



**Scott-Moncrieff**  
business advisers and accountants

**KEY HOUSING ASSOCIATION LIMITED**

**Group Accounts**

**Report and Financial Statements**

**For the year ended 31 March 2017**

## **KEY HOUSING ASSOCIATION LIMITED**

### **Report and Financial Statements For the year ended 31 March 2017**

	<b>Page</b>
Legal and Administrative details	1
Report of the Members of the Board (incorporating the Strategic Report)	2-11
Report of the Auditor on the Financial Statements	12-13
Report of the Auditor to the Board on Corporate Governance Matters	14
Consolidated Statement of Comprehensive Income	15
Association Statement of Comprehensive Income	16
Consolidated Statement of Financial Position	17
Association Statement of Financial Position	18
Consolidated Statement of Changes in Capital and Reserves	19
Association Statement of Changes in Capital and Reserves	20
Consolidated Statement of Cash Flows	21
Association Statement of Cash Flows	22
Notes to the Financial Statements	23-47

## **KEY HOUSING ASSOCIATION LIMITED**

### **Legal and administrative details**

<b>Scottish Charity registration number</b>	SC006652
<b>Financial Conduct Authority registration number</b>	1938R (S)
<b>Scottish Housing Regulator registration number</b>	HEP141
<b>Registered office</b>	70 Renton Street Glasgow G4 0HT

### **Members of the Board**

Joanna Pearson (Chairperson)  
William Mooney (Vice Chairperson)  
Angus Turner (Vice Chairperson - Appeals)  
John Paterson (Vice Chairperson)  
Gillian Anderson  
Anne Finnegan  
Duncan Sim  
David Meechan  
David Le Sage  
Sheenagh Simpson  
Agnes Kelly  
Laura Finnan-Cowan  
Paul Cannop (from 7 December 2016)  
Bob Parry (from 25 January 2017)  
Jack Crombie (from 25 January 2017)  
Michael McKernon (resigned 5 October 2016)

### **Executive Officers**

Andrea Wood (Chief Executive from 1 April 2017, Head of Personalisation to 31 March 2017)  
Malcolm Matheson, Chief Executive (retired 31 March 2017)  
Alison Wood, Head of Finance  
Gordon Anderson, Head of Housing  
Jean Ramsay, Head of Support  
Grace Semple, Head of HR

### **Secretary**

James Kearns

### **Bankers**

Clydesdale Bank plc  
120 Bath Street  
Glasgow  
G2 2EN

Bank of Scotland plc  
55 Bath Street  
Glasgow  
G2 5HS

### **External Auditor**

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

### **Solicitors**

BTO Solicitors  
48 St Vincent Street  
Glasgow  
G2 5HS

Naftalin Duncan & Co  
534 Sauchiehall Street  
Glasgow  
G2 3LX

### **Internal Auditor**

TIAA Ltd  
Unit 53-55 Gosport Business Centre  
Gosport  
PO13 0FQ

## **KEY HOUSING ASSOCIATION LIMITED**

### **Report of the Members of the Board (incorporating the Strategic Report) For year ended 31 March 2017**

The Members of the Board has pleasure in presenting its report together with the audited consolidated financial statements for the year ended 31 March 2017.

#### **Structure, Governance and Management**

##### **Background**

Key Housing Association Limited (hereafter referred to as "the 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 control of Key Housing Association Limited.

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 control of Key Housing Association Limited, which holds 100% of the share capital of KHA.

##### **Membership**

The Board members at 31 March 2017 were Joanna Pearson (Chairperson), William Mooney (Vice Chairperson), Angus Turner (Vice Chairperson – appeals), John Paterson (Vice Chairperson), Gillian Anderson, Anne Finnegan, Duncan Sim, David Meehan, David Le Sage, Sheenagh Simpson, Agnes Kelly, Laura Finnan-Cowan, Paul Cannop, Bob Parry and Jack Crombie.

##### **Employee issues**

The Group 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 Group 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 Group 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 Group 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 Group.

##### **Objectives and activities**

The Group's Board agrees objectives and strategies for the Group normally within a 3 year strategic plan timescale. The strategic plan incorporates the long term funding of the Group. During the year ended 31 March 2017, a review process was commenced of the existing Strategic Plan for the period 2017 – 2020, which included a Group Strategic Plan.

The Group 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 Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017

#### 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 Board, 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 the Group's funds are safeguarded and wisely invested, and that loan finance is negotiated within parameters agreed by the Board.

The rent policy aims to achieve a committed rental income that enables the 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 2017, additional funding was made available to Social Care providers from local authorities to ensure that all social care staff were being paid at least the Scottish Living Wage per hour from 1 October 2016. This resulted in increases to funding across all local authority areas which in turn allowed a salary increase for all staff backdated to 1 April 2016. There was also additional funding for overnight support arrangements however there remains considerable uncertainty as to how overnight support should be funded and paid to staff in the longer term.

Despite the targeted funding increased linked to the Scottish Living Wage, 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 Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017**

#### **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 31 March 2017. 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 during 2016/17, which in turn has allowed us to support people with a wider range of needs.

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 2017 was an increase in support hours provided of 2.5% (1,235 hours per week), compared to an increase of 3.7% (1,715 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 2017, KEY supported 1,555 people in 15 local authority areas. In the course of the year, new support arrangements were established for 237 people. This compared to 244 new arrangements in the previous financial year. The overall level of support provided (hours per week) at 31 March 2017 was 49,716, an increase from the March 2016 level of 48,481 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 2017, the Association employed 1,735 contracted staff (308 full time and 1,427 part-time) and on average a further 514 on a relief basis. This compares to 1,716 contracted staff (304 full-time and 1,412 part-time) and on average a further 517 on a relief basis as at 31 March 2016. Details regarding the average number of staff employed during the year is included in note 9 of the financial statements.

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 remodelling housing at Golspie and Fort William, the latter including short breaks accommodation.

With the overall transfer to reserves of £696,656 for the year the total reserves of the Group total £14,509,065 as at 31 March 2017. The Association's revenue reserves were increased by £850,972 to a total of £9,301,654 as at 31 March 2017.

## **KEY HOUSING ASSOCIATION LIMITED**

### **Report of the Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017**

#### **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 2017 for Community Lifestyles Limited was £157,758 (2016: net expenditure £150,526). Community Lifestyles Limited has reserves of £5,203,793 as at 31 March 2017 (2016: £5,361,551).

As at 31 March 2017, Community Lifestyles supported 467 people with total direct support of 15,561 hours per week. New support arrangements were developed for 179 people, compared with the previous year's figure of 69 people.

This was the fourth full year of operation of KHA Developments Limited which saw the completion of the planned remodelling of the shared flat at Fort William. Total turnover for the year was £233,404 (2016: £84,500) with operating costs of £229,963 (2016: £85,216).

#### **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 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 and continue to review all areas of expenditure and procurement to ensure efficiency in all areas.

##### ***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. Similarly, Community Lifestyles have purchased and adapted an office space at Kerr Street, Bridgeton which has provided a Glasgow base for the Association and Community Lifestyles. Staff moved into the new office space in November 2016 and the previous lease was terminated at the end of that month.

##### ***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 suite of e-learning module now includes Adult Support and Protection, Medication Administration, 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 this is also a useful pre-employment module for contracted staff. We have further engaged added value by developing these modules "in house". 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 Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017

#### Value for money (cont'd)

##### Support service activity

Over the past 6 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 the Association and Community Lifestyles, with co-location of management teams at Kerr Street since November 2016. 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 9 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 80, compared to the previous year's figure of 97, and support hours provided by 1,235 (previous year 1,715).

##### Internal financial control

The Board 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 Board is also responsible for safeguarding the assets of the Association and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board acknowledges its ultimate responsibility for ensuring that the Association 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 Board's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements of such systems are:

- i) Formal policies and procedures to restrict the unauthorised use of the 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 Members of the Board 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 Board;
- vi) The appointment by the Board of an internal auditor to carry out a programme of internal audit of the Association's and Group's policies and control systems;
- vii) The Board reviews 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.



## **KEY HOUSING ASSOCIATION LIMITED**

### **Report of the Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017**

#### **Internal financial control (continued)**

The Members of the Board has reviewed the effectiveness of the system of internal controls in existence in the Association and Group for the year ended 31 March 2017. In the opinion of the Members of the Board, no weaknesses were found in the internal controls which would result in material loss, contingencies, or uncertainties requiring disclosure in the financial statements or the auditor's report.

#### **Financial review**

The group generated an operating surplus of £1,251,838 (2016: £1,451,184) for the year ending 31 March 2017 and a surplus after interest of £696,656 (2016: £800,043).

KEY generated an operating surplus of £1,415,070 (2016: £1,620,771) and a surplus after interest of £850,972 (2016: £952,381).

#### **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. KEY continue to internally monitor these sums.

#### **Going concern**

After making enquiries, the Board 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 Board 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 Board monitored progress with the Strategic Plans for the period to 2017 for Housing and Support activities and agreed revised plans for the period to 2020. 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 a 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 Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017

#### 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.

#### Principal risks and uncertainties

The Group 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 the Association are detailed below along with mitigating actions being taken by the Association.

In terms of Group wide risks, the main risks identified are:

Risks	Actions to Mitigate
That the Board was not equipped to control the organisation	Regular review of Board profile and performance. Comprehensive delegation guidelines.  Clear remits for Audit and Office Bearers' Committees.  System of Review Groups, and regular in house training programme.
That the pension scheme deficit grows or that loss of income inhibits the capacity to meet the deficit	Concession agreed with SHAPS for further 3 year period until 2020 at next revaluation. Assets (housing stock) revalued in 2016 to meet future liability on balance sheet.
Failure to meet the requirements of the Scottish Housing Regulator (SHR)	Committee annual review of compliance against SHR Regulatory Framework

## KEY HOUSING ASSOCIATION LIMITED

### Report of the Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017

#### Principal risks and uncertainties (cont'd)

For Support activity:

Risks	Actions to Mitigate
Costs driven to below acceptable level. Overstretched services/ insufficient resources to support managers	Review during 2016 of management resources (including admin support) in local services.  Regular operational reviews.  Comprehensive policies, procedures and training.  Serious incident reporting system and follow up.  Access to independent counselling
Recruitment difficulties and potential implications of Brexit	Rigorous recruitment process.  Competitive terms and conditions.  Local approaches to recruitment where appropriate.
Losing financial viability	Regular deployment analysis, budget review and operational reviews.  Quarterly reports on service funding and development to OBC. Positive attitude to controlled growth.  Intensive Housing Management funding to be further explored.
Losing services/not winning/missing tender	Ensuring 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

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; and
- 3) Ensuring our IT systems are adequate to our current and future needs.

## KEY HOUSING ASSOCIATION LIMITED

### Report of the Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017

#### 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 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 surveys are in place to ensure KEY is gaining feedback from 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	Future uncertainly remains over the funding of additional landlord costs of supported housing following the introduction of the local housing allowance cap
Failure to consider rental affordability	Work underway to consider affordability in context of KEY's housing provision.
Poor satisfaction rating from tenants on quality of service received	Regular tenant satisfaction surveys are in place to ensure KEY is gaining feedback from tenants and responding to issues which arise. Overall focus on tenant satisfaction in all activity

#### Statement of the Board's Responsibilities

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

Housing Association legislation requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and Group at the end of the year and of the income and expenditure of the Association and Group for the year then ended.

In preparing these financial statements the Board is required to:

- Select suitable accounting policies and apply them consistently;
- 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 a going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board 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 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 Board is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **KEY HOUSING ASSOCIATION LIMITED**

### **Report of the Members of the Board (incorporating the Strategic Report) For the year ended 31 March 2017**

#### **Disclosure of information to the auditor**

To the knowledge and belief of each of the persons who are members of the Board at the time this report is approved:

- So far as each Board member is aware, there is no relevant audit information of which the auditor is unaware; and
- He/she has taken all the steps that he/she ought to have taken as a Member of the Board in order to make himself/herself aware of any relevant audit information, and to establish that the 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.

By order of the Board

A handwritten signature in black ink, appearing to read 'J. Kearns'.

**James Kearns**  
**Secretary**

Date: 30 August 2017

## **KEY HOUSING ASSOCIATION LIMITED**

### **Report of the Auditor to the Members of Key Housing Association Limited on the Financial Statements For the year ended 31 March 2017**

We have audited the financial statements of Key Housing Association Limited for the year ended 31 March 2017 which comprise the Group and Association Statement of Comprehensive Income, the Group and Association Statement of Financial Position, the Group and Association Statement of Changes in Capital and Reserves, the Group and Association Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members as a body, in accordance with Section 87 of the Cooperative 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 Members of the Board and the Auditor**

As explained more fully in the Statement of the Board's Responsibilities are set out on page 10, the Board is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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/apb/scope/private](http://www.frc.org.uk/apb/scope/private)

#### **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 2017 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; 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

### Report of the Auditor to the Members of Key Housing Association Limited on the Financial Statements (continued)

For the year ended 31 March 2017

#### 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 we need for our audit.



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

Dated: 30 August 2017

## **KEY HOUSING ASSOCIATION LIMITED**

### **Report of the Auditor to the Board of Key Housing Association Limited on Corporate Governance Matters**

**For the year ended 31 March 2017**

In addition to our audit of the Financial Statements, we have reviewed your statements on pages 6 and 7 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 on 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 pages 6 and 7 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 Members of the Board and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Board'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: 30 August 2017



# KEY HOUSING ASSOCIATION LIMITED

## Consolidated Statement of Comprehensive Income For the year ended 31 March 2017

	Notes	2017 £	2016 £
<b>Turnover</b>	4	59,723,906	55,846,182
Operating expenditure	4	(58,472,068)	(54,394,998)
<b>Operating surplus</b>	8	1,251,838	1,451,184
Interest receivable	11	37,469	67,437
Interest payable	11	(695,875)	(702,462)
Movement in market value of investments	15	103,224	(16,116)
<b>Surplus for the year before tax</b>		696,656	800,043
Tax	12	-	-
<b>Surplus for the year after tax</b>		696,656	800,043
Other comprehensive income		-	-
<b>Total comprehensive income</b>		696,656	800,043

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 loss of £370,272 (2016: a gain of £204,000) 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 2017

	Notes	2017 £	2016 £
<b>Turnover</b>	5	47,746,024	44,999,836
Operating expenditure	5	(46,330,954)	(43,379,065)
<b>Operating surplus</b>	8	1,415,070	1,620,771
Interest receivable	11	23,553	44,188
Interest payable	11	(690,875)	(696,462)
Movement in market value of investments	15	103,224	(16,116)
<b>Surplus for the year before tax</b>		850,972	952,381
Tax	12	-	-
<b>Surplus for the year after tax</b>		850,972	952,381
Other comprehensive income		-	-
<b>Total comprehensive income</b>		850,972	952,381

The results for the year relate wholly to continuing activities.

The notes form part of these financial statements.

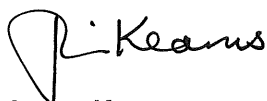
Included in operating expenditure is a remeasurement loss of £369,236 (2016: a gain of £203,000) in respect of the remeasurement of the SHAPS past service deficit liability as detailed in note 23.

# KEY HOUSING ASSOCIATION LIMITED

## Consolidated Statement of Financial Position As at 31 March 2017

	Notes	2017 £	2016 £
<b>Tangible fixed assets</b>			
Housing properties	13	16,163,587	16,012,159
Other fixed assets	14	4,735,520	3,893,270
		<u>20,899,107</u>	<u>19,905,429</u>
<b>Current assets</b>			
Investments	15	1,311,665	1,193,205
Debtors	17	6,505,305	5,769,232
Cash and cash equivalents	16	5,005,989	6,364,943
		<u>12,822,959</u>	<u>13,327,380</u>
<b>Creditors:</b> amounts falling due within one year	18	<u>(5,802,872)</u>	<u>(5,753,200)</u>
<b>Net current assets</b>		<u>7,020,087</u>	<u>7,574,180</u>
<b>Total assets less current liabilities</b>		27,919,194	27,479,609
<b>Creditors:</b> amounts falling due after more than one year	19	(13,409,811)	(13,666,818)
<b>Provisions for liabilities</b>	25	-	-
<b>Net assets</b>		<u>14,509,383</u>	<u>13,812,791</u>
<b>Capital and reserves</b>			
Share capital	26a	318	382
Revenue reserves	26b	14,509,065	13,812,409
		<u>14,509,383</u>	<u>13,812,791</u>

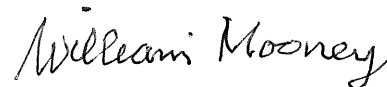
The financial statements were authorised for issue by the Members of the Board on 30 August 2017 and were signed on its behalf by:



**James Kearns**  
Secretary



**David Meechan**  
Board Member



**William Mooney**  
Vice Chairperson

Regulated number: 1938R(S)


The notes form part of these financial statements.

# KEY HOUSING ASSOCIATION LIMITED

## Association Statement of Financial Position As at 31 March 2017

	Notes	2017 £	2016 £
<b>Tangible fixed assets</b>			
Housing properties	13	16,163,587	16,012,159
Other fixed assets	14	2,659,957	2,886,915
		<u>18,823,544</u>	<u>18,899,074</u>
<b>Current assets</b>			
Investments	15	722,051	618,827
Debtors	17	4,719,254	4,302,114
Cash at bank and in hand	16	2,880,152	2,865,622
		<u>8,321,457</u>	<u>7,786,563</u>
<b>Creditors:</b> amounts falling due within one year	18	(4,525,754)	(4,677,154)
<b>Net current assets</b>		<u>3,795,703</u>	<u>3,109,409</u>
<b>Total assets less current liabilities</b>		22,619,247	22,008,483
<b>Creditors:</b> amounts falling due after more than one year	19	(13,317,275)	(13,557,419)
Provisions for liabilities	25	-	-
<b>Net assets</b>		<u>9,301,972</u>	<u>8,451,064</u>
<b>Capital and reserves</b>			
Share capital	26a	318	382
Revenue reserves	26b	9,301,654	8,450,682
		<u>9,301,972</u>	<u>8,451,064</u>

The financial statements were authorised for issue by the Members of the Board on 30 August 2017 and were signed on its behalf by:



**James Kearns**  
Secretary



**David Meechan**  
Board Member



**William Mooney**  
Vice Chairperson

Regulated number: 1938RCS

The notes form part of these financial statements.

# KEY HOUSING ASSOCIATION LIMITED

## Consolidated Statement of Changes in Capital and Reserves As at 31 March 2017

	Note	Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2016		382	13,812,409	13,812,791
Total comprehensive income for the year		-	696,656	696,656
Shares cancelled during the year	26a	(66)	-	(66)
Shares issued in the year	26a	2	-	2
Balance at 31 March 2017		<u>318</u>	<u>14,509,065</u>	<u>14,509,383</u>

		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 cancelled during the year	26a	-	-	-
Shares issued in the year	26a	4	-	4
Balance at 31 March 2016		<u>382</u>	<u>13,812,409</u>	<u>13,812,791</u>

The notes form part of these financial statements.

# **KEY HOUSING ASSOCIATION LIMITED**

## **Association Statement of Changes in Capital and Reserves As at 31 March 2017**

	<b>Note</b>	<b>Share Capital £</b>	<b>Revenue Reserves £</b>	<b>Total Reserves £</b>
Balance at 1 April 2016		382	8,450,682	8,451,064
Total comprehensive income for the year		-	850,972	850,972
Shares cancelled during the year	26	(66)	-	(66)
Shares issued during the year	26	2	-	2
		<u>318</u>	<u>9,301,654</u>	<u>9,301,972</u>
Balance at 31 March 2017				

		<b>Share Capital £</b>	<b>Revenue Reserves £</b>	<b>Total Reserves £</b>
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 cancelled during the year	26a	-	-	-
Shares issued during the year	26a	4	-	4
Balance at 31 March 2016		<u>382</u>	<u>8,450,682</u>	<u>8,451,064</u>

The notes form part of these financial statements.

# KEY HOUSING ASSOCIATION LIMITED

## Consolidated Statement of Cash Flows For the year ended 31 March 2017

	Notes	2017 £	2016 £
<b>Net cash generated from operating activities</b>	27a	571,995	1,249,376
<b>Cashflows from investing activities</b>			
Payments to acquire and improve housing stock		(667,845)	(545,894)
Purchase of other property, plant and equipment		(1,212,722)	(1,337,730)
Proceeds from sale of property, plant and equipment		3,400	1,944
Interest received		37,469	67,437
HAG and other capital grants received		162,607	-
		<u>(1,677,091)</u>	<u>(1,814,243)</u>
<b>Cashflows from financing activities</b>			
Share capital issued		2	4
Interest paid		(82,875)	(90,462)
Housing loans repaid		(155,749)	(148,373)
Current asset investment movement		(15,236)	-
		<u>(253,858)</u>	<u>(238,831)</u>
<b>Net change in cash and cash equivalents</b>		<u>(1,358,954)</u>	<u>(803,698)</u>
<b>Cash and cash equivalents at beginning of year</b>		6,364,943	7,168,641
<b>Cash and cash equivalents at end of the year</b>		<u><u>5,005,989</u></u>	<u><u>6,364,943</u></u>

The notes form part of these financial statements.

# KEY HOUSING ASSOCIATION LIMITED

## Association Statement of Cash Flows For the year ended 31 March 2017

	Notes	2017 £	2016 £
<b>Net cash generated from operating activities</b>	27b	782,976	1,172,366
<b>Cashflow from investing activities</b>			
Payments to acquire and improve housing stock		(667,845)	(545,894)
Purchase of other property, plant and equipment		(51,539)	(379,161)
Proceeds from sale of property, plant and equipment		3,400	1,944
Interest received		23,553	44,188
HAG and other capital grants received		162,607	-
		<u>(529,824)</u>	<u>(878,923)</u>
<b>Cashflows from financing activities</b>			
Share capital issued		2	4
Interest paid		(82,875)	(90,462)
Housing loans repaid		(155,749)	(148,373)
		<u>(238,622)</u>	<u>(238,831)</u>
<b>Net change in cash and cash equivalents</b>		14,530	54,612
Cash and cash equivalents at beginning of year		2,865,622	2,811,010
Cash and cash equivalents at end of the year		<u><u>2,880,152</u></u>	<u><u>2,865,622</u></u>

The notes form part of these financial statements.



## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 1. General information

The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 (FRS 102) 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), the Determination of Housing Requirements 2014 issued by the Scottish Housing Regulator and Housing SORP 2014 Statement of Recommended Practice for Social Housing Providers issued in 2014. The principal accounting policies are set out below.

The preparation of financial statements in compliance with FRS 102 requires the use of certain accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies (see note 3).

The presentation currency is pounds sterling and the financial statements are rounded to the nearest whole number.

The Association is a Co-operative and Community Benefit Society limited by shares and is incorporated in the United Kingdom. The Association is a registered social landlord in Scotland and its registered number is HEP141. The registered address is 70 Renton Street, Glasgow, G4 0HT.

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

#### 2. Principal accounting policies

The financial statements are prepared under the historical cost basis of accounting, subject to the revaluation of certain fixed assets, and in accordance with applicable accounting standards. However, please note that on transition to FRS102, an existing use value was used as deemed cost for housing properties.

##### **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 2017 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 2017

#### 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 Board expect the Association to generate a surplus in 2017/18 and 2018/19 and the Board is satisfied that the Association 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 Group 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 Group to recognise income on a systematic basis over the period in which the Group 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.

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 2. Principal accounting policies (cont'd)

##### 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.

A grant that imposes specific future performance related conditions on the recipient is recognised as revenue only when the performance related conditions are met.

A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

##### 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.

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 2. Principal accounting policies (cont'd)

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
Wemyss Big Lodge	-	3.33% per annum straight line

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

#### 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.

## **KEY HOUSING ASSOCIATION LIMITED**

### **Notes to the financial statements For the year ended 31 March 2017**

#### **2. Principal accounting policies (cont'd)**

##### **Financial instruments (cont'd)**

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.

##### **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 the subsidiary, KHA Developments Limited, 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.

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 2. Principal accounting policies (cont'd)

##### Defined Contribution Scheme

As noted above, the Group also participates in defined contribution schemes with SHAPs and with Standard Life. The pension costs charged against operating profits are contributions payable to the respective 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 the Association continue to internally monitor these sums.

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

<u>Estimate</u>	<u>Basis of estimation</u>
Valuation of Housing Properties	Housing Properties are held at deemed cost which is based on an existing use valuation at the date of transition of 1 April 2014. The assumptions used in the existing use value were reviewed and are considered reasonable.
Useful lives of property, plant and equipment	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 main components of housing properties and their useful lives	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.
Recoverable amount of rental and other trade receivables	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.
The obligations under the SHAPs pension scheme	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 2016 valuation.
Investments at market value	This has relied on the valuation prepared by investment managers as at the year end.

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

### 4. Particulars of turnover, operating expenditure and operating surplus - Consolidated

	Turnover 2017 £	Operating expenditure 2017 £	Operating surplus/ (deficit) 2017 £	Operating surplus/ (deficit) 2016 £
Social lettings (note 6)	4,767,918	3,967,161	800,757	1,116,428
Other activities (note 7a)	54,955,988	54,504,907	451,081	334,756
Total 2017	<u>59,723,906</u>	<u>58,472,068</u>	<u>1,251,838</u>	
Total 2016	<u>55,846,182</u>	<u>54,394,998</u>		<u>1,451,184</u>

### 5. Particulars of turnover, operating expenditure and operating surplus – The Association

	Turnover 2017 £	Operating expenditure 2017 £	Operating surplus/ (deficit) 2017 £	Operating surplus/ (deficit) 2016 £
Social lettings (note 6)	4,767,918	3,967,161	800,757	1,116,428
Other activities (note 7b)	42,978,106	42,363,793	614,313	504,343
Total 2017	<u>47,746,024</u>	<u>46,330,954</u>	<u>1,415,070</u>	
Total 2016	<u>44,999,836</u>	<u>43,379,065</u>		<u>1,620,771</u>

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

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

	General Needs Housing £	Supported Housing £	2017 Total £	2016 Total £
Rent receivable net of service charges	504,585	3,862,307	4,366,892	3,828,198
Service charges	19,946	425,473	445,419	431,612
<b>Gross income from rents and service charges</b>	<b>524,531</b>	<b>4,287,780</b>	<b>4,812,311</b>	<b>4,259,810</b>
<b>Less voids</b>	<b>(7,984)</b>	<b>(39,782)</b>	<b>(47,766)</b>	<b>(41,880)</b>
<b>Net income from rents and services</b>	<b>516,547</b>	<b>4,247,998</b>	<b>4,764,545</b>	<b>4,217,930</b>
Amortisation of deferred government capital grants	-	3,373	3,373	3,373
<b>Total turnover from social letting activities</b>	<b>516,547</b>	<b>4,251,371</b>	<b>4,767,918</b>	<b>4,221,303</b>
Management and maintenance administration costs	(136,791)	(681,655)	(818,446)	(892,859)
Service costs	(38,575)	(1,749,297)	(1,787,872)	(868,303)
Planned and cyclical maintenance costs including major repairs	(88,651)	(441,765)	(530,416)	(468,463)
Reactive maintenance costs	(53,000)	(261,010)	(314,010)	(340,686)
Depreciation of social housing	(86,311)	(430,106)	(516,417)	(534,564)
<b>Operating expenditure for social letting activities</b>	<b>(403,328)</b>	<b>(3,563,833)</b>	<b>(3,967,161)</b>	<b>(3,104,875)</b>
<b>Operating Surplus on letting activities, 2017</b>	<b>113,219</b>	<b>687,538</b>	<b>800,757</b>	
<b>Operating Surplus on letting activities, 2016</b>	<b>105,023</b>	<b>1,011,405</b>		<b>1,116,428</b>

Included in depreciation of social housing is £97,634 (2016: £136,857) in respect of the loss on disposal of components.



**KEY HOUSING ASSOCIATION LIMITED**

Notes to the financial statements  
For the year ended 31 March 2017

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

	Grants from Scottish Ministers 2017 £	Support funding 2017 £	Total turnover 2017 £	Operating expenditure 2017 £	Operating surplus / (deficit) 2017 £	Operating surplus 2016 £
Development activities	179,114	-	179,114	203,055	(23,941)	38,859
Care activities	-	54,776,874	54,776,874	54,301,852	475,022	295,897
<b>Total from other activities 2017</b>	<u>179,114</u>	<u>54,776,874</u>	<u>54,955,988</u>	<u>54,504,907</u>	<u>451,081</u>	
<b>Total from other activities 2016</b>	<u>283,097</u>	<u>51,341,782</u>	<u>51,624,879</u>	<u>51,290,123</u>		<u>334,756</u>

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

	Grants from Scottish Ministers 2017 £	Other revenue grants 2017 £	Other Agency / Management Services 2017 £	Total turnover 2017 £	Operating expenditure 2017 £	Operating surplus / (deficit) 2017 £	Operating surplus 2016 £
Development activities	179,114	-	-	179,114	203,055	(23,941)	38,859
Care activities	-	42,006,571	792,421	42,798,992	42,160,738	638,254	465,484
<b>Total from other activities 2017</b>	<u>179,114</u>	<u>42,006,571</u>	<u>792,421</u>	<u>42,978,106</u>	<u>42,363,793</u>	<u>614,313</u>	
<b>Total from other activities 2016</b>	<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>

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

### 8. Operating Surplus

	Consolidated		Association	
Operating surplus is stated after:	2017 £	2016 £	2017 £	2016 £
<b>Depreciation:</b>				
- property	418,783	397,707	418,783	397,707
- other fixed assets	269,682	233,917	191,881	214,756
- loss on disposal of components	97,634	136,857	97,634	136,857
<b>Loss on disposal of fixed assets</b>	97,337	-	83,216	-
<b>External auditor's remuneration:</b>				
- external audit services	25,000	29,500	14,250	18,600
<b>Internal auditor's remuneration:</b>				
- internal audit services	13,950	11,250	13,950	11,250
<b>Operating lease costs:</b>				
- motor vehicles	45,710	21,080	45,710	21,080
- land and buildings	569,978	533,980	569,978	490,840

### 9. Remuneration

Board members are not remunerated.

The number of employees in the year whose emoluments (excluding pension contributions) exceeded £60,000 were as follows:

	2017	2016
More than £60,000 but not more than £70,000	3	4
More than £70,000 but not more than £80,000	1	-
More than £80,000 but not more than £90,000	-	-
More than £90,000 but not more than £100,000	1	1

Total emoluments paid to employees whose emoluments (excluding pension contributions) exceeded £60,000 were as follows:

Emoluments of those earning > £60,000	Consolidated		Association	
	2017 £	2016 £	2017 £	2016 £
Salary	373,526	374,648	373,526	374,648
Pension contributions	28,186	28,741	28,186	28,741
	<u>401,712</u>	<u>403,389</u>	<u>401,712</u>	<u>403,389</u>

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 9. Remuneration (cont'd)

The Association considers key management personnel to be the Board and the senior management team of the Association as detailed on page 1 under Executive Officers.

Key management emoluments	Consolidated		Association	
	2017	2016	2017	2016
	£	£	£	£
Salary	429,563	428,679	429,563	428,679
Pension contributions	32,915	33,366	32,915	33,366
	<u>462,478</u>	<u>462,045</u>	<u>462,478</u>	<u>462,045</u>

The emoluments excluding pension contributions of the highest paid director who is the former Chief Executive (retired 31 March 2017) were £100,084 (2016: £95,443).

The former Chief Executive (retired 31 March 2017) 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 former Chief Executive had no personal pension arrangements. Pension contributions in respect of the former Chief Executive amounted to £6,134 (2016: £7,826).

	Consolidated		Association	
	2017	2016	2017	2016
	£	£	£	£
Expenses paid to members of the Board	<u>2,965</u>	<u>814</u>	<u>2,965</u>	<u>814</u>

Staff costs (including Directors' emoluments) during the year:

Wages and salaries	47,156,753	45,093,979	37,151,550	35,740,578
Social security costs	3,587,466	3,335,856	2,738,678	2,573,128
Pension costs	446,015	440,669	384,438	382,456
Pension costs – Past service scheme expenses	66,817	66,818	66,110	66,109
Pension costs – Past service deficit measurement	370,272	(204,000)	369,236	(203,000)
	<u>51,627,323</u>	<u>48,733,322</u>	<u>40,710,012</u>	<u>38,559,271</u>

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

During the past year past service deficit contributions of £1,290,961 (2016: £1,255,305) were paid for the Group and £1,269,054 (2016: £1,234,016) for KEY. Of this payment £1,224,144 (2016: £1,188,487) for the Group and £1,202,944 (2016: £1,167,907) for KEY was a payment in respect of the SHAPS past service deficit liability. The remainder of £66,817 (2016: £66,818) for the Group and £66,110 (2016: £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 £613,000 (2016: £612,000) for the Group and £608,000 (2016: £606,000) for KEY in the year.

In addition to expenditure on direct salaries, the group incurred £1,475,679 (2016: £637,144) expenditure on the use of agency staff. For KEY this was £777,018 (2016: £273,289).

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

### 9. Remuneration (cont'd)

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

	<b>Consolidated</b>			
	<b>2017 average weekly Nos</b>	<b>2016 average weekly Nos</b>	<b>2017 FTE Nos</b>	<b>2016 FTE Nos</b>
Head Office	99	88	99	91
Services	2,702	2,701	2,111	2,077
	<u>2,801</u>	<u>2,789</u>	<u>2,210</u>	<u>2,168</u>
	<b>Association</b>			
	<b>2017 average weekly Nos</b>	<b>2016 average weekly Nos</b>	<b>2017 FTE Nos</b>	<b>2016 FTE Nos</b>
Head Office	99	88	99	91
Services	2,183	2,210	1,636	1,625
	<u>2,282</u>	<u>2,298</u>	<u>1,735</u>	<u>1,716</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 (2016: 45 days) of receipt.

### 11. Interest receivable and payable

	<b>Consolidated</b>		<b>Association</b>	
	<b>2017 £</b>	<b>2016 £</b>	<b>2017 £</b>	<b>2016 £</b>
<b>Interest receivable and similar income</b>				
Bank deposit interest	34,943	64,953	21,027	41,704
Union commission	2,526	2,484	2,526	2,484
	<u>37,469</u>	<u>67,437</u>	<u>23,553</u>	<u>44,188</u>
<b>Interest payable and similar charges:</b>				
Bank loans and other loan	(82,875)	(90,462)	(82,875)	(90,462)
Unwinding of the discount rate – pension deficit (note 23)	(613,000)	(612,000)	(608,000)	(606,000)
	<u>(695,875)</u>	<u>(702,462)</u>	<u>(690,875)</u>	<u>(696,462)</u>

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 12. Taxation

##### Group

The Association and Community Lifestyles Limited has charitable status and thus no corporation tax is due from their charitable activities.

KHA Developments Limited made a taxable profit of £716 but no tax was due as a result of the use of prior year tax losses.

##### Association

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

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

	2017 £	2016 £
<b>Cost</b>		
At 1 April 2016	16,777,937	16,376,156
Additions	667,845	545,894
Disposals	(108,964)	(144,113)
	<hr/>	<hr/>
At 31 March 2017	17,336,818	16,777,937
	<hr/>	<hr/>
<b>Property Depreciation</b>		
At 1 April 2016	765,778	375,327
Charge for the year	418,783	397,707
Disposals	(11,330)	(7,256)
	<hr/>	<hr/>
At 31 March 2017	1,173,231	765,778
	<hr/>	<hr/>
<b>Net Book Value at 31 March 2017</b>	<hr/> <hr/> 16,163,587	<hr/> <hr/> 16,012,159

Total cost of components capitalised for the year amounted to £667,845 (2016: £545,894). 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 (2016 - £nil) and £nil capitalised administration costs (2016 - £nil). All housing properties are freehold. Properties with a cost of £nil (2016: £nil) and accumulated depreciation of £nil (2016: £nil) have been disposed in the year. Components with a cost of £108,964 (2016: £144,113) and accumulated depreciation of £11,330 (2016: £7,256) have been disposed of for £nil (2016: £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 2017

### 14. Fixed Assets – Other - Consolidated

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge	Office Accomm- odation £	Total £
<b>Cost</b>					
At 1 April 2016	343,877	1,053,337	132,227	3,434,290	4,963,731
Additions	15,495	139,136	-	1,058,091	1,212,722
Disposals	(44,395)	(597,781)	-	-	(642,176)
	<u>314,977</u>	<u>594,692</u>	<u>132,227</u>	<u>4,492,381</u>	<u>5,534,277</u>
<b>Depreciation</b>					
At 1 April 2016	235,708	643,607	4,408	186,738	1,070,461
Charge for year	48,948	103,987	4,408	112,339	269,682
Disposals	(41,516)	(499,870)	-	-	(541,386)
	<u>243,140</u>	<u>247,724</u>	<u>8,816</u>	<u>299,077</u>	<u>798,757</u>
<b>Net Book Value</b>					
At 31 March 2017	<u>71,837</u>	<u>346,968</u>	<u>123,411</u>	<u>4,193,304</u>	<u>4,735,520</u>
At 31 March 2016	<u>108,169</u>	<u>409,730</u>	<u>127,819</u>	<u>3,247,552</u>	<u>3,893,270</u>

### Fixed Assets – Other - Association

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge	Office Accomm- odation £	Total £
<b>Cost</b>					
At 1 April 2016	343,877	908,932	132,227	2,488,646	3,873,682
Additions	15,495	36,044	-	-	51,539
Disposals	(44,395)	(539,998)	-	-	(584,393)
	<u>314,977</u>	<u>404,978</u>	<u>132,227</u>	<u>2,488,646</u>	<u>3,340,828</u>
<b>Depreciation</b>					
At 1 April 2016	235,708	559,913	4,408	186,738	986,767
Charge for year	48,948	76,279	4,408	62,246	191,881
Disposals	(41,516)	(456,261)	-	-	(497,777)
	<u>243,140</u>	<u>179,931</u>	<u>8,816</u>	<u>248,984</u>	<u>680,871</u>
<b>Net Book Value</b>					
At 31 March 2017	<u>71,837</u>	<u>225,047</u>	<u>123,411</u>	<u>2,239,662</u>	<u>2,659,957</u>
At 31 March 2016	<u>108,169</u>	<u>349,019</u>	<u>127,819</u>	<u>2,301,908</u>	<u>2,886,915</u>

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

### 15. Investments

<b>Consolidated</b>	<b>2017 £</b>	<b>2016 £</b>
Quoted investments (see below)	722,050	618,826
Balances held in deposit accounts	589,615	574,379
	<u>1,311,665</u>	<u>1,193,205</u>
<b>Association</b>	<b>2017 £</b>	<b>2016 £</b>
Investment in subsidiary undertaking:		
- KHA Developments Limited	1	1
Quoted investments (see below)	722,050	618,826
	<u>722,051</u>	<u>618,827</u>

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 surplus of £716 (2016: £1,812 deficit) for the year ended 31 March 2017 and had net assets of £892 (2016: £176).

At 31 March 2017 and at 31 March 2016, 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 £157,758 (2016: a deficit of £150,526) for the year ended 31 March 2017 and had net assets of £5,203,793 (2016: £5,361,551).

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

	<b>Consolidated</b>		<b>Association</b>	
	<b>2017 £</b>	<b>2016 £</b>	<b>2017 £</b>	<b>2016 £</b>
<b>Quoted investments</b>				
Market value at 1 April 2016	618,826	634,942	618,826	634,942
Movement in market value	103,224	(16,116)	103,224	(16,116)
Market value at 31 March 2017	<u>722,050</u>	<u>618,826</u>	<u>722,050</u>	<u>618,826</u>
Historical cost at 31 March 2017	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>

The following investments represent over 5% of the portfolio

	<b>Value at 31 March 2017 £</b>	<b>% holding</b>
Legal and General US Index Trust	94,987	13%
Legal and General European Index Trust R Inc.	127,782	18%
Legal and General UK Index R Inc.	108,061	15%
M&G UK Inflation Linked Corporate Bond GPB A Inc.	50,141	7%

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

### 16. Cash and cash equivalents

	Consolidated		Association	
	2017	2016	2017	2016
	£	£	£	£
Current account	1,929,149	2,873,166	1,350,256	1,530,876
Deposit accounts	3,076,840	3,491,777	1,529,896	1,334,746
	<u>5,005,989</u>	<u>6,364,943</u>	<u>2,880,152</u>	<u>2,865,622</u>

### 17. Debtors: falling due within one year

	Consolidated		Association	
	2017	2016	2017	2016
	£	£	£	£
Rent Arrears	77,624	146,330	77,624	146,330
Less: provision for bad debts	(27,537)	(25,635)	(27,537)	(25,635)
Arrears for rent and service charge	50,087	120,695	50,087	120,695
Other debtors and prepayments	453,940	487,749	320,142	413,288
Local authority revenue grant receivable	6,001,278	5,160,788	3,701,077	3,700,955
Amounts owed by subsidiary undertakings	-	-	647,948	67,176
	<u>6,505,305</u>	<u>5,769,232</u>	<u>4,719,254</u>	<u>4,302,114</u>

### 18. Creditors: falling due within one year

	Consolidated		Association	
	2017	2016	2017	2016
	£	£	£	£
Deferred Government capital grant (note 22)	6,625	3,373	6,625	3,373
Accruals and deferred grant income	2,120,758	1,942,014	1,544,220	1,394,710
Loans (note 21)	163,718	155,748	163,718	155,748
Prepayments of rent and service charge	97,137	86,674	97,137	86,674
Social security and other taxes	859,640	810,612	647,999	625,124
Other creditors	886,612	951,024	360,437	581,814
Trade creditors	189,094	312,663	189,094	312,663
Amounts due to subsidiary undertakings	-	-	80,101	73,461
SHAPS past service pension liability (note 23)	1,261,714	1,253,316	1,239,033	1,232,334
Pension creditor	217,574	237,776	197,390	211,253
	<u>5,802,872</u>	<u>5,753,200</u>	<u>4,525,754</u>	<u>4,677,154</u>



# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

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

	<b>Consolidated</b>		<b>Association</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Deferred Government capital grant (note 22)	317,875	161,893	317,875	161,893
SHAPS past service pension liability (note 23)	11,701,652	11,950,922	11,609,116	11,841,523
Housing loans (note 21)	1,390,284	1,554,003	1,390,284	1,554,003
	<u>13,409,811</u>	<u>13,666,818</u>	<u>13,317,275</u>	<u>13,557,419</u>

### 20. Financial Instruments

	<b>Consolidated</b>		<b>Association</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Financial assets</b>				
Investments	1,311,665	1,193,205	722,051	618,827
Cash and cash equivalents	5,005,989	6,364,943	2,880,152	2,865,622
Financial assets measured at amortised cost	<u>6,410,471</u>	<u>5,654,866</u>	<u>4,637,183</u>	<u>4,187,751</u>
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost	<u>16,984,996</u>	<u>18,768,703</u>	<u>16,642,068</u>	<u>17,444,183</u>

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

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Total bank loans outstanding:</b>		
Payable in one year or less	163,718	155,748
Payable within one to two years	171,674	163,718
Payable within two to five years	770,105	541,216
Payable over five years	448,505	849,069
	<u>1,554,002</u>	<u>1,709,751</u>
Less: payable within one year	(163,718)	(155,748)
Total bank loans due after one year	<u>1,390,284</u>	<u>1,554,003</u>

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%.

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 22. Deferred capital grants: Consolidated and Association

	2017 £	2016 £
<b>Gross grant</b>		
At 1 April 2016	168,639	168,639
Grants received in year	162,607	-
	<hr/>	<hr/>
At 31 March 2017	331,246	168,639
	<hr/>	<hr/>
<b>Amortisation of grant</b>		
At 1 April 2016	3,373	-
Amortisation	3,373	3,373
	<hr/>	<hr/>
<b>At 31 March 2017</b>	6,746	3,373
	<hr/>	<hr/>
 Net grant at 31 March 2017	 324,500	 165,266
	<hr/>	<hr/>
 Payable in one year or less	 6,625	 3,373
Payable within one to two years	6,625	3,373
Payable within two to five years	20,237	10,119
Payable over five years	291,013	148,401
	<hr/>	<hr/>
Total	324,500	165,266
	<hr/>	<hr/>

#### 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 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.

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 23. Retirement benefits (continued)

##### Defined benefits (continued)

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 £1,202,944 (net of administration costs) made in the year ended 31 March 2017 (2016 - £1,167,907).

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 2015 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the valuation date was £616 million. The valuation revealed a shortfall of assets compared to liabilities of £197 million, equivalent to a past service funding level of 76%.

##### 2016 Update

Each year the Scheme actuary provides an estimate of the solvency funding position. This base assumes that SHAPS would up on 20 September 2016 and all pension liabilities were secured in full and in one transaction with an insurance company on that day. The Actuary regularly reviews insurers pricing methodologies and includes these in the solvency funding and employer debt on withdrawal calculations.

Between 30 September 2015 and 30 September 2016 the solvency funding position has improved from 40% to 41% however the deficit has increased from £937m to £1,176m (an increase of circa 26%). The increase is mainly a result of the change in assumptions used to calculate the benefit liabilities – gilt yields have decreased which means insurers' pricing assumed lower investment returns in the future.

The past service deficit contribution for 2016/17 was £1,202,944 (net of administration costs) for the Association and £21,200 for Community Lifestyles Limited. In 2017/18 Key Housing Association Limited will be required to pay £1,239,033 (net of administration costs) and Community Lifestyles Limited will pay £22,681 (net of administration costs), 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 the Association and Community Lifestyle Limited. The past service deficit liability recognised in the financial statements is based on the revised estimated contribution schedule provided on 3 March 2016 by the Pensions Trust.

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

### 23. Retirement benefits (continued)

#### Present Value of Provision

#### Reconciliation of Opening and Closing Provisions

	Consolidated		Association	
	2017	2016	2017	2016
	£	£	£	£
Provision at start of period	13,204,238	13,984,725	13,073,857	13,838,764
Unwinding of the discount factor (interest expense)	613,000	612,000	608,000	606,000
Deficit contribution paid	(1,224,144)	(1,188,487)	(1,202,944)	(1,167,907)
Re-measurements – impact of changes in assumptions	370,272	(204,000)	369,236	(203,000)
Provision at end of period	<u>12,963,366</u>	<u>13,204,238</u>	<u>12,848,149</u>	<u>13,073,857</u>
Split:				
< 1 year	1,261,714	1,253,316	1,239,033	1,232,334
1-2 years	1,279,740	1,220,759	1,256,735	1,198,814
2-5 years	3,986,346	3,713,352	3,916,815	3,646,600
> 5 years	6,435,566	7,016,811	6,435,566	6,996,109
Total	<u>12,963,366</u>	<u>13,204,238</u>	<u>12,848,149</u>	<u>13,073,857</u>
<b>Impact on Statement of Comprehensive Income</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Interest Expense	613,000	612,000	608,000	606,000
Re-measurements – impact of changes in assumptions	370,272	(204,000)	369,236	(203,000)
	<u>983,272</u>	<u>408,000</u>	<u>977,236</u>	<u>403,000</u>
<b>Assumptions</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Rate of discount	1.06%	2.29%	1.06%	2.29%

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 2017

#### 23. Retirement benefits (continued)

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 2016 is £71,883,083 (2016: £58,600,000)

#### **Defined contribution - SHAPS**

There are 146 active members of the SHAPS DC scheme as at 31 March 2017 for the Group and 138 for KEY only. The Group and KEY contribute 5.1% as an employer contribution. Total employer contributions for the year were £223,486 (2016: £231,031) for the Group and £212,225 (2016: £218,944) for Key only. Included in the year end creditors balance is £34,351 (2016: £39,914) for the Group and £32,896 (2016: £38,164) for KEY only in respect of pension contributions payable. This represents one month's contributions.

#### **Defined contribution - Other**

The Group also offers a defined contribution pension scheme under SHAPS. Employer contributions for the year were £22,475 (2016: £25,874) for the Group and £20,564 (2016: £23,468) for Key Housing Association Limited only. Included in creditors as at 31 March 2017 is £2,910 (2016: £3,465) in respect of the defined contribution scheme for the group and £2,732 (2016: £3,200) for Key Housing Association Limited only. This represents one month's contribution. As at 31 March 2017 there were 41 (2016: 50) active members of the scheme employed by the Group and 39 (2016: 45) by Key Housing Association Limited.

#### **Auto Enrolment**

From 1 November 2013, eligible employees in KEY who were not active members of the SHAPs scheme 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 £200,869 (2016: £183,764) for the Group and £152,464 (2016: £140,044) for KEY. As at the year end there were £42,343 (2016: £56,740) pension contributions outstanding for the Group and £25,618 (2016: £41,124) for KEY. There were 1,460 (2016: 1,525) active members for the Group as at 31 March 2017 and 1,122 (2016: 1,194) for KEY only.

## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 24a. Operating lease commitments – Consolidated

Annual commitments expiring within the	Land & Buildings 2017 £	Other 2017 £	Land & Buildings 2016 £	Other 2016 £
Following periods post year end:				
One year or less	279,915	6,420	478,076	5,707
Between two and five years	276,124	39,290	35,744	15,373
In five years or more	13,939	-	20,160	-
	<u>569,978</u>	<u>45,710</u>	<u>533,980</u>	<u>21,080</u>

#### 24b. Operating lease commitments – Association

Annual commitments expiring within the	Land & Buildings 2017 £	Other 2017 £	Land & Buildings 2016 £	Other 2016 £
following periods post year end:				
One year or less	279,915	6,420	434,936	5,707
Between two and five years	276,124	39,290	35,744	15,373
In five years or more	13,939	-	20,160	-
	<u>569,978</u>	<u>45,710</u>	<u>490,840</u>	<u>21,080</u>

#### 25. Provisions for liabilities and charges

	Consolidated		Association	
	2017 £	2016 £	2017 £	2016 £
<b>Dilapidations provisions</b>				
Brought forward at 1 April	-	150,000	-	150,000
Provided in year	-	(150,000)	-	(150,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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 Board'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 2017

### 26a. Share capital – Consolidated and Association

	2017 £	2016 £
<b>Shares of £1 each fully paid and issued at:</b>		
Brought forward at 1 April	382	378
Shares issued during the year	2	4
Shares cancelled during the year	(66)	-
	<hr/>	<hr/>
Shares of £1 each fully paid at 31 March	318	382
	<hr/>	<hr/>

The Association issued 2 (2016: 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.

### 26b. Revenue reserves

The revenue reserve includes all current and prior year retained surpluses or deficits.

### 27a. Net cash inflow from operating activities: Consolidated

	2017 £	2016 £
Surplus for the year	696,656	800,043
<u>Adjustments for non cash items</u>		
Depreciation charges including loss on disposal of components	786,099	768,481
Loss on disposal of other fixed assets	97,390	-
Increase in creditors	30,052	1,333,232
Decrease in provisions	-	(150,000)
(Increase) in debtors	(736,073)	(757,661)
Shares cancelled	(66)	-
SHAPS past service deficit movements	983,272	408,000
Release of deferred Government Capital Grant	(3,373)	(3,373)
Movement in market value of investments	(103,224)	16,116
<u>Adjustments for investing or financing activities</u>		
Interest payable	82,875	90,462
Interest receivable	(37,469)	(67,437)
SHAPS past service deficit payment	(1,224,144)	(1,188,487)
	<hr/>	<hr/>
Net cash inflow from operating activities	571,995	1,249,376
	<hr/>	<hr/>

# KEY HOUSING ASSOCIATION LIMITED

## Notes to the financial statements For the year ended 31 March 2017

### 27b. Net cash inflow from operating activities: Association

	2017 £	2016 £
Surplus for the year	850,972	952,381
<u>Adjustments for non cash items</u>		
Depreciation charges including loss on disposal of components	708,298	749,320
Loss on disposal of other fixed assets	83,216	-
(Decrease)/increase in creditors	(169,321)	850,693
Decrease in provisions	-	(150,000)
(Increase) in debtors	(417,140)	(524,138)
Share capital written off during the year	(66)	-
SHAPS past service deficit movements	977,236	403,000
Release of deferred Government Capital Grant	(3,373)	(3,373)
Movement in market value of investments	(103,224)	16,116
<u>Adjustments for investing or financing activities</u>		
Interest payable	82,875	90,462
Interest receivable	(23,553)	(44,188)
SHAPS past service deficit payment	(1,202,944)	(1,167,907)
Net cash inflow from operating activities	<u>782,976</u>	<u>1,172,366</u>

### 28. Capital commitments – Consolidated and Association

	2017 £	2016 £
Contracted for but not provided for in the financial statements	-	-
Authorised by the Management Committee but not contracted for	-	-
Transfer between KEY HA bank accounts or Community Lifestyles. No issues		

### 29. Contingent liabilities – Consolidated and Association

Neither the Group nor the Association had any contingent liabilities as at 31 March 2017 nor 31 March 2016.



## KEY HOUSING ASSOCIATION LIMITED

### Notes to the financial statements For the year ended 31 March 2017

#### 30. Housing stock – Consolidated and Association

	Units under Manage- ment Mainstream 2017 £	Units under Manage- ment Mainstream 2016 £	Units under Manage- ment Supported 2017 £	Units under Manage- ment Supported 2016 £
<b>Housing accommodation for letting:</b>				
New build	125	125	565	565
Rehabilitation	-	-	22	22
	<u>125</u>	<u>125</u>	<u>587</u>	<u>587</u>
<b>Registered accommodation:</b>				
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, mainly Glasgow City Council.

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

The transactions between the two entities during the year have consisted of net recharges totalling £792,421 (2016: £823,191) by Key Housing Association to Community Lifestyles Limited for staff costs and other overheads. There were also a total of £72,086 (2016: £Nil) of recharges from Community Lifestyles to Key Housing Association Limited for staff costs and other overheads. At 31 March 2017, Community Lifestyles Limited owed Key Housing Association Limited £647,935 (2016: £67,176) in respect of sundry items. Included in the year end creditors is £80,101 (2016: £73,461) 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 Limited had turnover of £233,404 (2016: £84,500) for the year ended 31 March 2017 and operating costs of £232,688 (2016: £86,312). All turnover was received from Key Housing Association Limited, £43,253 (2016: £57,687) of operating costs represent rent and management charges payable to KEY and £2,725 (2016: £1,096) represent a gift aid payment to Key Housing Association Limited. £13 (2016: nil) remains due to the Association at the year end and this is included in debtors.

The Association has members of the Board who are also tenants. The tenancies of these members of the Board are on normal terms and the members cannot use their position to their advantage. The total rent charged in the year relating to Board members who are tenants is £10,676 (2016: £10,528). The total prepaid rent relating to Board members who are tenants included within creditors at the year end is £106 (2016: £102).