,531)</u>
Net change in cash and cash equivalents		<u>54,612</u>	<u>(627,855)</u>
Cash and cash equivalents at beginning of year		<u>2,811,010</u>	<u>3,438,865</u>
Cash and cash equivalents at end of the year		<u><u>2,865,622</u></u>	<u><u>2,811,010</u></u>

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

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

1. General information

The financial statements have been prepared in accordance with FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice) and comply with the requirements of the Determination of Housing Requirements 2014 issued by the Scottish Housing Regulator and the Statement of Recommended Practice for Social Housing Providers issued in 2014.

The Association is defined as a public benefit entity and thus the Association complies with all disclosure requirements relating to public benefit entities.

These financial statements represent the results of the Group and Association and are presented in £GPB.

The Association was incorporated in Scotland. The Association is a registered social landlord (HEP141) and a registered charity (SC006652). The registered address is 70 Renton Street, Glasgow, G4 0HT.

This is the first year the accounts have been prepared under FRS 102 and the new SORP. The impact of this transition is detailed in note 33.

2. Principal accounting policies

The financial statements are prepared under the historical cost convention, subject to the revaluation of certain assets, and in accordance with applicable accounting standards and statements of recommended practice. On transition to FRS102, an existing use value has been used as deemed cost for housing properties. The effect of events relating to the year ended 31 March 2016, which occurred before the date of approval of the financial statements by the Management Committee have been included in the statements to the extent required to show a true and fair view of the state of affairs as at 31 March 2016 and of the results for the year ended on that date. The accounting policies are set out below.

Basis of consolidation

These financial statements consolidate those of Key Housing Association Limited and its subsidiary undertakings, Community Lifestyle Limited and KHA Developments Limited, drawn up to 31 March 2016 as obliged by statute. Surpluses or deficits on intra-group transactions are eliminated in full.

Turnover

Association

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

Community Lifestyles Limited

All incoming resources are included in the Statement of Financial Activities when the charitable company is entitled to the income and the amount can be quantified with reasonable accuracy. The following specific policies are applied to particular categories of income:

- Support service income is recognised when the charitable company becomes unconditionally entitled to the funding;
- Investment income is included when receivable.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

2. Principal accounting policies (cont'd)

KHA Developments Limited

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured Reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Going concern

The Management Committee have assessed that the Association and 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. 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.

Government Capital Grants

Government Capital Grants, at amounts approved by The Scottish Government or local authorities, are paid directly to the Association as required to meet its liabilities during the development process. This is treated as a deferred capital grant and is released to income in accordance with the accrual model over the useful life of the asset it relates to on completion of the development phase. The accrual model requires the Association to recognise income on a systematic basis over the period in which the Association recognises the related costs for which the grant is intended to compensate.

Government Revenue Grants

Government revenue grants are recognised using the accrual model which means the Group recognises the grant in income on a systematic basis over the period in which the Group recognises the related costs for which the grant is intended to compensate.

Non-government capital and revenue grants

Non-government capital and revenue grants are recognised using the performance model. If there are no performance conditions attached the grants are recognised as revenue when the grants are received or receivable.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

2. Principal accounting policies (cont'd)

Leased assets

Operating leases and the payments made under them are charged to the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Interest Receivable

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Interest payable

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Operating leases

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Fixed assets and depreciation

Housing properties are stated at deemed cost based on an Existing Use Value at 1 April 2014. From this date, housing properties have been accounted for under historical cost. The cost of properties includes land cost, all construction costs, professional fees and development administration costs.

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.

Fixed assets and depreciation

The Association 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:

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

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

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

2. Principal accounting policies (cont'd)

Investments

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

Debtors

Short term debtors are measured at transaction price, less any impairment.

Rental arrears

Rental arrears represent amounts due by tenants for rental of social housing properties at the year end. Rental arrears are reviewed regularly by management and written down to the amount deemed recoverable. Any provision deemed necessary is shown alongside gross rental arrears in Note 17.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Financial instruments

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans from banks.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a rental arrear deferred beyond normal Group terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets are derecognised when contractual rights to the cash flows from the assets expire, or when the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

2. Principal accounting policies (cont'd)

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

Investments in Subsidiary

The investment in subsidiary is stated at cost, less any provisions required where there has been a permanent diminution in their value.

Retirement Benefits (note 23)

Up until 1 April 2014, the Association participated in The Scottish Housing Associations' Defined Benefits Pension Scheme (SHAPS) and retirement benefits to employees of the Association are funded by the contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

Defined Benefit Scheme

On 1 April 2014 the Association's defined benefit scheme was closed to future accrual, with the Association participating from that date in a Defined Contribution Scheme within the Scottish Housing Associations' Pension Scheme, for existing members. All new staff members are eligible to participate in a defined contribution scheme provided by Standard Life.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers 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.

Thus the Scheme is accounted for as a defined contribution scheme. However the Association has entered into a past service deficit repayment agreement with the Pension Trust and per FRS102, this discounted past service deficit liability has been recognised in the Statement of Financial Position.

Defined Contribution Scheme

As noted above, the Group also participates in a defined contribution scheme with Standard Life. The pension costs charged against operating profits are contributions payable to the scheme in respect of the financial year.

Reserves

In line with recommended practice, the reserves which had been previously designated for specific purposes are no longer disclosed separately within the financial statements. These included reserves for major repairs and future trading commitments as well as other smaller reserves. The Group and KEY continue to internally monitor these sums.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

3. Judgements in applying policies and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The Management Committee are satisfied that the accounting policies are appropriate and applied consistently. Key sources of estimation have been applied as follows:

Estimate

Valuation of Housing Properties

Useful lives of property, plant and equipment

The main components of housing properties and their useful lives

Recoverable amount of rental and other trade receivables

The obligations under the SHAPs pension scheme

Investments at market value

Basis of estimation

Housing Properties are held at deemed cost which is based on an existing use valuation at the date of transition. The assumptions used in the existing use value were reviewed and are considered reasonable.

The useful lives of property, plant and equipment are based on the knowledge of senior management at the Association, with reference to expected asset life cycles.

The cost of housing properties is split into separately identifiable components. These components were identified by knowledgeable and experienced staff members and based on costing models.

Rental arrears and other trade receivables are reviewed by appropriately experienced senior management team members on a case by case basis with the balance outstanding together with the payment history of the individual tenant being taken into account.

This has relied on the actuarial assumptions of a qualified actuary which have been reviewed and are considered reasonable and appropriate. This is based on the provisional 2015 valuation.

This has relied on the valuation prepared by investment managers as at year end.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

4. Particulars of turnover, operating expenditure and operating surplus or (deficit) - consolidated

	Turnover 2016 £	Operating expenditure 2016 £	Operating surplus/ (deficit) 2016 £	Operating surplus/ (deficit) 2015 £
Social lettings (note 6)	4,221,303	(3,104,875)	1,116,428	389,455
Other activities (note 7a)	51,624,879	(51,290,123)	334,756	(952,751)
Total 2016	<u>55,846,182</u>	<u>(54,394,998)</u>	<u>1,451,184</u>	
Total 2015 restated	<u>53,660,568</u>	<u>(54,223,864)</u>		<u>(563,296)</u>

5. Particulars of turnover, operating expenditure and operating surplus or (deficit) – The Association

	Turnover 2016 £	Operating expenditure 2016 £	Operating surplus/ (deficit) 2016 £	Restated Operating surplus/ (deficit) 2015 £
Social lettings (note 6)	4,221,303	(3,104,875)	1,116,428	389,455
Other activities (note 7b)	40,778,533	(40,274,190)	504,343	(1,606,212)
Total 2016	<u>44,999,836</u>	<u>(43,379,065)</u>	<u>1,620,771</u>	
Total 2015 restated	<u>42,821,070</u>	<u>(44,037,827)</u>		<u>(1,216,757)</u>

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

6. Particulars of turnover, operating expenditure and operating surplus from social letting activities – Consolidated and Association

	General Needs Housing £	Supported Housing £	2016 Total £	Restated 2015 Total £
Rent receivable net of service charges	518,304	3,309,894	3,828,198	3,178,794
Service Charges	19,002	412,610	431,612	453,514
Gross income from rents and service charges	537,306	3,722,504	4,259,810	3,632,308
Less voids	(7,294)	(34,586)	(41,880)	(30,309)
Net income from rents and services	530,012	3,687,918	4,217,930	3,601,999
Amortisation of deferred government capital grants	-	3,373	3,373	-
Total turnover from social letting activities	530,012	3,691,291	4,221,303	3,601,999
Management and maintenance administration costs	(155,498)	(737,361)	(892,859)	(887,825)
Service costs	(35,473)	(832,830)	(868,303)	(759,361)
Planned and cyclical maintenance costs including major repairs	(81,586)	(386,877)	(468,463)	(730,152)
Reactive maintenance costs	(59,333)	(281,353)	(340,686)	(299,286)
Depreciation of social housing	(93,099)	(441,465)	(534,564)	(535,920)
Operating expenditure for social letting activities	(424,989)	(2,679,886)	(3,104,875)	(3,212,544)
Operating Surplus on letting activities, 2016	105,023	1,011,405	1,116,428	
Operating Surplus on letting activities, 2015	19,416	370,039		389,455

Included in depreciation of social housing is £136,857 (2015: £160,622) in respect of the loss on disposal of components.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements
For the year ended 31 March 2016

7a. Particulars of turnover, operating expenditure and operating surplus/(deficit) from other activities – Consolidated

	Grants from Scottish Ministers 2016 £	Support funding 2016 £	Total turnover 2016 £	Operating expenditure 2016 £	Operating surplus / (deficit) 2016 £	Restated Operating surplus / (deficit) 2015 £
Development activities	283,097	-	283,097	244,238	38,859	(192,505)
Care activities	-	51,341,782	51,341,782	51,045,885	295,897	(760,246)
Total from other activities 2016	<u>283,097</u>	<u>51,341,782</u>	<u>51,624,879</u>	<u>51,290,123</u>	<u>334,756</u>	
Total from other activities, 2015	<u>16,756</u>	<u>50,041,813</u>	<u>50,058,569</u>	<u>51,011,320</u>		<u>(952,751)</u>

7b. Particulars of turnover, operating expenditure and operating surplus/(deficit) from other activities – Association

	Grants from Scottish Ministers 2016 £	Other revenue grants 2016 £	Other Agency / Management Services 2016 £	Total turnover 2016 £	Operating expenditure 2016 £	Operating surplus / (deficit) 2016 £	Restated Operating surplus / (deficit) 2015 £
Development activities	283,097	-	-	283,097	244,238	38,859	(192,505)
Care activities	-	39,672,245	823,191	40,495,436	40,029,952	465,484	(1,413,707)
Total from other activities 2016	<u>283,097</u>	<u>39,672,245</u>	<u>823,191</u>	<u>40,778,533</u>	<u>40,274,190</u>	<u>504,343</u>	
Total from other activities, 2015	<u>16,756</u>	<u>38,364,223</u>	<u>838,092</u>	<u>39,219,071</u>	<u>40,825,283</u>		<u>(1,606,212)</u>

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

8. Operating Surplus

	Consolidated		Association	
	2016	Restated 2015	2016	Restated 2015
	£	£	£	£
Operating surplus is stated after:				
Depreciation:				
- property	397,708	375,327	397,708	375,327
- other fixed assets	233,917	190,109	214,756	170,689
Loss/(gain) on disposal of fixed assets	134,231	281	134,231	281
External auditors remuneration:				
- external audit services	29,500	29,100	18,600	18,000
Internal auditors remuneration:				
- internal audit services	11,250	10,368	11,250	10,368
Operating lease costs:				
- motor vehicles	21,080	32,751	21,080	32,751
- land and buildings	533,980	613,061	490,840	569,921

9. Remuneration

Number of staff and directors in the year whose emoluments (net of pension) exceeded £60,000 were as follows:

	2016	2015
More than £60,000 but not more than £70,000	4	1
More than £70,000 but not more than £80,000	-	-
More than £80,000 but not more than £90,000	-	1
More than £90,000 but not more than £100,000	1	-

The directors are defined as the members of the Board of Management, the chief executive and any other person reporting directly to the Chief Executive or the Board of Management whose total emoluments exceed £60,000 per year. No emoluments were paid to any member of the Board of Management during the year. The Association considers key management personnel to be the Board of Management and the senior management team of the Association only.

	Consolidated		Association	
Officers emoluments	2016	2015	2016	2015
	£	£	£	£
Salary	374,648	147,596	374,648	147,596
Pension contributions	28,741	18,617	28,741	18,617
	<u>403,389</u>	<u>166,213</u>	<u>403,389</u>	<u>166,213</u>

The emoluments excluding pension contributions of the highest paid director who is the Chief Executive were £92,414 (2015: £80,586).

The Chief Executive is an ordinary member of the Scottish Housing Association Pension Scheme (SHAPS) as described in note 23. No enhanced or special terms apply to membership. The Chief Executive has no personal pension arrangements. Pension contributions in respect of the Chief Executive amounted to £7,826 (2015: £6,901).

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

9. Remuneration (cont'd)

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

	Consolidated		Association	
	2016	2015	2016	2015
	£	£	£	£
Expenses paid to members of the Management Committee	814	1,254	814	1,254
Staff costs (including Directors' emoluments) during the year:				
Wages and salaries	45,093,979	42,366,141	35,740,578	33,427,234
Social security costs	3,335,856	3,085,645	2,573,128	2,363,276
Pension costs	440,669	378,316	382,456	323,814
Pension costs – Past service scheme expenses	66,816	66,816	66,109	66,109
Pension costs – Past service deficit measurement	(204,000)	3,427,983	(203,000)	3,409,000
Provision for workforce related expenditure release	-	(836,358)	-	(651,602)
	<u>48,733,320</u>	<u>48,488,543</u>	<u>38,559,271</u>	<u>38,937,831</u>

The SHAPs past service deficit liability is subject to remeasurement each financial year.

During the past year past service deficit contributions of £1,255,305 (2015: £1,824,383) were paid for the Group and £1,234,016 (2015: £1,803,693) for KEY. Of this payment £1,188,489 (2015: £1,757,567) for the Group and £1,167,907 (2015: £1,737,584) for KEY was a payment in respect of the SHAPS past service deficit liability. The remainder of £66,816 (2015: £66,816) for the Group and £66,109 (2015: £66,109) for KEY was pension management costs which have been included in the pension contributions total included in staff costs above.

The unwinding of the discount has been charged to finance costs in the Statement of Comprehensive Income. This finance cost was £612,000 (2015: £840,000) for the Group and £606,000 (2015: £832,000) for KEY in the year.

In the year to 31 March 2014 a provision was made for anticipated workforce related expenditure. By 31 March 2015, this expenditure had not been incurred and could not be reasonably estimated. As a result the amount has been released back through the Statement of Comprehensive Income and is detailed in the note above. No provision is required at 31 March 2016.

In addition to expenditure on direct salaries, the group incurred £628,803 (2015: £777,758) expenditure on the use of agency staff. For KEY this was £273,289 (2015: £492,019).

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

9. Remuneration (cont'd)

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

	Consolidated			
	2016 average weekly Nos	2015 average weekly Nos	2016 FTE Nos	2015 FTE Nos
Head Office	88	94	91	88
Services	2,701	2,640	2,077	1,999
	<u>2,789</u>	<u>2,734</u>	<u>2,168</u>	<u>2,087</u>
	Association			
	2016 average weekly Nos	2015 average weekly Nos	2016 FTE Nos	2015 FTE Nos
Head Office	88	94	91	88
Services	2,210	2,151	1,625	1,551
	<u>2,298</u>	<u>2,245</u>	<u>1,716</u>	<u>1,639</u>

10. 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.

11. Interest receivable and payable

	Consolidated		Association	
	2016 £	Restated 2015 £	2016 £	Restated 2015 £
Interest receivable and similar income				
Bank deposit interest	64,953	78,190	41,704	49,349
Union commission	2,484	2,517	2,484	2,517
	<u>67,437</u>	<u>80,707</u>	<u>44,188</u>	<u>51,866</u>
Interest payable and similar charges:				
Bank loans and other loan	(90,462)	(97,933)	(90,462)	(97,933)
Unwinding of the discount rate – pension deficit (note 23)	(612,000)	(840,000)	(606,000)	(832,000)
	<u>(702,462)</u>	<u>(937,933)</u>	<u>(696,462)</u>	<u>(929,933)</u>
	<u>(635,025)</u>	<u>(857,226)</u>	<u>(652,274)</u>	<u>(878,067)</u>

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

12. Taxation

The Association has charitable status (No SC006652) and thus no corporation tax is due from its charitable activities.

13. Fixed assets – Housing Land and Buildings – Consolidated and Association

	2016 £	Restated 2015 £
Cost		
At 1 April 2015 as restated	16,376,156	15,860,160
Additions	545,894	676,618
Disposals	(144,113)	(160,622)
	<hr/>	<hr/>
At 31 March 2016	16,777,937	16,376,156
	<hr/>	<hr/>
Property Depreciation		
At 1 April 2015 as restated	375,327	-
Charge for the year	397,707	375,327
Disposals	(7,256)	-
	<hr/>	<hr/>
At 31 March 2016	765,778	375,327
	<hr/>	<hr/>
Net Book Value at 31 March 2016	<u>16,012,159</u>	<u>16,000,829</u>

Total cost of components capitalised for the year amounted to £545,894 (2015: £676,618). The amount spent on maintenance of housing properties held for letting can be seen in Note 6.

Additions to Housing Properties during the year includes £nil capitalised interest (2015 - £nil) and £nil capitalised administration costs (2015 - £nil). All housing properties are freehold. Properties with a cost of £nil (2015: £ nil) and accumulated depreciation of £ nil (2015: £nil) have been disposed in the year. Components with a cost of £144,113 (2015: £160,622) and accumulated depreciation of £7,256 (2015: £nil) have been disposed of for £nil (2015: £nil) net proceeds.

The housing properties were revalued as at 1 April 2014 by Graham & Sibbald Limited and this value was used as the deemed cost from that date in accordance with FRS102.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

14. Fixed Assets – Other - Consolidated

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge	Office Accomm- odation £	Total £
Cost					
At 1 April 2015	350,738	1,322,783	-	2,488,646	4,162,167
Additions	29,505	230,354	132,227	945,644	1,337,730
Disposals	(36,366)	(499,800)	-	-	(536,166)
At 31 March 2016	343,877	1,053,337	132,227	3,434,290	4,693,731
Less: Depreciation					
At 1 April 2015	212,856	1,033,418	-	124,492	1,370,766
Charge for year	57,274	109,989	4,408	62,246	233,917
Disposals	(34,422)	(499,800)	-	-	(534,222)
At 31 March 2016	235,708	643,607	4,408	186,738	1,070,461
Net Book Value					
At 31 March 2016	108,169	409,730	127,819	3,247,552	3,893,270
At 31 March 2015	137,882	289,365	-	2,364,154	2,791,401

Fixed Assets – Other - Association

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge	Office Accomm- odation £	Total £
Cost					
At 1 April 2015	350,738	1,191,303	-	2,488,646	4,030,687
Additions	29,505	217,429	132,227	-	379,161
Disposals	(36,366)	(499,800)	-	-	(536,166)
At 31 March 2016	343,877	908,932	132,227	2,488,646	3,873,682
Less: Depreciation					
At 1 April 2015	212,856	968,885	-	124,492	1,306,233
Charge for year	57,274	90,828	4,408	62,246	214,756
Disposals	(34,422)	(499,800)	-	-	(534,222)
At 31 March 2016	235,708	559,913	4,408	186,738	986,767
Net Book Value					
At 31 March 2016	108,169	349,019	127,819	2,301,908	2,886,915
At 31 March 2015	137,882	222,418	-	2,364,154	2,724,454

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

15. Investments

Association	2016 £	2015 £
Investment in subsidiary undertaking:		
- KHA Developments Limited	1	1

Key Housing Association Limited owns 1 ordinary £1 share in KHA Developments Limited (SC341478). The investment is held at cost. This represents a 100% shareholding in KHA Developments Limited, a company registered in Scotland, whose principal activity is that of acting as the design and build subsidiary of Key Housing Association Limited. KHA Developments Limited made a deficit of £1,812 (2015: £1,869 surplus) for the year ended 31 March 2016 and had net assets of £176 (2015: £1,988).

At 31 March 2016 and at 31 March 2015, 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 Limited and approves the appointment of the directors of Community Lifestyles Limited. Community Lifestyles Limited made a deficit of £150,526 (2015: a surplus of £673,982) for the year ended 31 March 2016 and had net assets of £5,361,551 (2015: £5,512,077).

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

Quoted investments	Consolidated		Association	
	2016 £	2015 £	2016 £	2015 £
Market value at 1 April 2015	634,942	579,094	634,942	579,094
Movement in market value	(16,116)	55,848	(16,116)	55,848
Market value at 31 March	618,826	634,942	618,826	634,942
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 2016 £	% holding
Legal and General European Index Trust R Inc.	39,831	88,026	14%
Legal and General UK Index R Inc.	58,562	80,933	13%
Legal and General US Index Trust	33,841	97,835	16%
M&G UK Inflation Linked Corporate Bond GPB A Inc.	42,573	47,197	8%
M&G Strategic Corporate Bond A CC	31,891	31,891	5%
		345,882	

16. Cash and cash equivalents

	Consolidated		Association	
	2016 £	2015 £	2016 £	2015 £
Deposit accounts	3,447,545	4,166,384	1,334,746	2,087,611
Current account	3,491,777	3,576,636	1,530,876	723,399
	6,939,322	7,743,020	2,865,622	2,811,010

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

17. Debtors: falling due within one year

	Consolidated		Association	
	2016	2015	2016	2015
	£	£	£	£
Rent Arrears	146,330	94,066	146,330	94,066
Less: provision for bad debts	(25,635)	(50,990)	(25,635)	(50,990)
Arrears for rent and service charge	120,695	43,076	120,695	43,076
Other debtors and prepayments	487,749	273,576	413,288	219,484
Local authority revenue grant receivable	5,160,788	4,694,919	3,700,955	3,469,052
Amounts owed by subsidiary undertakings: Community Lifestyles Limited	-	-	67,176	46,364
	<u>5,769,232</u>	<u>5,011,571</u>	<u>4,302,114</u>	<u>3,777,976</u>

18. Creditors: falling due within one year

	Consolidated		Association	
	2016	Restated 2015	2016	Restated 2015
	£	£	£	£
Deferred Government capital grant (note 22)	3,373	3,373	3,373	3,373
Accruals and deferred grant income	1,942,014	1,538,356	1,394,710	1,244,408
Loans (note 21)	155,748	147,844	155,748	147,844
Prepayments of rent and service charge	86,674	94,067	86,674	94,067
Social security and other taxes	810,612	765,595	625,124	587,052
Other creditors	951,024	362,132	581,814	273,466
Trade creditors	312,663	61,277	312,663	61,277
Amounts due to subsidiary undertakings: Community Lifestyles Limited	-	-	73,461	4,619
SHAPS past service pension liability (note 23)	1,253,316	1,188,546	1,232,334	1,167,907
Pension creditor	237,776	186,104	211,253	170,117
	<u>5,753,200</u>	<u>4,347,294</u>	<u>4,677,154</u>	<u>3,754,130</u>

19. Creditors: amounts falling due after more than one year

	Consolidated		Association	
	2016	2015	2016	2015
	£	£	£	£
Deferred Government capital grant (note 22)	161,893	165,266	161,893	165,266
SHAPS past service pension liability (note 23)	11,950,922	12,796,179	11,841,523	12,670,857
Housing loans (note 21)	1,554,003	1,710,280	1,554,003	1,710,280
	<u>13,666,818</u>	<u>14,671,725</u>	<u>13,557,419</u>	<u>14,546,403</u>

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

20. Financial Instruments

	Consolidated		Association	
	2016	2015	2016	2015
	£	£	£	£
Financial assets				
Financial assets measured at amortised cost	5,654,866	4,926,824	4,187,751	3,693,230
Financial assets				
Financial liabilities measured at amortised cost	18,768,703	18,084,785	17,444,183	17,544,842

Financial assets measured at amortised cost comprise other debtors, rent arrears, grants receivable and amounts due from subsidiary undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals, housing loans, SHAPS past service deficit liability and amounts due to subsidiary undertakings.

21. Loans: Consolidated and Association

	2016	2015
	£	£
Total bank loans outstanding:		
Payable in one year or less	155,748	147,844
Payable within one to two years	163,718	155,748
Payable within two to five years	541,216	515,408
Payable over five years	849,069	1,039,124
	1,709,751	1,858,124
Less: payable within one year	(155,748)	(147,844)
Total bank loans due after one year	1,554,003	1,710,280

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

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%.

22. Deferred capital grants: Consolidated and Association

	2016	Restated 2015
	£	£
Deferred capital grants 1 April 2015	168,639	-
Grants received in year	-	168,639
Grant released during year	(3,373)	-
At 31 March 2016	165,266	168,639
Payable in one year or less	3,373	3,373
Payable within one to two years	3,373	3,373
Payable within two to five years	10,119	10,119
Payable over five years	148,401	151,774
Total	165,266	168,639

Government Capital grants may be repayable on the sale of housing properties.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

23. Retirement benefits

Defined benefits

Key Housing Association Limited and Community Lifestyle Limited participate in the Scottish Housing Pension Scheme (the scheme).

The Scheme is a multi-employer defined benefit scheme. The Scheme offers six benefit structures to employers, namely;

- Final salary with a 1/60th accrual rate
- Career average revalued earnings with a 1/60th accrual rate
- Career average revalued earnings with a 1/70th accrual rate
- Career average revalued earnings with a 1/80th accrual rate
- Career average revalued earnings with a 1/120th accrual rate contracted in
- Defined Contribution

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. The DC option can be introduced by the employer on the first day of any month after giving a minimum of three months' prior notice.

Key Housing Association Limited and Community Lifestyle Limited has elected to operate the Defined Contributions Option for existing and new entrants. However, the Association and Community lifestyle Limited are still required to fund the past service deficit liability.

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

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

There was an additional annual employer past service deficit contribution of £1,167,907 (net of administration costs) made in the year ended 31 March 2016 (2015 - £1,737,584).

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers 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.

Thus the scheme is accounted for as a defined contribution scheme. However the Association has entered into a past service deficit repayment agreement with the Pension Trust and per FRS102, this discounted past service deficit liability has been recognised in the Statement of Financial Position.

The last formal published 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 to liabilities of £304 million, equivalent to a past service funding level of 56.4%.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

23. Retirement benefits (cont'd)

The key valuation assumptions used to determine the assets and liabilities of the Scheme as at 30 September 2012 are detailed below:

	% p.a.
Investment return pre-retirement	5.3
Investment return post-retirement – non-pensioners	3.4
Investment return post-retirement – pensioners	3.4
Rate of Salary increases	4.1
Rate of price inflation	2.6
Rate of pension increases	
Pension accrued pre 6 April 2005	2.0
Pension accrued from 6 April 2005	1.7

The valuation was carried out using the SAPS (S1PA). All pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement for non-pensioners and pensioners.

The joint contribution rates required from employers and members to meet the cost of future benefit accrual for the 1/70ths CARE scheme benefit structure was assessed as 16.9%.

This is split between employers and members. Accordingly the contribution rates for the 1/70ths CARE Scheme is 9.6% employer contributions and 9.6% member contributions.

2015 valuation

As highlighted at the 2015 Employer Forums, the triennial valuation has been undertaken against a challenging economic backdrop for defined benefit (DB) schemes like SHAPS. That said, the deficit has reduced from £304m as at 30 September 2012 to £198m as at 30 September 2015; an improvement in the funding position from 56% to 76%.

A summary of the headline provisional valuation results is set out in the table below:

Valuation	2012	2015
Assets (£ million)	394	612
(Liabilities) (£ million)	(698)	(810)
(Deficit) (£ million)	(304)	(198)*
Funding level	56%	76%
Aggregate annual deficit contributions for the year from 1 April 2017 (£ million)	28.7	28.7
	(26.3 on inception from 1 April 2014)	
Annual increases to deficit contributions	3.0%	3.0%
Proposed deficit contribution (recovery) plan) and date	30 September 2027	28 February 2022

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.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

23. Retirement benefits (cont'd)

The Trustees have recently supplied Key Housing Association Limited and Community Lifestyle Limited with an estimated updated contribution figure to the past service deficit. The past service deficit contribution for 2016/17 is £1,202,944 (net of administration costs) for the Association and £21,200 for Community Lifestyles Limited. From 1 April 2017 Key Housing Association Limited will be required to pay £1,167,907 (net of administration costs) per annum for the Association and £22,681 for Community Lifestyles Limited per annum, as a contribution to the past service deficit. This will increase by 3% per year. The deficit is now expected to be removed from the Scheme by 28 October 2026 (previously 30 September 2027) for the Association and by 22 February 2022 for Community Lifestyle Limited. The past service deficit liability recognised in the financial statements is based on the revised estimated contribution schedule provided to the Association on 3 March 2016 by the Pensions Trust.

Present Value of Provision

Reconciliation of Opening and Closing Provisions

	Consolidated		Association	
	2016	2015	2016	2015
	£	£	£	£
Provision at start of period	13,984,725	11,474,309	13,838,764	11,335,348
Unwinding of the discount factor (interest expense)	612,000	840,000	606,000	832,000
Deficit contribution paid	(1,188,487)	(1,757,567)	(1,167,907)	(1,737,584)
Re-measurements – impact of changes in assumptions	(204,000)	3,427,983	(203,000)	3,409,000
Provision at end of period	13,204,238	13,984,725	13,073,857	13,838,764
Split:				
< 1 year	1,253,316	1,188,546	1,232,334	1,167,907
1-2 years	1,220,759	1,253,316	1,198,814	1,232,334
2-5 years	3,713,352	3,687,756	3,646,600	3,621,464
> 5 years	7,016,811	7,855,107	6,996,109	7,817,059
Total	13,204,238	13,984,725	13,073,857	13,838,764
Impact on Statement of Comprehensive Income	2016	2015	2016	2015
	£	£	£	£
Interest Expense	612,000	840,000	606,000	832,000
Re-measurements – impact of changes in assumptions	(204,000)	3,427,983	(203,000)	3,409,000
	408,000	4,267,983	403,000	4,241,000
Assumptions	2016	2015	2016	2015
Rate of discount	2.29%	2.22%	2.29%	2.22%

The expected Employer's contributions for the year to 31 March 2017 will be approximately £1,269,000.

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

23. Retirement benefits (cont'd)

There are 161 active members of the SHAPS DC scheme as at 31 March 2016 for the Group and 152 for KEY only. The Group and KEY contribute 5.2% as an employer contribution. Total employer contributions for the year were £231,031 (2015: £234,955) for the Group and £218,944 (2015: £224,775) for Key only. Included in the year end creditors balance is £39,914 (2015: £39,206) for the Group and £38,164 (2015: £37,500) for KEY only in respect of pension contributions payable. This represents one month's contributions.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the 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.

The Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Scheme based on the financial position of the scheme as at 30 September 2015 is £58,600,000 (2015: £58,599,624)

Defined contribution

The Group also offers a defined contribution pension scheme under SHAPS. Employer contributions for the year were £25,874 (2015: £28,070) for the group and £23,468 (2015: £25,137) for Key Housing Association Limited only. Included in creditors as at 31 March 2016 is £3,465 (2015: £3,603) in respect of the defined contribution scheme for the group and £3,200 (2015: £3,603) for Key Housing Association Limited only. This represents one month's contribution. As at the balance sheet date there were 50 active members of the scheme employed by the group and 45 by Key Housing Association Limited.

Auto Enrolment

From 1 November 2013, eligible employees in KEY 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. From 1 April 2014, eligible employees in Community Lifestyles were similarly enrolled. Employer contributions for the year were £183,764 (2015: £167,765) for the Group and £140,044 (2015: £126,450) for KEY. As at the year end there were £56,740 (2015: £27,099) pension contributions outstanding for the Group and £41,124 (2015: £20,489). There were 1,525 (2015: 1,561) active members for the Group as at 31 March 2016 and 1,194 (2015: 1,214) for KEY only.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

24a. Operating lease commitments – Consolidated

Annual commitments expiring within the

	Land & Buildings 2016 £	Other 2016 £	Land & Buildings Restated 2015 £	Other Restated 2015 £
Following periods post year end:				
One year or less	478,076	5,707	514,203	6,892
Between two and five years	35,744	15,373	91,898	25,859
In five years or more	20,160	-	6,960	-
	<u>533,980</u>	<u>21,080</u>	<u>613,061</u>	<u>32,751</u>

24b. Operating lease commitments – Association

Annual commitments expiring within the

	Land & Buildings 2016 £	Other 2016 £	Land & Buildings Restated 2015 £	Other Restated 2015 £
following periods post year end:				
One year or less	434,936	5,707	471,063	6,892
Between two and five years	35,744	15,373	91,898	25,859
In five years or more	20,160	-	6,960	-
	<u>490,840</u>	<u>21,080</u>	<u>569,921</u>	<u>32,751</u>

25. Provisions for liabilities and charges

	Consolidated		Association	
	2016 £	2015 £	2016 £	2015 £
Dilapidations provisions				
Brought forward at 1 April	150,000	150,000	150,000	150,000
Provided in year	(150,000)	-	(150,000)	-
	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>

The dilapidation provision was in respect of a property occupied by the Group where a tenant repairing lease has been entered into. The provision represented the Management Committee's best estimate of the liability which could 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.

Due to the time that has lapsed since the cessation of the lease and the lack of any communication with the landlord regarding potential dilapidation settlement, the provision was written back through year ending 31 March 2016 expenditure.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

26. Share capital – Consolidated and Association

	2016 £	2015 £
Shares of £1 each fully paid and issued at:		
Brought forward at 1 April	378	378
Shares issued during the year	4	-
Shares written off during the year	-	-
	<hr/>	<hr/>
Shares of £1 each fully paid at 31 March	382	378
	<hr/>	<hr/>

The Association issued 4 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.

27a. Net cash inflow from operating activities: Consolidated

	2016 £	Restated 2015 £
Surplus / (Deficit) for the year	800,043	(1,364,674)
<u>Adjustments for non cash items</u>		
Depreciation charges including loss on disposal of components	768,481	716,869
Increase / (decrease) in creditors	1,333,232	(1,566,050)
Decrease in provisions	(150,000)	-
(Increase) / decrease in debtors	(757,661)	380,064
Share capital issued	4	-
SHAPS past service deficit movements	408,000	4,268,000
Release of deferred Government Capital Grant	(3,373)	-
Movement in market value of investments	16,116	(55,848)
<u>Adjustments for investing or financing activities</u>		
Interest payable	90,462	97,933
Interest receivable	(67,437)	(80,707)
SHAPS past service deficit payment	(1,188,487)	(1,757,567)
	<hr/>	<hr/>
Net cash inflow from operating activities	1,249,380	638,020
	<hr/>	<hr/>

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

27b. Net cash inflow from operating activities: Association

	2016 £	Restated 2015 £
Surplus / (Deficit) for the year	952,381	(2,038,976)
<u>Adjustments for non cash items</u>		
Depreciation charges including loss on disposal of components	749,320	697,449
Increase/(Decrease) in creditors	850,693	(1,350,100)
Decrease in provisions	(150,000)	-
(Increase) / decrease in debtors	(524,138)	331,068
Share capital issued	4	-
SHAPS past service deficit movements	403,000	4,241,000
Release of deferred Government Capital Grant	(3,373)	-
Movement in market value of investments	16,116	(55,848)
<u>Adjustments for investing or financing activities</u>		
Interest payable	90,462	97,933
Interest receivable	(44,188)	(51,866)
SHAPS past service deficit payment	(1,167,907)	(1,737,584)
Net cash inflow from operating activities	<u>1,172,370</u>	<u>133,076</u>

28. Capital commitments – Consolidated and Association

	2016 £	2015 £
Contracted for but not provided for in the financial statements	<u>-</u>	<u>7,033</u>
Authorised by the Management Committee but not contracted for	<u>-</u>	<u>-</u>

The capital commitments were made up of the ongoing remodelling programme of the Association and were funded through a combination of government grant, local authority funding and reserve.

29. Contingent liabilities – Consolidated and Association

Neither the Group nor KEY had any contingent liabilities as at 31 March 2016 nor 31 March 2015.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

30. Housing stock – Consolidated and Association

	Units under Manage- ment Mainstream 2016 £	Units under Manage- ment Mainstream 2015 £	Units under Manage- ment Supported 2016 £	Units under Manage- ment Supported 2015 £
Housing accommodation for letting:				
New build	125	125	565	565
Rehabilitation	-	-	22	22
	<u>125</u>	<u>125</u>	<u>587</u>	<u>587</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.

31. Legislative provisions

Association is incorporated under the Co-operative and Community Benefit Societies Act 2014, and registered with the Financial Conduct Authority.

32. Related parties – subsidiary undertakings

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

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

The transactions between the two entities during the year have consisted of net recharges totalling £823,191 (2015: £780,405) by Key Housing Association to Community Lifestyles Limited for staff costs and other overheads. At 31 March 2016, Community Lifestyles Limited owed Key Housing Association Limited £67,176 (2015: £46,364) in respect of sundry items. Included in the year end creditors is £73,461 (2015: £4,619) in respect of sundry items payable to Community Lifestyles Limited.

In January 2012, KEY set up a design and build subsidiary company called KHA Developments Limited. KHA Developments had turnover of £84,500 (2015: £392,700) for the year ended 31 March 2016 and operating costs of £86,312 (2015: £390,831). All turnover was received from Key Housing Association Limited, £57,687 (2015: £57,687) of operating costs represent rent and management charges payable to KEY, and £1,096 (2015: £nil) represent a gift and payment to Key Housing Association.

The Association has members of the Management Committee who are also tenants. The tenancies of these members of the Management Committee are on normal terms and the members cannot use their position to their advantage. The total rent charged in the year relating to Management Committee members who are tenants is £10,528 (2015: £10,328). The total prepaid rent relating to Management Committee members who are tenants included within creditors at the year end is £102 (2015: £nil). Total rent arrears at the year end for these tenants was £nil (2015: £nil).

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

33. First time adoption of FRS102

The Association has adopted Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for social housing providers (SORP 2014) for the year ended 31 March 2016. This has led to a number of changes in accounting policy, judgements and estimates and necessitates the prior year comparative amounts to be restated using these new policies in order that they give a comparable view of the prior year position.

The following changes to accounting policies and estimates have been applied:

In accordance with FRS 102 the Association does not present an Income and Expenditure Account or a Statement of Recognised Gains and Losses (STRGL) as was presented in the financial statements to 31 March 2015 as items that previously appeared in these statements are now included in the Statement of Comprehensive Income.

As permitted by FRS 102 the Association has renamed the Balance Sheet as the Statement of Financial Position.

As prescribed by FRS102 the Association now prepares a Statement of Changes in Capital and Reserves whereas in the financial statements to 31 March 2015 capital and reserves were analysed as part of the notes to the financial statements.

Housing units have been valued on an existing use value at 1 April 2014 and this has been taken as deemed cost.

Government Capital Grants were transferred to revenue reserves at 1 April 2014 as the Association opted to use an existing use value as deemed cost and thus the Government Capital Grants were recognised under the performance model. This is in accordance with the SORP. From 1 April 2014, Government Capital Grants are now recognised in line with the accrual model. The accrual model results in the grant being recognised over the expected useful life of the housing property structure and other components (excluding land).

All employee benefits not paid to the employee at the year end must be accrued. As such, the Association accrues a monetary value for all unused holidays at the year end based on the individual employee's salary.

Designated reserves were transferred to the revenue reserve.

The Association participated in the SHAPs defined benefit pension scheme and makes annual contributions towards the past service deficit in line with the fund plan. Under FRS102, the future discounted contributions in respect of the deficit must now be shown as a liability on the Statement of Financial Position with the actual payment being released to the Statement of Comprehensive Income as it falls due.

KEY HOUSING ASSOCIATION LIMITED

Notes to the financial statements For the year ended 31 March 2016

33. First time adoption of FRS102 (cont'd)

	Consolidated £	Association £
Capital and reserves as at 1 April 2014 as previously stated	19,878,604	14,881,770
Effects of:		
Adjustment to recognise housing property at deemed cost and recognition of Government Capital Grants under the performance model	6,122,879	6,122,879
Recognition of holiday pay and TOIL accrual	(151,223)	(131,646)
Recognition of SHAPS past service deficit pension liability	(11,472,842)	(11,335,348)
Restated capital and reserves as at 1 April 2014	14,377,418	9,537,655
	Consolidated £	Association £
Capital and reserves as at 31 March 2015 as previously stated	21,181,534	15,503,398
Effects of:		
<u>Prior year adjustments at 1 April 2014</u>		
Adjustment to recognise housing property at deemed cost	6,122,879	6,122,879
Recognition of holiday pay and TOIL accrual	(151,223)	(131,646)
Recognition of SHAPS past service deficit pension liability	(11,472,842)	(11,335,348)
<u>In year adjustments</u>		
Restatement of housing property disposals	(178,646)	(178,646)
Restatement of depreciation charge in housing properties and shared ownership properties	21,375	21,375
Movement in SHAPS past service deficit pension liability	(2,510,333)	(2,503,333)
Restated capital and reserves as at 31 March 2015	13,012,744	7,498,679
	Consolidated £	Association £
Surplus for the year ended 31 March 2015 as previously stated	1,247,082	565,780
Effects of:		
Movement in SHAPS past service deficit pension liability	(2,510,333)	(2,503,333)
Restatement of housing property disposals	(178,646)	(178,646)
Restatement of depreciation charge in housing properties	21,375	21,375
Adjustment for losses on investments now treated as a component of net income.	55,848	55,848
Restated loss for the year ended 31 March 2015	(1,364,674)	(2,038,976)