

**Kingdom Housing Association Limited – Consolidated**

**Report & Accounts**

**For the year ended 31<sup>st</sup> March 2015**

Scottish Housing Regulator Reg. No. HEP 142

Scottish Charity No SC000874

Financial Conduct Authority Company number SP1981RS

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED**  
**Report of the Board of Management**

<b>Board of Management</b>	Charles Milne Laurie Naumann Thomas Condie Loretta Mordi Douglas Murray Vincent O'Hara Liz Pow Keith Haig Louise Poole Gordon Campbell Freya Lees	(Chairman) (Vice Chairman)      Chair of Audit and Corporate Governance  (Appointed 15 September 2014)
<b>Executive</b>	Bill Banks  Eleanor Fotheringham Norah Smith Keith Stewart  Nicholas Pollard	Chief Executive (Appointed June 2014) Director of Resources and Company Secretary Director of Housing and Care Director of Finance & IT (Retired June 2014) Director of Finance & IT (Appointed January 2015)
<b>Registered Office</b>	Saltire Centre Pentland Court Glenrothes KY6 2DA	
<b>Registration Numbers</b>	Co-operative and Community Benefit Societies Act 2014, Reg. No.1981 R(S) Scottish Housing Regulator Reg. No. HEP 142 Scottish Charity No SC000874	
<b>Independent Auditors</b>	Baker Tilly UK Audit LLP First Floor, Quay 2 139 Fountainbridge Edinburgh EH3 9QG	
<b>Principal Banker</b>	Bank of Scotland 67 Bank Street Lochgelly KY5 9QN	

# **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED**

## **Report of the Board of Management**

The Board of Management (the Board) presents its report and consolidated accounts for the year ended 31<sup>st</sup> March 2015.

### **Legal Status**

Kingdom Housing Association Limited (KHA), is incorporated in Scotland and registered with the Financial Conduct Authority (FCA) under the Co-operative and Community Benefit Societies and Credit Unions Act, 2014 as a mutual society under registration number SP1981RS and is registered as a Registered Social Landlord or Housing Association, HEP142 with the Scottish Housing Regulator (SHR). It is also a Scottish Charity registered with the Office of the Scottish Charity Regulator (OSCR) No. SC000874. KHA has a wholly owned subsidiary company, Kingdom Initiatives Limited (KIL), a non charitable company limited by shares. These consolidated accounts include the results of KHA and KIL for the year to 31<sup>st</sup> March 2015.

### **Principal activities**

KHA's principal activity is the provision and management of affordable housing, however our mission statement is to 'provide more than a home' and this is reflected in the additional activities we provide, relating to Support & Care and Wider Role. KHA operates in East Central Scotland, providing affordable housing to meet a range of needs.

KHA owns and manages a wide range of housing for rent and seeks to increase the number of properties it has available by building new properties and acquiring existing properties using an appropriate mix of subsidy, mainly from the Scottish Government, private finance and its own resources. As the amount of subsidy available for social rented housing has been reduced KHA will endeavor to maintain a development programme to provide housing, including mid-market rent properties where the rent is based upon a percentage of the appropriate Local Housing Allowance and hence higher than its social rents, to offset the reduction in subsidy. It also has a significant number of shared ownership properties and provides accommodation for homeless people.

KHA is part of the Fife Housing Association Alliance (FHAA), comprising four Fife-based Registered Social Landlords (RSLs), namely KHA, Fife Housing Association Ltd, Glen Housing Association Ltd and Ore Valley Housing Association Ltd. This alliance works to provide new affordable housing in Fife. KHA is the lead developer.

KHA uses appropriate Key Performance Indicators to measure the achievement of its objectives. The actual results against targets are shown on page 15. These indicators are reviewed regularly within KHA's committee structure and are reported to the Scottish Housing Regulator.

The principal activities of KIL are to manage properties through leases and non-Scottish Secure Tenancy agreements, relating mainly to properties owned by KHA, and to provide development services to third parties as well as undertaking activities not allowed to be undertaken by KHA as a Scottish charity. The leasing activity is likely to increase as KHA increases its development of properties that will be available for let at mid-market rents based on Local Housing Allowances and leases these to KIL.

### **Governance**

The management, control and services between the two organisations KHA and KIL are outlined in the following agreements:-

- Independence Agreement
- Members Agreement
- Services Agreement

These agreements are reviewed on an annual basis to ensure the appropriate governance arrangements are in operation.

The Governing Body of KHA is a Board of Management which has a minimum of 7 and a maximum of 15 members. As at the balance sheet date, 31<sup>st</sup> March 2015 there were 11 Board members with a wide range of skills, knowledge and experience, one of the members is a sharing owner and two are tenants.

To support the Board of Management, we have established the following sub Committees:-

- Audit & Corporate Governance Sub Committee (A&CG)
- Senior Management Remuneration & Succession Planning Sub Committee (SMR&SP)
- Policy Sub Committee.

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### **Report of the Board of Management**

The Governing Body of KIL is a Board of Directors, which at the Balance sheet date consists of three Directors, one of which is the appointed Chairperson. The three KIL Directors are not members of the KHA Board however one of the Directors is also KHA Chief Executive (Bill Banks). In addition to the reporting arrangements between the members of the Group, it is agreed practice to have a member of the KHA Board attend meetings of the KIL Directors and report back on any matters to be referred to the KHA Board.

Both Governing bodies operate within agreed rules, policies and financial regulations with delegated authority given to the Chief Executive and Executive Management Team of KHA. Key performance indicators and regular operational reports are provided to the boards of KHA and KIL to enable them to monitor our progress in meeting the agreed objectives.

We recognise that retaining and attracting Board members for KHA and KIL will be a challenge for both organisations. We have therefore appointed and will work with an external consultant to undertake a governance review of the Group during 2015-16. This review will include a collective review of the Boards' effectiveness as well as the individual contributions of the Board members together with a review of our recruitment, induction, learning and development and succession planning arrangements for new Board members to ensure that we have the necessary skills, knowledge and experience to lead the organisations and meet our agreed objectives and expectation of our stakeholders.

#### **Executive officers**

During the year the Interim Chief Executive was appointed as the Chief Executive in June 2014. The long standing Director of Finance & IT retired from KHA in June 2014. The new Director of Finance & IT took up the post in January 2015.

#### **Strategy, Objectives and Business Review**

Our Corporate Plan identifies our strategic objectives across all our areas of activity and during the year we have successfully achieved and contributed towards our objectives.

This can be demonstrated through our achievements in areas such as the following:

- Completion of 183 new affordable homes (2014: 138), bringing our stock of social rented properties to 3,388 as at end March 2015 (2014: 3,276)
- Providing high quality services to our tenants and other customers which is evidenced through high satisfaction levels and good performance outputs
- Our Support & Care projects delivered services to 251 service users, (2014: 256).
- We have delivered on our financial plans and comfortably comply with all our loan covenants
- We have demonstrated innovation through the range of products and services we provide, including the introduction of mobile working arrangements which improve customer services and provide organisational benefits
- We employ around 326 staff, offer good terms and conditions and for the last 2 years we have managed to pay the National Living Wage rate as our minimum hourly rate
- We recognise the risks and challenges facing us and we share experiences and good practice, which raises our profile, promotes our work and builds on our reputation and the work of RSL's in the sector

Our Corporate Plan is monitored on an ongoing basis and fully reviewed each year to ensure our strategy is updated to address the risks and further our objectives

In addition to assessments of our performance against our strategic objectives, we have a suite of Key Performance Indicators across all our areas of activity and this confirms high levels of performance which are comparable, or better, than many other social landlords in the sector.

KHA has a track record of collaborative working with partners and we recognise the success that can be delivered through this approach. We also fully acknowledge the impact external factors can have on our business and our understanding of environmental and economic factors is reflected in our business plan and strategies.

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We also recognise the range of stakeholders who have an interest in our work and have developed a good understanding of their expectations.

We operate in a relatively uncertain environment and this is reflected in the assessments of the risks and challenges we face. We have identified the strategic and operational risks and implemented mitigation control measures to help us continue to deliver on our objectives and build our resilience to change.

KHA is an organisation that has grown and developed over the years and our business strategy identifies our plans for continued growth over the next 5 years and the development of our activities to improve our customer services.

#### **Resources**

The human resources, health and safety and administration services provided by the Resources Department are designed to support the Governing bodies of the Group, Management and staff through the development, implementation, monitoring and review of effective policies and procedures, with guidance and advice provided by experienced and qualified staff.

Attracting, developing and retaining individuals both for our Governing bodies and for our staff teams, who are committed to our business, is key to our success. It is important that we have mechanisms in place to identify and measure what motivates and excites people to join and stay with our organisation. This information will help ensure that we target our resources in developing or improving these areas and as a result improve both our attraction and retention rates.

The views of our staff are encouraged in a number of ways on an ongoing basis such as through discussion at our staff Corporate Away Day, and through staff representatives on our Joint Consultative Group which consists of management representatives and departmental representatives.

Invaluable information will also be available to us from the re-assessment of our Investors in People standard which we have maintained since 2003 and from the employee survey which is due to be completed in the summer of 2015. We recognise the importance of assessing the feedback and providing information to our staff on the areas where we can and will improve but equally to provide information back to staff on the points raised that we have limited scope or are not in a position to change and the reasons for this.

Communication with our staff continues to be a challenge for the organisation and as a very diverse organisation it is difficult to ensure all staff are kept up to date with the developments within the organisation. A significant amount of time has been spent over the last year to establish and develop email communication options with staff. This has been made more accessible where "smart" phones have been provided to our Maintenance and Support & Care staff as part of the new mobile working solutions for maintenance and the service user management and rota system. We will continue to maximise the opportunities this brings to also ensure we can effectively manage our pension auto enrolment obligations. At present we have the administration of the auto enrolment scheme provided by an external organisation; however we are keen to develop our HR & Payroll system to make this more streamlined, less costly and more readily accessible for our staff. We are also currently working with our pension provider to offer staff an on line option to check and model pension benefits through their new pension solution which will be available late summer 2015.

In the last year a new initiative has been introduced of issuing staff briefing notes on a range of topics which we hope staff will find interesting as well as informative. Staff can also put forward ideas on topics they would like added to the schedule for future years.

Change is no stranger to our organisation and the last year has seen a number of significant changes with the revised management structure, introducing four new Heads of Service in Development, Housing, Asset Management and Information Communication Technology. The new structure is designed to bring a more holistic and organisational approach to the development and implementation of our corporate plans.

Communication and consultation with our staff in the Support & Care Services has been a key focus over the last year. To enable us to compete for new business opportunities and to retain our current contracts, we have had to review the terms and conditions offered to our Support & Care staff with revised contract terms offered for new staff and through consultation with staff we have agreed revised terms with them.

With these revised terms which are comparable to other care providers we hope that not only can we grow our business but continue to provide the quality services we are so proud of.

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As an organisation we value our staff and one of our strategic objectives is to be an employer of choice. We know that this will mean different things to different people and one of our key objectives is to aspire to pay the National Living Wage as a minimum and this has been paid for the last financial year and is agreed for the next financial year.

We have a strong health & safety culture within the organisation where we have implemented an internal audit programme which assesses our performance in all areas of our work. The results of the internal audit are very positive and we will look at how we can further strengthen and develop our health & safety control manual to provide our staff with a healthy & safe working environment where risks are identified and managed.

We are also committed to providing an environment which is open and accessible to all with all applications for employment and positions on our Governing bodies given fair consideration regardless of the individual's disability, ethnic origin, age, religion or belief, gender or sexual orientation. We will also seek to provide support or adjustments to individuals to enable them to take up or continue in their role, either as a staff member or governing body member.

The challenges facing us over the next year will be to build on the work already started and to improve our staff turnover and absence levels which we acknowledge are high, particularly in the Support & Care services. In addition we will look at areas where we can improve management information and system to ensure compliance with legal requirements in emerging challenges particularly in respect of recent decision from the Employment courts relating to the definition of holiday pay and national minimum wage calculations. We have also recognised and agreed that we need to have a more effective staff performance and development process with Managers provided with the support and training to maximise the benefits of this for the business and the individual.

#### **Housing Management & Housing Stock**

Activity within the Housing department of KHA has been high over the past year. We continue to operate across a number of areas and are part of a common housing register within the Fife area.

We allocated 310 properties in the year 2014/15, 213 of which were relets and 97 new build properties. Our average time to allocate the new build properties was 2 days which is well within our key performance indicator of 5 Days. The average time to re-let a property was 27 days which is 2 days higher than the previous year but we still met our target of 27 days. We also allocated 96 properties to statutory homeless applicants. We did not have any hard to let properties or any voids over 6 months in duration and managed to reduce our void loss by £1,277.

We experienced the traditional spike over the Christmas period but were unable to recover the position by the end of March, with arrears at that point being 3.32% which is behind the target of 2.9%. There were 143 more tenants in arrears at the end of March 2015 than there were at the end of the previous year. A plan is in place to reduce arrears over the coming months.

The current rent arrears, although well controlled throughout the first part of the year, have risen with a £74,543 increase from the end of 2013/14. The overall arrears figure has reduced when taking account of former tenant arrears during the year as KHA embarked on an exercise of writing down former tenant rent arrears which were deemed unrecoverable amounting to £102k.

Over the course of the year, we undertook a rent review and restructure and this has taken a considerable amount of staff time. The new rent structure became affective from 1st April 2015 and this will give us a clearer, simpler and more transparent rent structure.

In our interim survey this year, tenant satisfaction in relation to the rents being value for money has risen from 78% to 82%. An affordability study was carried out prior to the rent restructure and this indicated that our rents were affordable to 72% of our tenants.

We have continued to develop our approach to Welfare Reform, ensuring that the organisation and tenants are prepared for the future. We have assisted the majority of tenants to apply for and secure Discretionary Housing Payments to offset the under occupancy charge and have only 14 tenants from the 385 currently deemed as under occupying who have not secured this award. In addition, we have continued to support tenants to secure the appropriate benefits and maximise their income so that we maximise rent collection.

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Our performance over the year in relation to dealing with neighbour disputes and anti social behaviour has improved with the implementation of a revised policy with locally agreed targets. 93% of these have been dealt with within 20 days, with the remaining 7% having on going intervention for a variety of reasons.

We have been working on the development of an improved approach to tenant participation and are in the process of setting up a number of scrutiny groups and appointing to a new post of Tenant Participation Officer. In an interim satisfaction survey, the level of satisfaction of tenants in regard to opportunities to participate in the landlords decisions has risen from 64% to 88%.

We have continued to provide factoring services to approximately 450 owners and sharing owners and continue to work to reduce debt in this area.

We have continued to bring additional MMR properties into management and these have been allocated effectively with no apparent issues.

There are a number of risks and uncertainties as we move into the next financial year:

- The introduction of universal credit over the coming year will present challenges in relation to rent collection. A significant amount of work has been done to support tenants to prepare for this and work will continue over the coming year to ensure that we are in a position to maximise rental income.
- We recognise that the need for tenancy sustainment support is increasing and likely to continue to do so in the light of welfare reform. We are therefore considering how we meet this need and working to develop proposals for an adjusted structure for the future.
- As we continue to have a healthy development program, we must ensure that we have adequate resources to ensure that our houses are effectively managed and the right support to tenants is given.

At the end of the financial year 2014/2015 the Group was managing 3,882 properties and a breakdown of the stock in management is provided below:

Social rented	3,318
Shared ownership	274
Leased	23
Leads	50
Non self contained leased	10
Non self contained	3
Non housing	36
MMR (managed by KIL)	127
KIL owned properties	20
Managed on behalf of Fife Council	21
<b>Total</b>	<b>3,882</b>

During the year there were 310 allocations in social rented stock, of which 213 were relets and 97 new developments, representing around 8% of the total rented stock. Of the 212 relets it took an average of 27 days for each change of tenancy. We also allocated 96 of the total allocations for the year to statutory homeless applicants.

During the year KHA consulted with tenants on the annual rent increase and applied a rent increase of 3.5% from 1<sup>st</sup> April 2014. KHA's aim is to restrict annual rent increases to annual inflation plus 1%. The annual rate of inflation used, at the end of October 2013, for the 2014 review, was 2.7%.

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KHA, together with its partners will continue to develop the Fife Housing Register and work towards involving other regional and national housing associations to make this register more effective and cost efficient.

KHA's social housing stock comprises houses and flats, with around 55% represented by houses and 45% by flats. Most of the housing stock was built after 1982. KHA has met the deadline of 31<sup>st</sup> March 2015 for the Scottish Housing Quality Standard (SHQS) and continues to work towards maintaining this. At 31<sup>st</sup> March 2015 however 135 properties did not meet the SHQS requirements having been exempted and 264 did not meet the SHQS which were abeyances, these were mainly due to the need to improve energy efficiency in 83 properties and provide modern facilities and services in the remaining properties.

### **Support and Care**

In 2014/15 we continued to support approximately 251 individuals to live in their own homes in the community providing varying levels of support from a few hours per week to full 24/7 cover, including sleepovers. In addition, we provide temporary accommodation and outreach services for people who are homeless through the services at James Bank, Dunfermline.

Over 2014/15, we have fully established the new core and cluster service for 4 young men with Autism and Challenge in Falkirk and this service is going well. In addition, we are currently implementing two further 24/7 services for young men in their own tenancies with similar needs and this gives us a good foothold in the area. During 2014/15 we submitted a bid to be accepted onto the Falkirk Care at Home framework and are awaiting the results of this. If successful, this will give us the opportunity to further develop the scope of services we provide in that area.

Within Fife, the number of hours of support provided has dropped due to services no longer being required and there is little growth in the area. On a positive note, the vacancies within our shared living services have now been filled and this has improved our overall position. We are about to submit a bid for the Under 30 hours framework retender in Fife which if successful, will be put in place from September 2015 and be in operation for three years.

During the year, we continued to consult on and implement the changes to staff terms and conditions as a result of the reduction to income through previous tenders. Following discussion and approval from the Board of Management, a compensation approach was agreed to recognise the impact of the changes on staffs future earning power and this impacted on the contribution achieved, reducing the amount by £20,000.

Whilst the consultation and implementation of the new terms and conditions was conducted smoothly, it is likely to have impacted on the increased turnover rate of staff at Support Worker level. The Support and Care turnover figure is 29% for the year, which is higher than average across the sector. This is an area of work which has been identified for the coming months and a review of Recruitment, Retention and Induction is about to be embarked upon, with the aim of reducing turnover and increasing retention rates. This turnover has led to increased costs in replacement staff to ensure services could be delivered and has further impacted on the final contribution made to the organisation. In addition, we have been able to conclude long standing sickness issues with a number of staff and this has also added to the increased turnover figure. This however is positive for both the service and the staff concerned. Sickness absence has generally increased in the service.

Over 2014/15 we have implemented a new software system to increase efficiencies in rota planning and administration as well as to improve the way we support individuals to determine their required outcomes and arrange personalised services which meet their requirements. Whilst not without issue, this is well underway and we would hope to be fully operational in all areas by September 2015.

We have continued to invest in training for staff and are well placed to meet the SSSC registration requirements in the future, with 91% of support workers having gained or working towards the appropriate qualification. In addition we invested in Leadership and Management training for Coordinators and Senior Support Workers and plans are in place to track progress in relation to this. We are further investing in training for all staff in Outcomes based Person Centred Planning to ensure we are proficient at planning personalised support which meets individuals' needs and desired outcomes and that this can be evidenced to our funders.



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In the year, we carried out a satisfaction survey with supported individuals and their families, with very positive results. 97% of supported individuals were very or fairly satisfied with the overall service provided whilst 91% of family members were very or fairly satisfied with the overall service provided. The reports from the Care Inspectorate remained steady with all grades at 5 (Very Good), with the exception of one grade 4 (Good). Some of the individual elements received grades of 6 (Very Good)

At the end of the year, the contribution to the organisation from support and care is estimated at £197,777, which is below our target of £235,000 and the outturn figure of a net operating loss of £310k for this area of activity. In summary, the reasons for this are as follows:

- Compensatory payments to staff in respect of revised terms and conditions
- Increased sickness absence amongst the workforce, much of it long term
- Increased turnover in staff resulting in heightened replacement costs
- Increased non delivery of hours due to cancellation of support by those receiving it, largely due to holidays, time spent with family or hospital admission. We delivered 98.51% of hours within the year.

There are a number of risks and uncertainties as we move into the next financial year:

- The Under 30 hours framework is out for tender and it is essential that we retain this business at a price which is sustainable. Given all previous work undertaken to reduce service costs, it is hoped that this risk will be low.
- Although we have now had the opportunity to grow in Falkirk, the outcome of the Care at Home framework is important to enable us to maximise opportunities in this area.
- The management of sleepover duties and the minimum hourly wage is a factor which has yet to fully unfold. We continue to be proactive in dealing with this in both areas of operation.
- Staff turnover is an area of concern which, if it continues, will impact both financially and on our reputation and ability to provide consistent services; ultimately threatening the longer term viability of the service. Work is underway to undertake a review of this area.

#### **Development**

It has been another active year in respect of our Development Activity, where we have continued to provide a new supply of affordable housing, to meet a full range of housing needs.

The majority of our development activity continues to be in Fife, however our areas of operation extend into adjacent Local Authority areas. During the year we were on site with projects in Perth & Kinross; at East High Street, Crieff, where 14 new social rented flats are being provided on the site of a former derelict hotel and in Perth we have continued to work in partnership with Fairfield Housing Co-operative to complete the renovation of a long-disused block in the town centre, providing 8 new social rented flats. We started on site with 27 new homes for social rent at Alloa Road, Tullibody, which will be our first affordable housing project in Clackmannanshire. We have existing stock in Falkirk and during the year we identified various potential sites as part of a future pipeline programme.

In Fife we have been working on a significant Estate Based Regeneration project in Glenrothes, which saw the completion of the final phase of a programme that has been delivering new affordable homes for almost 10 years. We also completed another 19 mixed tenure homes in Kincardine, to complement the 65 new affordable homes we have already provided as part of the High Flats demolition and redevelopment project.

We can demonstrate very successful results across all development Key Performance Indicators (KPI's) and our track record, experience and history of collaborative working were factors recognised by Fife Council, the Scottish Government and the local Community, when we were recently successful, as part of a competitive procurement process, in being selected as the RSL partner for the South East Inverkeithing Regeneration project.

During 2014/15 we invested over £19.1 million (2014: £13.4 million) in new development projects, with £8.78 million (2014: £5.6 million) being provided in subsidies from the Scottish Government and Local Authorities. The investment in new supply housing resulted in us starting on site with 128 new units and we completed a further 160 units during the year.

Our Corporate Plan identifies our objective of continuing to provide new affordable housing, which contributes to meeting the growing housing need across all our areas of operation and whilst the priority is predominately the development of new social rented provision, we also recognise there is a high need for other affordable housing tenures.

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The need for intermediate rented housing is being addressed through the provision of Mid Market Rented (MMR) homes and during the year we completed projects in Fife along with 12 new MMR homes in Abernethy.

Demand for MMR is very high from applicants who meet the priority criteria; however, it would be a high risk strategy to provide MMR in all our areas of operation, therefore we aim to limit the provision to local market areas, where the current and future demand can clearly be tested and demonstrated through our rigorous market assessments.

Collaborative working is an approach that KHA has adopted for many years. It builds productive relationships, spreads and reduces risks and provides opportunities for us which would not easily be pursued by KHA as a lone venture.

In respect of our development activity we have maintained excellent working relationships with the Scottish Government, Local Authorities and Partnering Housing Associations, which has allowed us to maximise available funding.

We actively participate in a variety of strategic development groups including the following:

- Affordable Housing Policy and Delivery Groups
- Strategic Housing Investment Programme (SHIP) and Strategic Local Programme (SLP) Groups
- Local Housing Strategy Implementation Group
- Local Authority Housing Partnerships

Through our involvement in groups such as the above, we are able to share our experience and influence future strategy within our areas of operation.

We have continued the good partnership working arrangements we have with the other Fife based RSLs, as part of the Fife Alliance arrangement. We have a similarly successful relationship with Fairfield Housing Co-operative. These arrangements allow us to deliver procurement efficiencies and provide mutual benefits for all parties.

Other successful collaborative relationships include the contract arrangements with our contractors and consultants, other public and private sector organisations and various community partnerships with a range of groups.

Maintaining high quality standards is an objective that we will not compromise, given this is a significant sustainability factor, which not only results in high quality housing, it positively contributes towards our management and maintenance costs through lower turnover, reduced reactive repairs, voids and housing management costs and enhanced component life cycles. The high quality helps sustain tenancies, improve our tenants' health and well-being and addresses issues associated with fuel poverty.

During the year all the projects we developed were designed and built to fully meet Housing for Varying Needs Standards and achieved Secured by Design accreditation. The majority of our projects have also secured the enhanced greener standard subsidy enhancement which has allowed us to achieve the building regulations Silver Standard for Sustainability.

Our quality standards have been recognised over the years through our projects being recognised for various Scottish and UK awards. This year two of our projects have been recognised for design and innovation in the National Design Awards.

We carry out post completion satisfaction surveys with our new tenants and residents on all our completed developments. The survey for projects completed during the last year has confirmed a 93% overall satisfaction level with the quality and design of the new homes. We have also been one of the RSLs who have assisted to develop the Scottish Housing Best Value Network (SHBVN) development benchmark indicators, which will compare members' performance and outputs across a full range of indicators. This model will allow peer comparisons, share best practice and encourage improvements in quality standards across the sector.

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Development of new housing can be high risk and uncertain, however we have developed robust procurement and project management processes which mitigate the risks and contribute towards our successful KPI outputs.

During the year we introduced the Brixx Development module, which has allowed us to test different development scenarios and improve our project financial appraisal methodology, to ensure viability is demonstrated and sustainable over the longer term.

Through our development and financial appraisal processes we have managed to improve project viability, through demonstrating the need for enhanced benchmark subsidies and securing additional funding, from other sources, where necessary, to achieve optimum funding levels.

We have been invited to participate in both SFHA and Scottish Government Working Groups covering the following areas:

- Mid Market Rent
- Affordable Housing Subsidy Review
- Construction Procurement

Our involvement in these groups provides a practitioner's input to the process, allows us to present evidence to support the reviews, which is reflective of our experiences, and enables us to influence Scottish Government Policy on development issues which will impact on the RSL sector.

It has been a successful year for new housing development. In addition to the new site starts and completions, we have identified and started to develop proposals for our pipeline programme and purchased additional sites as part of our land bank strategy, which will assist us in achieving our development objectives in the future.

#### **Asset Management**

Maintaining our housing stock to the highest possible quality standards is a key priority for us and this is reflected in our Asset Management Strategy, through our approach to areas such as:-

- Design criteria for new affordable homes which incorporate durable components and provide acceptable replacement life cycles.
- Quality reactive repairs services and voids standards.
- Planned replacement and improvement programmes.
- Reactive and proactive customer services, which maintain high levels of satisfaction.

We operate an in-house repairs service which covers both reactive and emergency repairs and have introduced a small team who now carry out our kitchen replacements programme. The use of the in-house services has provided us with more control over maintenance scheduling, achieved cost efficiencies and increased our customer satisfaction levels.

We measure our performance across all repairs categories and examples of the main performance outputs are summarised below:-

- |   |         |
|---|---------|
| • Out of hours emergency repairs (response % achieved)        | 99%     |
| • Average time to complete an emergency repair (hours)        | 2.19hrs |
| • Routine Repairs (Response % achieved)                       | 85%     |
| • Repairs appointments kept                                   | 98%     |
| • % properties with valid and current gas safety certificates | 100%    |

Whilst the above are good in comparison to many of our peer RSLs, we operate within a performance culture of continuous improvement and aim to improve on these in the future.

During the year we completed our SHQS programme and initiated our planning in respect of the new Energy Efficiency Standard for Social Housing (ESSH).

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Satisfaction with our repairs service has continued to improve and during 2014/15 we recorded a 94% satisfaction level for the overall repairs service provided to our tenants.

Our appointments system has been further developed during the year through the redesign of our website and our repairs team are able to offer an improved service to tenants through our introduction of mobile technology.

The key risks and constraints which could impact on our repairs services have been identified and control measures have been introduced to mitigate the risks.

Our priorities for the next year focus on improving our services to tenants, business development and planned stock improvements. Efficiencies and process improvements will also be introduced in the future through the implementation of a new asset management system.

Sustainability is a key priority for KHA and our approach to asset management contributes to this through our design standards, component selection and repairs services and assists both environmental and tenancy sustainability.

KHA's Mission Statement is to provide more than a home and we meet this through a range of services which provide added value.

#### **Care and Repair**

KHA has been managing the Fife Care and Repair Project for over 20 years and it has evolved over this time.

The Service now mainly provides a disability adaptation and repairs and improvement service to older and disabled people. 264 adaptations were carried out last year and all business targets were achieved.

The Service is complemented by our Small Repairs Service, which carried out over 800 repairs for older owner occupiers in our Communities during the year.

Satisfaction with the Care & Repair and Small Repairs Services is exceptionally high at 97% and 99%.

#### **Community Initiatives**

We deliver various projects which provide potential benefits to our tenants and residents who live in the communities where we operated.

This approach has been very successful to date and will be further enhanced in the future through the formalisation of Community Benefits clauses in our contract documents.

#### **Our Power**

Kingdom is a member of "Our Power" which is an energy supply company, registered as a Community Benefit Society that has been established by a number of Scottish RSLs with an aim to help alleviate fuel poverty, using their combined buying power and potential customer base. The Group's financial risk is limited to its initial membership fee and the company does not distribute profits to members.

#### **Fife Works**

Fife Works is one of our community benefits initiatives and is our employability project.

The highest risk to the project is the reliance on funding to support the initiatives and this is an area we fully recognise. We have a successful track record of securing funding and the current funding sources will deliver the projects into mid 2016. We will continue to identify and source funding which will extend the projects beyond this date and we are investigating processes which will mainstream many of the activities into the advice and assistance services we provide to tenants.

During the year Fife Works assisted over 400 people in our communities and helped 244 people to access employment.

#### **Information Communication Technology**

In the last financial year we implemented mobile device management software to 300 devices protecting corporate and customer data. Quarterly department and service meetings were introduced to provide effective engagement and a structured approach to Information Communication Technology (ICT) management using the European Foundation for Quality Model framework and RADAR logic is now active.

## **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED**

### **Report of the Board of Management**

We commenced implementation of software systems for asset management and neighbour complaints and committed resources to progress Housing short term objectives and improve our mobile working solution for Property Services and Repairs. ICT also progressed risk management and business continuity for the business and planned for a datacentre move to reduce costs and improve security.

A structured approach has been adopted by the ICT service to drive continuous improvement and provide an improved service for customers; this supports KHA in the delivery of strategy and objectives.

Our priorities for the next year include implementing text solutions and self service portal to provide an improved service to our customers.

Services to our customers will also be enhanced as we increase and improve the use of mobile working providing Housing staff and Support and Care senior workers with mobile devices to help customers in their own homes.

Focusing on business infrastructure we will ensure KHA can recover from business continuity and disaster recovery incidents. A new network infrastructure including uncontented internet will be implemented to improve business continuity and performance.

Cloud services will be used to replace our current telephone system with a unified communications system. We will review and improve our human resources system with the resources function. We will be working with housing staff to provide internal customer access via a web kiosk and will work with Orchard Information systems to improve our Housing management system and ensure it complies with legislative changes.

#### **Treasury and loans**

KHA carries out its treasury activities within the framework of an approved Treasury Management Policy, including the minimum and maximum amounts of loan finance that may be set at fixed and variable rates of interest. The Treasury Management Policy allows a maximum of 75% and a minimum of 45% at fixed rates of interest. As at 31<sup>st</sup> March 2015 KHA had 45% (2014: 53%) of its loan portfolio at fixed rates of interest. KHA is taking advantage of the low London Inter Bank Offer Rates (LIBOR) on offer on its variable rate debt but recognise the risks attached to that where the next interest rate movement is likely to be upwards. KHA will therefore seek to fix more of its debt interest costs moving forward gaining certainty on those costs.

The fixed debt has a weighted average cost of funds of 3.75% whilst the variable debt has a weighted average cost of funds of 1.53%. The weighted average cost of funds of all KHA's borrowings is 2.54%.

KHA's lenders have set minimum levels of interest cover that must be met. The level of interest cover at 31<sup>st</sup> March 2015 was 450% (2014: 393%), significantly higher than the minimum level required by the lenders' financial covenant test of 115%.

KHA's lenders also require a gearing covenant test to be met with no more than 40%, this being the lowest of all lenders and therefore the threshold. KHA's gearing as at the balance sheet date was 25.5% which was significantly below the maximum threshold.

KHA has secured 2,035 properties to its lenders under both Existing Use Value – Social housing and Market Value- subject to tenancies amounting to £87.02 million in security value. There remain 1,616 general needs properties plus 280 shared ownership properties that are unencumbered.

All covenants with all lenders were therefore met.

At the year ended 31<sup>st</sup> March 2015 KHA had £10.44 million in cash at bank. In addition KHA had left to draw £5 million of its facility with Abbey National Treasury Services plc, part of Santander UK plc.

KHA's corporate plan for the next five years requires significant debt funding to be put in place to deliver the proposed development objectives with support from Fife Council and the Scottish Government through the grant regime. In addition, during the period of the corporate plan a significant amount of existing variable debt will require refinancing as it reaches the end of its originally agreed life which will add to that funding requirement of approximately £70 million. This will significantly impact upon both interest cover and gearing covenants but the forecast is for them to remain within current covenant thresholds. KHA is seeking to consolidate its borrowing with its existing lenders where possible to achieve efficiencies in operations and consistency of covenants to support its growth ambitions.

# **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED**

## **Report of the Board of Management**

### **Kingdom Initiatives Limited**

KIL is a non-charitable, wholly owned subsidiary of KHA. KIL is part of the Group and provides further opportunities to support and contribute to the work of the Group. The role of KIL is to carry out activities which complement the Group objectives and which KHA cannot undertake by virtue of its charitable status.

The main activity of KIL, during 2014/15 has been the management of Mid Market Rented Housing (MMR). As at the balance sheet date, 31<sup>st</sup> March 2015, KHA had 148 completed MMR units. The properties are owned by KHA and leased to KIL, who let the tenancies and are responsible for the management and maintenance of the projects.

KHA has a programme of future MMR projects and as at the end of the year there were 114 units on site, which will be completed during 2015/16, where it is the intention to lease the completed projects to KIL.

KIL also lease 21 flats from Fife Council which are let as MMR tenancies.

KIL also owns 20 properties which are rented. The properties owned by KIL strengthen the asset base and contributes to meeting affordable housing needs. The current business plan does not identify any concerns related to this stock condition or demand for the properties. Some properties owned by KIL are leased to KHA, for lead tenancy purposes.

The MMR portfolio of properties managed by KIL does not rely on capital investment or KIL loans, therefore the portfolio is low risk and provides guaranteed income.

KIL's operating performance for 2014-15 led to the generation of a pre tax operating surplus of £139k (2014: £137k). KIL opted not to gift aid profits back to its parent KHA in order to build it demonstrable track record of profitability and accumulate reserves for the purpose of supporting future activities. The profit after tax was therefore £109k.

KIL has loans with Dunfermline Building Society, part of the Nationwide amounting to £122k (2014: £132k), which are all LIBOR linked loans. The weighted average cost of funds on those loans is 1.02% and the loans are amortising until 2026. There are no loan covenants for KILs loans. KIL as at the year ended 31 March 2015 had cash at bank of £476k (2014: £357k). The accumulated reserves of KIL amount to £945k as at the balance sheet date (2014: £836k).

During 2014/15 the Corporate Plan has been developed and opportunities have been identified which will provide opportunities for KIL to expand current activities and introduce further business development initiatives, which will expand the work of KIL in the future.

KIL does not employ staff and receives services from KHA. There is a KIL Independence Agreement, however KHA exercises control over KIL by approving the business plan and budget and reviewing this on a quarterly basis.

Board members of KIL are also approved and can be removed by KHA. KIL currently has 3 appointed Directors; David Little (Chairperson), Eric Towns and Bill Banks who is also the Chief Executive of KHA.

### **Income & Expenditure**

Group turnover for the year was £21.75 million offset by operating costs of £15.54 million, creating an operating surplus of £6.21 million. After paying loan interest of £1.56 million, adding gains on sales of £201k and receiving interest of just £47k, the surplus for the year before taxation amounted to £4.90million (2014: £3.87 million). After making the payment of tax in respect of the non charitable trading subsidiary company the surplus after taxation was £4.87 million (2014: £3.84 million). A separate income and expenditure account is presented for KHA at page 23.

The majority of the growth in surplus came from social lettings activities with other activities generating a modest loss.

Rents were increased during the year by 3.5% but in addition 112 new properties came in to the letting pool during the year accounting for the growth in rent received. Void performance remains low at 0.55% of rents receivable (2014: 0.52%).

## KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED

### Report of the Board of Management

Management and maintenance administration costs per unit were £804 per unit (2014: £952). The repair and maintenance cost per unit was £843 per unit (2014: £704 per unit). There were significant reductions in management and administration costs during the year primarily due to vacant posts occurring for periods.

Bad debts performance continues to improve year on year accounting for 0.96% of rent receivable (2014: 1.59%). This is despite the Group taking a conservative view on writing off and providing for bad debts at the year end.

In other activities it is important to note that the support and care activity delivered less than its planned contribution to overheads during the period and incurred an operating loss during the year. A significant clear out of amounts being held due to and by the Group in respect of historic development activities have been written off resulting in a surplus from that development activity.

Although the amount of net debt increased during the period interest costs remained broadly consistent with prior years owing to low LIBOR rates on almost half of the loan portfolio.

#### Balance sheet

The fixed asset base of the Group continues to grow with the development of new units with grant funding. The very high cash holdings of the Group are a reflection of not only the very prudent forecasting but also delays in planned development expenditure where funds had been drawn in anticipation of that expenditure.

The Group met its on going historic deficit recovery costs of £605k per annum for the pension scheme during the period but took an opportunity in the low interest rate environment to reconsider the discount rate applicable to the net present value calculation of the future liabilities under that approach. This resulted in a net movement on the designated reserve, reducing the balance by £156k which was released back to revenue reserves

The Group revenue reserves now stand at £27.61 million (2014: £22.59 million) with total reserves being £34.84 million, (2014: £29.97 million).

#### The Environment & Sustainability

The Scottish Government is committed to sustainable development and reducing the impact of climate change and this aim is shared by KHA. The Group endeavours to meet Government policy requirements and aspirations in the provision of all of its services and has a Sustainability Policy which covers all areas of operation and includes environmental targets and objectives that are reflected in both the new build housing and maintenance programmes.

Sustainability extends beyond the physical housing and this is also recognised through the Wider Role and Five Works community initiatives managed by KHA. This holistic approach has influenced the various wider role and housing projects developed, the progress made with improvements to the existing stock, including an investment in renewables technologies as part of the new build and existing stock improvement programmes.

KHA has been recognised through various awards for the environmental and sustainability work it has progressed.

#### Key Performance Indicators (KPIs)

KHA measures its performance by reference to a number of KPIs, based upon data maintained for performance management purposes and included in the Annual Return on the Charter (ARC), to the Scottish Housing Regulator. A summary of the main KPIs is as follows:

	Actual 2014-15	Target 2014-15	Actual 2013-14
Void loss	0.50%	0.75%	0.53%
Gross arrears - current tenants	3.38%	2.90%	2.91%
Gross arrears - all tenants [as per ARC report]	5.60%	-	5.12%
Average re-let times	27 days	27 days	25 days
% Staff costs: Turnover (excluding developments for sale)	43.90%	46.60%	42.60%
Sickness absence	5.50%	-	4.60%
	Actual	Target	Actual

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED**  
**Report of the Board of Management**

	Actual 2014-15	Target 2014-15	Actual 2013-14
Management & Maintenance Administration costs per unit	£804	£880	£952
Routine Maintenance costs per unit	100%	100%	94.2%
% properties meeting SHQS requirements	93.4%	100%	97.3%
Emergency repairs completed within target response time	128	154	221 units
Site Starts (new supply)	160	253	138 units
Site Completions (new supply)	100%	100%	94.2%

The indicators highlight better performance for the year than set as the target in some areas although performance has not met expectations in other areas.

Void loss performance exceeded target for the year due to efficiency gains in recovering income. Arrears are slightly above the targets for the year largely due to the impact of the under occupancy charges and welfare reforms along with the general economic environment for our tenants. KHA has introduced proactive assistance services for tenants. Under occupancy status was managed through providing assistance to tenants to secure Discretionary Housing Payments to offset the charge. Under Occupancy is only one factor behind increasing arrears; the other is a general increase in arrears due to greater financial difficulty being faced by tenants.

Staff Costs are less than planned owing to some longer term absences. Sickness absence levels are higher than the target and the actual for the year.

The number of properties remaining to be brought up to SHQS standard at the end of the year is 135 and KHA fully complied with SHQS by the deadline set by Scottish Ministers taking account of exemptions and abeyances. The response time for emergency repairs was slightly below the 100% target and is comparable with the previous year.

**Financial Review & Going Concern**

At the year end the Group's reserves amounted to £34.84 million, (Association: £33.89 million). During the year the Group created a surplus of £4.87 million (Association: £4.76 million).

The Board is of the opinion that KHA will be able to continue its operations for the foreseeable future, based upon consideration of long term financial plans and the availability of loan finance at affordable rates of interest and repayment periods that are appropriate for KHA's business. An additional £10m of funding was secured in July 2014 of which as at the year ended 31 March 2015 there remained £5 million undrawn and KHA is presently discussing terms and conditions for further loan facilities with various lenders.

As such the going concern basis of accounting has been adopted in preparing these financial statements.

**Reserves**

The Group revenue reserves represent the accumulated surpluses of KHA and the post-acquisition reserves of its subsidiary, KIL.

The Group designated reserve represents an amount set aside to account for the net present value of the past service deficit on the Scottish Housing Association Pension Scheme. The discount rate used at 4% is consistent with KHA's cost of funds.

**Staffing**

At 31<sup>st</sup> March 2015 the staffing establishment comprised 274 (2014: 276) full time equivalent persons.

KHA is committed to involving and seeking the views of its employees, particularly on matters of concern to them. There are communication and consultation processes in place which are used to inform staff of decisions that have been made and to provide information on the general development of KHA. These communication processes include the issue of staff bulletins, access to a range of different documents on the wide area network, operational group and team meetings, staff away days and through a Joint Consultative Group, comprising



# **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED**

## **Report of the Board of Management**

management and elected staff representatives.

There are equality and diversity policies and procedures in place to enable KHA to meet its aims and obligations in this area.

### **Charitable Fund and Donations**

Each year the Board of Management approves an amount to be made available to support appropriate registered charitable causes. During the year to 31<sup>st</sup> March 2015 the Board approved an amount of £7,500 (2014: £7,500) for charitable causes, of which £3,347 (2014: £4,266) was distributed.

### **Risk Management**

The Group recognises its moral and statutory duty of care to its customers, employees and assets. It meets this duty by ensuring that risk management plays an integral part in the management of the Group at a strategic and operational level. Risk management is set out in the Group's Risk Management policy. It is a participative process, involving the input of the Board, senior management and all staff and the Group aims to make all employees aware of risks through training and communication.

The Board employs internal auditors to carry out reviews to cover areas of Group operations identified by reference to risk registers maintained by the Group and agreed with the Audit & Corporate Governance sub-committee.

Key risks include the Group's sensitivity to changes in government policy, particularly with regard to making funding available for affordable housing, the availability and cost of loan finance, the deficit in the Scottish Housing Associations' Pension Scheme, welfare reform and high inflation. The Group will mitigate risk through the use of strong planning disciplines, monitoring of key performance indicators and the development of alternative business models which place less reliance on government subsidy and a review of its cost base.

### **Health and Safety**

The Board is aware of its responsibilities on all matters relating to health and safety. KHA maintains detailed health and safety policies and provides staff training and education on health and safety matters. KHA has a Health and Safety group which is chaired by the Director of Resources. In addition, KHA's Health and Safety Officer provides updates to senior staff on activities and procedures relating to health and safety.

### **Key Policies**

#### **Rents**

Rents are set by KHA using a points-based system that takes account of a number of attributes of each property. KHA is able to maintain its rents at a lower level than an equivalent market rent due to its ability to obtain subsidy from the Scottish Government and the local authorities. The subsidy provides an interest-free portion of the finance required to develop housing for rent and shared ownership.

During 2014/15 KHA completed a comprehensive review of rent affordability and a rent structure review implementing a revised structure of rents across all its housing stock for the new financial year 2015-16. KHA determined that as the restructuring of rents was taking place during 2015-16 and that had favorable and adverse ramifications for many tenants that the general rent increase would be limited and therefore KHA raised rents by 0.5% for the 2015-16 year.

#### **Maintenance**

KHA has an Asset Management Strategy, which covers all housing stock and other properties and facilities owned and managed by it.

KHA seeks to maintain its properties to the highest standards. This is achieved by medium term programmes of cyclical repairs arising from the predictable deterioration of building components. The cost of these repairs is charged to the Income and Expenditure Account. KHA has a long-term programme of planned repairs to replace major components that have reached the end of their life cycle, including works set out in legislation, the cost of which is capitalised in accordance with current accounting standards applicable to registered housing associations.

KHA has a legal obligation to ensure that all of its properties remain at the SHQS beyond 2015.

#### **Treasury Management**

KHA does not enter into financial transactions of a speculative nature. At the year-end KHA had an appropriate mix of fixed and variable rate funding arrangements in place with its principal lenders. KHA has an active treasury management approach. The Treasury Management policy sets out a minimum and a maximum

## **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED**

### **Report of the Board of Management**

proportion of the loan portfolio that may be held at fixed and floating rates of interest.

#### **Plans for the Future**

KHA remains committed to three main aims of managing and maintaining the existing property portfolio, expanding the property portfolio through development of new properties and providing support and care to people with particular needs.

KHA is continuing to face a number of significant challenges, among them, cuts in public funding, welfare reform and a deficit in the Scottish Housing Associations' Pension Scheme (SHAPS), of which KHA is a member.

KHA will seek to optimise the development of new properties within the constraints set by the levels of subsidy and a level of borrowing that can be serviced in accordance with the various conditions set by its lenders. KHA will continue with the preferred partner arrangements with the FHAA in Fife and will form appropriate alliances and partnerships in areas where it considers it is able to provide housing for its target client group.

#### **Credit Payment Policy**

KHA realises the importance of making prompt payment to its suppliers and has a policy to settle all purchases within 30 days, although some payments are made more quickly in order to comply with specific creditor terms.

#### **Group Structure**

The Group comprises Kingdom Housing Association Limited and Kingdom Initiatives Limited.

#### **Internal financial control**

The approach adopted by the Board to provide effective financial control can be summarised as follows:

- a) An appropriate control environment has been created by careful recruitment and training of suitably qualified staff and provision of comprehensive guidance on the standards and controls to be applied throughout KHA.
- b) The system of internal financial control has been developed to ensure it supports the achievement of KHA's aims and objectives and safeguards its assets.
- c) Management information systems have been developed to provide accurate and timely data on all aspects of the business. Management accounts comparing actual results against budget are presented to the Board quarterly. Forecasts and budgets are prepared and regularly reviewed and updated to assist financial decision making.
- d) Major business risks and their financial implications are assessed systematically by reference to established criteria. This allows the Board and Senior Management team to evaluate the nature and extent of those risks and manage them efficiently, effectively and economically.
- e) The financial implications of major business risks are controlled by means of formal policies and procedures including the documentation of key systems and rules relating to delegated authorities which reserve significant matters to the Board for decision, segregation of duties in appropriate areas and physical controls over assets and access to records.
- f) All significant new initiatives, major commitments and investment projects and their financial implications are assessed and are subject to formal authorisation procedures through the Board.
- g) The Board monitors the operation of the internal financial control system by considering regular reports from management, contracted internal auditors and the external auditors and ensures appropriate corrective action is taken to address any reported weaknesses.

The Board confirms that it has reviewed the effectiveness of KHA's system of internal financial control as it operated during the year under review. No material weaknesses were found. The system of internal financial control is kept under constant review. It is designed to manage rather than eliminate the risk of failure to achieve the organisations aims and objectives. Such a system can therefore provide only reasonable and not absolute assurance against material misstatement or loss.

## **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED Report of the Board of Management**

### **Statement as to the disclosure of information to the auditors**

The Board Members who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Board Members has confirmed that they have taken all the steps that they ought to have taken as Board Members in order to make them selves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### **Auditors**

In accordance with the Companies Act 2006, a resolution for the reappointment of Baker Tilly, UK Audit LLP, as auditors, will be proposed at the Annual General Meeting.

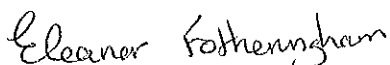
### **Statement of Board's responsibilities under the Co-operative and Community Benefit Societies Act 2014 for a registered social landlord**

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the RSL and of the surplus or deficit for that period. In preparing these financial statements, the board is required to:

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the RSL and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, The Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing. It has general responsibility for taking reasonable steps to safeguard the assets of the RSL and to prevent and detect fraud and other irregularities.

By order of the Board



Eleanor Fotheringham  
Secretary  
Date 20<sup>th</sup> August 2015

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
Report of the Board of Management**

**INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF KINGDOM HOUSING ASSOCIATION  
LIMITED ON INTERNAL FINANCIAL CONTROLS**

In addition to our audit of the Financial Statements, we have reviewed your statement on Page 18 concerning the Association's compliance with the information required by the Regulatory Standards for systemically important RSLs in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

**Basis of Opinion**

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council through enquiry of certain members of the Management Committee and Officers of the Association and examination of relevant documents. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

**Opinion**

In our opinion the Statement on Internal Financial Control on page 18 has provided the disclosures required by the relevant Regulatory Standards for systemically important RSLs 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.

*Baker Tilly UK Audit LLP*

BAKER TILLY UK AUDIT LLP  
Statutory Auditor  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
EH3 9QG

Date: *21 August 2015*

## **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED Report of the Board of Management**

We have audited the group and parent association financial statements of Kingdom Housing Association Limited for the year ended 31<sup>st</sup> March 2015 the "financial statements" on pages 22 to 53. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association's 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 Board and auditor**

As explained more fully in the Board's Responsibilities Statement set out on page 19, the Board are responsible for the preparation of the financial statements and for being satisfied that they 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 <http://www.frc.org.uk/auditscopeukprivate>

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2015 and of the income and expenditure of the Group and the income and expenditure of the association for the year then ended; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – April 2012 .

### **Matters on which we are required to report by exception**

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

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

*Baker Tilly UK Audit LLP*

BAKER TILLY UK AUDIT LLP  
Statutory Auditor  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
EH3 9QG

Date: *21 August 2015*

**KINGDOM HOUSING ASSOCIATION LIMITED**  
**CONSOLIDATED INCOME and EXPENDITURE ACCOUNT**

**For the year ended 31<sup>st</sup> March 2015**

	Notes	2015	2014
		£000	£000
Turnover	2	21,750	19,054
less: Operating costs	2	<u>(15,526)</u>	<u>(13,846)</u>
Operating surplus		6,224	5,208
Gain on sale of housing properties	4	179	119
Gain on sale of other fixed assets		5	6
Interest receivable and similar income		47	69
Interest payable and similar charges	14	<u>(1,560)</u>	<u>(1,534)</u>
Surplus on ordinary activities before taxation		4,895	3,868
Taxation	5	<u>(30)</u>	<u>(30)</u>
Surplus for the year	6	<u>4,865</u>	<u>3,838</u>

The notes on pages 27 to 53 form part of these accounts.

The results relate wholly to continuing operations.

There were no unrecognisable surpluses or deficits in the current year other than those included in the income and expenditure account.

**KINGDOM HOUSING ASSOCIATION LIMITED**  
**HOUSING ASSOCIATION INCOME and EXPENDITURE ACCOUNT**

**For the year ended 31<sup>st</sup> March 2015**

	Notes	2015	2014
		£000	£000
Turnover	2	21,511	18,887
less: Operating costs	2	<u>(15,427)</u>	<u>(13,835)</u>
Operating surplus		6,084	5,052
Gain on sale of housing properties	4	179	119
Gain on sale of other fixed assets		5	6
Interest receivable and similar income		46	68
Interest payable and similar charges	14	<u>(1,559)</u>	<u>(1,533)</u>
Surplus on ordinary activities before taxation		4,755	3,712
Taxation	5	—	—
Surplus for the year	6	<u>4,755</u>	<u>3,712</u>

The notes on pages 27 to 53 form part of these accounts.

The results relate wholly to continuing operations.

There were no unrecognisable surpluses or deficits in the current year other than those included in the income and expenditure account.

**KINGDOM HOUSING ASSOCIATION LIMITED  
CONSOLIDATED BALANCE SHEET**

**As at 31<sup>st</sup> March 2015**

	Notes	2015 Group £000	2015 Association £000	2014 Group £000	2014 Association £000
<b>Tangible fixed assets</b>					
Housing properties - depreciated cost	7	276,247	275,611	258,720	258,074
Housing Association Grants	7	(179,762)	(179,762)	(171,227)	(171,227)
Other capital grants	7	(10,510)	(10,510)	(9,570)	(9,570)
		<u>85,975</u>	<u>85,339</u>	<u>77,923</u>	<u>77,277</u>
<b>Fixed Asset Investments</b>					
Homestake Costs	7	1,935	1,935	1,943	1,943
Homestake Grant		(1,935)	(1,935)	(1,935)	(1,935)
		-	-	8	8
Other fixed assets	7	<u>1,389</u>	<u>1,387</u>	<u>1,489</u>	<u>1,487</u>
Total assets		87,364	86,726	79,420	78,772
<b>Current assets</b>					
Stock and Work in Progress	8	130	130	1,082	1,082
Debtors	9	3,583	3,503	2,909	2,854
Cash at bank		<u>10,920</u>	<u>10,444</u>	<u>10,371</u>	<u>10,014</u>
		14,633	14,077	14,362	13,950
<b>Creditors: amounts falling due within one year</b>	10	<u>(7,209)</u>	<u>(7,070)</u>	<u>(6,866)</u>	<u>(6,762)</u>
Net current assets		<u>7,424</u>	<u>7,007</u>	<u>7,496</u>	<u>7,188</u>
Total assets less current liabilities		94,788	93,733	86,916	85,960
<b>Creditors: amounts falling due after more than one year</b>	11,12	<u>(59,949)</u>	<u>(59,840)</u>	<u>(56,942)</u>	<u>(56,822)</u>
<b>Net assets</b>		<u>34,839</u>	<u>33,893</u>	<u>29,974</u>	<u>29,138</u>
<b>Capital and reserves</b>					
Share capital	13	-	-	-	-
Designated reserves	6	7,232	7,232	7,388	7,388
Revenue reserves	6	<u>27,607</u>	<u>26,661</u>	<u>22,586</u>	<u>21,750</u>
		<u>34,839</u>	<u>33,893</u>	<u>29,974</u>	<u>29,138</u>

Approved by the Board of Management on 20th August 2015 and signed on its behalf and authorised for issue by:

..... *Charles M Milne* ..... **Charles Milne**, Board Member

..... *K Haig* ..... **Keith Haig**, Board Member

..... *Eleanor Fotheringham* ..... **Eleanor Fotheringham**, Secretary

The notes on pages 27 to 53 form part of these accounts.



**KINGDOM HOUSING ASSOCIATION LIMITED  
CONSOLIDATED CASH FLOW STATEMENT**

**For the year ended 31<sup>st</sup> March 2015**

	<b>Notes</b>	<b>2015 £000</b>	<b>2014 £000</b>
Net cash inflow from operating activities	20	8,357	6,327
Returns on investments and servicing of finance	22(a)	(1,593)	(1,499)
Taxation	5	(30)	(30)
Capital expenditure	22(b)	<u>(9,299)</u>	<u>(7,579)</u>
Cash (outflow) before financing		(2,565)	(2,781)
Financing	22(c)	<u>3,114</u>	<u>(1,873)</u>
(Decrease)/increase in cash	23	<u>549</u>	<u>(4,654)</u>

The notes on pages 27 to 53 form part of these accounts.

**KINGDOM HOUSING ASSOCIATION LIMITED**  
**HOUSING ASSOCIATION CASH FLOW STATEMENT**

**For the year ended 31<sup>st</sup> March 2015**

	<b>Notes</b>	<b>2015 £000</b>	<b>2014 £000</b>
Net cash inflow from operating activities	24	8,195	6241
Returns on investments and servicing of finance	26	(1,593)	(1,499)
Capital expenditure	26	<u>(9,297)</u>	<u>(7,544)</u>
Cash (outflow)/inflow before financing		(2,695)	(2,802)
Financing	26	<u>3,125</u>	<u>(1,865)</u>
(Decrease)/increase in cash	27	<u>430</u>	<u>(4,667)</u>

The notes on pages 27 to 53 form part of these accounts.

# KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)

## For the year ended 31<sup>st</sup> March 2015

### 1. Accounting Policies

KHA is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Mutuals team at the Financial Conduct Authority.

#### 1. Accounting Policies

The principal accounting policies of KHA are set out in paragraphs (a) to (u) below.

##### a) Basis of Accounting

The accounts are prepared in accordance with applicable accounting standards and under the historical cost accounting rules. They comply with the Registered Housing Associations (Accounting Requirements) (Scotland) Order 2007 and the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords Update 2010.

##### b) Basis of Consolidation

The Group accounts consolidate the accounts of Kingdom Housing Association Limited and its subsidiary company Kingdom Initiatives Limited.

##### c) Going Concern

The Board of Management believe it is appropriate to prepare the financial statements on the basis of going concern. The latest financial plans have been reviewed and approved by the Board and submitted to the Scottish Housing Regulator. These plans were prepared using assumptions agreed by the Senior Management Team and, where appropriate, in conjunction with KHA's Housing Investment Group, and demonstrate that KHA is financially viable. An impairment review has also been carried out that demonstrates that no provision for impairment is required. The assumptions used for the long term plans and the impairment review are considered to be appropriate.

##### d) Turnover

Turnover represents rental and service charge income receivable (net of voids), income for the provision of support and care services, fees, revenue grants and sales of housing, comprising first tranche sales of shared equity properties and properties developed for other registered social landlords. Tenant service charges are levied on a basis intended to cover appropriate service costs each year.

##### e) Expenditure on New Properties

Following the introduction of Component Accounting, the cost and grant for each rented property have now been attributed to the individual components that comprise that property to create a cost, depreciation provision and a grant value for each individual component. The cost of each new rented property that is brought into management is attributed to individual components and these components are depreciated over their useful lives.

##### f) Expenditure on Existing Properties and Components

Planned maintenance expenditure is attributed to individual components and these components are depreciated over their useful lives. As this expenditure relates to the replacement of existing components, appropriate accounting adjustments are made to reflect the disposal of the components that are replaced. Any expenditure which does not meet the definition of one of the specific components that comprise a property is charged to Income & Expenditure Account.

##### g) Housing Association Grant

Housing Association Grant (HAG) is payable by Scottish Ministers to enable KHA to develop new properties and modernise existing properties. The Grant is paid directly to KHA and is reflected in the accounts when due to be received.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**1. Accounting Policies**

The costs not funded by HAG are sought from other sources or funded internally. The amount of grant is calculated on qualifying costs (Note 1(m)) of the scheme in accordance with instructions issued from time to time by the Housing & Regeneration Directorate of the Scottish Government.

HAG includes:

**i) Acquisition and development allowances receivable**

Acquisition and development allowances are determined by the Housing & Regeneration Directorate of the Scottish Government and are advanced as HAG. They are intended to finance certain internal administrative costs relating to the acquisition and development of housing land and buildings for approved schemes.

**ii) Clerk of works allowances**

Clerk of works allowances are determined by the Housing & Regeneration Directorate of the Scottish Government and are advanced as HAG. They are intended to finance the costs of employing a clerk of works.

Allowances received in advance are shown as HAG repayable in creditors (Note 10) and allowances receivable are shown as HAG receivable in debtors (Note 9).

HAG is repayable under certain circumstances, primarily following the sale of a property but will normally be restricted to the net proceeds of sale. A contingent liability note has been included at Note 30 to detail the level of grants repayable on properties held within KIL.

HAG received in respect of revenue expenditure is credited to the Income and Expenditure Account in the same period as the expenditure to which it relates.

HAG is attributed to individual components where appropriate. When a component is replaced the associated HAG is credited to Income & Expenditure Account.

**h) Other Housing Grants**

Other grants relating to the provision of housing arise from local authority second home Council tax and the Mortgage to Rent scheme operated by the Scottish Government. These grants are reflected in the accounts when received.

Other Grant is attributed to individual components where appropriate. When a component is replaced the associated grant is credited to Income & Expenditure Account.

**i) Non-housing grants**

Other non-housing grants are included in the income and expenditure account when received. At the year end any amounts of grant not fully applied for the purpose received are included in Creditors: amounts falling due within one year (Note 10).

**j) Stocks & Work in Progress (WIP)**

Stocks and work in progress are stated at the lower of cost and net realisable value. Developments in progress for other Associations in the Alliance are included in WIP at cost, net of any related HAG.

**k) Sale of Housing Properties**

KHA has charitable status and therefore is exempt from right to buy legislation. KHA develops properties for sale on a shared ownership basis, which allows prospective home owners to purchase initial tranches of 25%, 50% or 75% at market value. After one year the sharing owner may increase his/her share of ownership. All costs and grants relating to the share of property sold are removed from the financial statements at the date of sale.

## **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

### **1. Accounting Policies**

The sale of initial tranches is accounted for through the income and expenditure account, where turnover is represented by the sale proceeds and the associated cost of sale reflecting the appropriate proportion of the cost of the property sold. Sales of subsequent tranches are accounted as sales of fixed assets. Any grants received that cannot be repaid from the proceeds of sale are abated and the grant removed from the financial statements.

#### **l) Properties Managed by Agents**

KHA uses an agent to manage a number of its properties (Note 7 - units in management). There is a management agreement in place that sets out the service levels required by KHA. The cost of managing the properties is charged to the Income and Expenditure account on an accruals basis.

#### **m) Fixed Assets - Housing Land and Buildings**

Housing properties are stated at cost less applicable depreciation (Note 1(o)). The development cost of housing properties includes the following:

- i) cost of acquiring land and buildings
- ii) development expenditure
- iii) capitalised interest

The total cost is attributed to individual components.

All invoices and architects' certificates relating to the capital expenditure incurred in the period, at gross value including retentions, are included in the accounts for the period provided that the dates of issue or valuation are prior to the period end.

In accordance with recommended practice the cost of housing properties developed for shared ownership is stated in the Balance Sheet after transferring to the Income & Expenditure Account the proportion of the costs attributable to the first tranche sales to the sharing owners. Sales proceeds from first tranche sales are included as Turnover in the Income & Expenditure Account. Subsequent tranche sales are accounted for as disposals of fixed assets through the Income and Expenditure Account.

#### **n) Homestake**

The 'Homestake' scheme was introduced by the Scottish Government in 2005, with grant provided by the Scottish Government to make up the difference between the cost of the properties less the sale proceeds paid by purchasers of the properties.

This normally results in a residual stake in each property remaining with KHA and this is accounted for as a Fixed Asset Investment (Note 7). The cost of Homestake properties in the Balance Sheet is stated net of the cost of initial stakes sold to Homestake purchasers. The sale of initial stakes in Homestake properties is accounted for through the Income and Expenditure account. Subsequent sales of residual stakes are accounted for as disposals of fixed assets through the Income and Expenditure Account.

#### **o) Depreciation**

Depreciation is charged on all tangible fixed assets with the exception of shared ownership properties and land. Depreciation is considered immaterial on shared ownership properties due to their high residual value. Depreciation is charged at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life in KHA and KIL.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**1. Accounting Policies**

**KHA Component Life cycles**

**Housing Properties**

Land	Infinite
Structure	100 years
Bathroom	35 years
Electrics	30 years
Doors	30 years
Electric Heating	20 years
Gas Heating	35 years
Kitchens	20 years
Roofs	60 years
Windows	30 years
Renewables	20 years

**Other Fixed Assets**

Office property	10 - 50 years
Housing and office furniture and fittings	5 - 10 years
Motor vehicles	5 years
Computer hardware and software	3 years

**KIL Component life cycles**

**Housing Properties**

Land	Infinite
Structure	100 years
Roofs	60 years
Windows	30 years
Doors	30 years
Bathroom	35 years
Heating	20 years
Electrical installations	20 years
Kitchens	20 years

Housing properties are reviewed for any impairment in value by comparing their estimated value in use as social housing with their net carrying value in the Balance Sheet, with any material difference charged to the Income and Expenditure Account.

**p) Pension Scheme**

KHA participates in the Scottish Housing Association Pension Scheme (SHAPS), a defined contribution scheme administered by The Pensions Trust. The assets of the scheme are held and invested separately from those of KHA.

Contributions to the scheme are charged to the Income and Expenditure Account on an accruals basis and represent the employer's contribution for the year.

**q) Designated Reserve for Pension Fund (Note 6)**

During the year an amount of £156,000 was released from designated reserves to the revenue reserve in respect of the past service deficit on the Scottish Housing Association Pension Scheme (SHAPS). These funds are set aside to provide for the past service deficit contributions on SHAPS over the next 12 years.

**r) Apportionment of Management Expenses**

Direct employee administration and operating costs have been apportioned to the relevant activities undertaken by KHA on the basis of the costs of the staff directly engaged in the operations described and dealt with in these accounts.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**s) Leases**

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

**t) Subsidiary Undertakings**

KHA owns all of the share capital of Kingdom Initiatives Limited. The investment is shown in KHA's balance sheet at cost.

**u) Taxation**

Taxation transactions arising in subsidiary undertakings are included in the consolidated financial statements.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**2. Turnover, operating costs and operating surplus/(deficit)**

**i) By Class of Business - Group:**

	Turnover	Operating Costs £000	Operating Surplus/(Deficit)	2014 Operating Surplus/(Deficit)
	£000	£000	£000	£000
Social lettings (Note 3 (i))	14,530	(8,273)	6,257	5,659
Other activities (Note 3 (iii))	<u>7,220</u>	<u>(7,253)</u>	<u>(33)</u>	<u>(451)</u>
Total	<u>21,750</u>	<u>(15,526)</u>	<u>6,224</u>	<u>5,208</u>
2014	<u>19,054</u>	<u>(13,846)</u>	<u>5,208</u>	

**ii) By Class of Business - Association:**

	Turnover	Operating Costs £000	Operating Surplus/ (Deficit) £000	2014
	£000	£000	£000	£000
Social lettings (Note 3 (ii))	13,772	(8,150)	5,622	5,250
Other activities (Note 3 (iv))	<u>7,739</u>	<u>(7,277)</u>	<u>462</u>	<u>(198)</u>
Total	<u>21,511</u>	<u>(15,427)</u>	<u>6,084</u>	<u>5,052</u>
2014	<u>18,887</u>	<u>(13,835)</u>	<u>5,052</u>	

**3. Particulars of turnover, operating costs and operating surplus/ (deficit) by class of business**

**i) Social Letting Activities – Group**

	General Needs Housing £000	Supported Housing Accommodation	Shared Ownership Housing	2015 Total £000	2014 Total £000
Turnover	£000	£000	£000	£000	£000
Rent receivable net of service charges	12,900	711	558	14,169	13,110
Service charges	325	111	3	439	498
Gross income from rents & service charges	13,225	822	561	14,608	13,608
Less voids	<u>(77)</u>	<u>-</u>	<u>(1)</u>	<u>(78)</u>	<u>(68)</u>
Net income from rents & service charges and Total turnover from social letting activities	<u>13,148</u>	<u>822</u>	<u>560</u>	<u>14,530</u>	<u>13,540</u>



**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

3. Particulars of turnover, operating costs and operating surplus/(deficit) by class of business

i) Social Letting Activities - Group	General Needs Housing £000	Supported Housing Accommodation £000	Shared Ownership Housing £000	2015 Total £000	2014 Total £000
<b>Operating Costs</b>					
Management & maintenance administration costs	2,762	70	225	3,057	3,485
Service costs	454	12	36	502	447
Planned & cyclical maintenance including major repairs costs	475	12	-	487	530
Reactive maintenance costs	2,683	69	-	2,752	2,070
Bad debts – rents & service charges	213	6	-	219	209
Depreciation of social housing	1,224	32	-	1,256	1,130
Depreciation of social housing – loss on disposal of components	<u>201</u>	<u>-</u>	<u>261</u>	<u>8,273</u>	<u>7,881</u>
Operating costs for social letting activities	<u>5,337</u>	<u>621</u>	<u>299</u>	<u>6,257</u>	<u>5,659</u>
Operating surplus/(deficit) for social letting activities	<u>4,764</u>	<u>644</u>	<u>251</u>	<u>5,659</u>	<u>10</u>
2014 Operating surplus for social letting activities					

ii) Social Letting Activities - Association	General Needs Housing £000	Supported Housing Accommodation £000	Shared Ownership Housing £000	2015 Total £000	2014 Total £000
<b>Turnover</b>					
Rent receivable net of service charges	12,129	711	558	13,398	12,673
Service charges	324	111	3	438	497
Gross income from rents & service charges	12,453	822	561	13,836	13,170
Less voids	<u>(63)</u>	<u>-</u>	<u>(1)</u>	<u>(64)</u>	<u>(68)</u>
Net income from rents & service charges and total turnover from social letting activities	<u>12,390</u>	<u>822</u>	<u>560</u>	<u>13,772</u>	<u>13,102</u>
<b>Operating Costs</b>					
Management & maintenance administration costs	2,698	70	225	2,993	3,477
Service costs	438	12	36	486	437
Planned & cyclical maintenance including major repairs costs	475	12	-	487	530
Reactive maintenance costs	2,650	69	-	2,719	2,070
Bad debts – rents & service charges	213	6	-	219	208
Depreciation of social housing	1,214	32	-	1,246	1,130
Depreciation of social housing – loss on disposal of components	<u>201</u>	<u>-</u>	<u>261</u>	<u>8,150</u>	<u>7,852</u>
Operating costs for social letting activities	<u>4,702</u>	<u>621</u>	<u>299</u>	<u>5,622</u>	<u>5,250</u>
Operating surplus for social letting activities	<u>4,355</u>	<u>644</u>	<u>251</u>	<u>5,250</u>	<u>10</u>
2014 Operating surplus for social letting activities					

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**3. Particulars of turnover, operating costs and operating surplus/ (deficit) by class of business (Contd.)**

**iii) Other Activities - Group**

	Grants from Scottish Ministers £000	Other Revenue Grants £000	Supporting People Income £000	Other Income £000	2015 Total Turnover £000	2014 Total Turnover £000
<b>Turnover</b>						
Wider Role activities undertaken to support the community	-	-	-	35	35	34
Care and repair of property	-	251	-	-	251	217
Development and construction of property activities	-	-	-	-	-	-
Support activities	-	-	3,693	565	4,258	4,413
Care activities	-	-	-	-	-	-
Other agency/ management services	-	-	-	48	48	25
Developments for sale to registered social landlords	-	-	-	2,058	2,058	-
Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords	-	-	-	-	-	289
Factoring	-	-	-	147	147	94
Other activities	-	-	-	423	423	442
	<u>251</u>	<u>251</u>	<u>3,693</u>	<u>3,276</u>	<u>7,220</u>	<u>5,514</u>

	2015 Operating Costs - Bad Debts £000	Other Operating Costs £000	2015 Operating Surplus/ Surplus/ (Deficit) £000	2014 Operating Surplus/ Surplus/ (Deficit) £000
<b>Total Turnover</b>				
Wider Role activities undertaken to support the community	-	(99)	(64)	(67)
Care and repair of property	-	(292)	(41)	8
Development and construction of property activities	-	115	115	(608)
Support activities	-	(4,568)	(310)	-
Care activities	-	-	-	-
Other agency/ management services	-	(11)	37	25
Developments for sale to registered social landlords	-	(1,936)	122	-
Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords	-	-	-	21
Factoring	-	(150)	(3)	5
Other activities	-	(312)	111	165
<b>Operating surplus/ (deficit)</b>		<u>(7,253)</u>	<u>(33)</u>	<u>(451)</u>
2014 Operating surplus/ (deficit) for other activities		<u>(5,965)</u>	<u>(451)</u>	

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**3. Particulars of turnover, operating costs and operating surplus/ (deficit) by class of business (Contd.)**

iv) Other Activities - Association	Grants from Scottish Ministers £000	Other Revenue Grants £000	Supporting People Income £000	Other Income £000	2015		2014	
					Total Turnover	Operating Surplus/ (Deficit)	Total Turnover	Operating Surplus/ (Deficit)
<b>Turnover</b>								
Wider Role activities undertaken to support the community	-	-	-	£000	£000	£000	£000	£000
Care and repair of property	-	251	-	35	35	(64)	34	34
Development and construction of property activities	-	-	-	-	251	(41)	217	217
Support activities	-	-	3,693	565	4,258	115	4,413	4,413
Care activities	-	-	-	-	-	(310)	-	-
Other agency/ management services	-	-	-	48	48	-	25	25
Developments for sale to registered social landlords	-	-	-	2,058	2,058	48	-	-
Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords	-	-	-	-	-	122	-	-
Mid Market Rent Received	-	-	-	483	483	-	253	253
Factoring	-	-	-	147	147	-	94	94
Other activities	-	251	-	459	459	-	460	460
		<u>251</u>	<u>3,693</u>	<u>3,795</u>	<u>7,739</u>	<u>(198)</u>	<u>5,785</u>	<u>5,785</u>
<b>Operating surplus/(deficit)</b>								
Wider Role activities undertaken to support the community		£000	£000	£000	£000	£000	£000	£000
Care and repair of property		35	-	(99)	(64)	(67)	8	(67)
Development and construction of property activities		251	-	(292)	(41)	8	(608)	(608)
Support activities		-	-	115	115	-	-	-
Care activities		-	-	(4,568)	(310)	-	-	-
Other agency/ management services		-	-	-	-	-	-	-
Developments for sale to registered social landlords (Note 8)		48	-	-	48	25	25	25
Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords		2,058	-	(1,936)	122	-	-	-
Mid Market Rent Received		483	-	-	483	253	253	253
Factoring		147	-	(150)	(3)	5	5	5
Other activities		459	-	(347)	112	165	165	165
<b>Operating surplus/ (deficit)</b>		<u>7,739</u>	<u>-</u>	<u>(7,277)</u>	<u>462</u>	<u>(198)</u>	<u>(198)</u>	<u>(198)</u>
2014 Operating surplus/ (deficit) for other activities		<u>5,785</u>	<u>-</u>	<u>(5,983)</u>	<u>(198)</u>	<u>(198)</u>	<u>(198)</u>	<u>(198)</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**3. Particulars of turnover, operating costs and operating surplus/ (deficit) by class of business (Contd.)**

Overhead cost allocations to Support activities have been revised during the period on the basis of direct cost and indirect costs being allocated to the activity. This has led to a deficit of £3.10k for 2014-15. If the same methodology for overhead cost allocation had been applied to the 2014 accounts Support activity this would have led to a cost increase of £68k leading to a deficit of the same amount in the prior year 2014.

**4. Surplus on Sale of Housing Properties**

**Group and Association:**

	Group & Association 2015	Group & Association 2014
	£000	£000
Sale proceeds	548	184
Cost of properties	(352)	(118)
Expenses on disposal of properties	-	(6)
Falkirk write off	-	(15)
Disposal of components	(17)	48
Hag abatement	<u>-</u>	<u>26</u>
	<u>179</u>	<u>119</u>

The gain on sale of housing properties arises from the sale of tranches of 25%, 50% or 75% of the whole of each property.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**5. Taxation**

KHA has charitable status for taxation purposes and therefore it has no liability to corporation tax for the year. Kingdom Initiatives Limited is liable to pay UK corporation tax and its liability is included in the consolidated financial statements.

	2015 Group	2015 Association	2014 Group	2014 Association
	£000	£000	£000	£000
	<u>30</u>	=	<u>30</u>	=

Current tax charge on income for the year on surplus on ordinary activities

Corporation tax calculated at 20% (2014: 20%)

Reconciliation:

Group profit on ordinary activities before tax  
Non-taxable profits relating to Association  
Non-taxable donation  
Taxable profit on ordinary activities

	4,895
	(4,746)
	<u>149</u>

Profit on ordinary activities multiplied by the small company CT rate of 20% (2014: 20%)

Effects of:

Depreciation in excess of Capital Allowances

	29
	<u>1</u>
	<u>30</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**6. Revenue Reserves**

**i) Group and Association**

	Group		Association	
	2015 Total	2014 Total	2015 Total	2014 Total
	£000	£000	£000	£000
Balance at 1 <sup>st</sup> April	22,586	19,469	21,750	18,759
Surplus for year	4,865	3,838	4,755	3,712
Transfer from Designated Reserves	<u>156</u>	<u>(721)</u>	<u>156</u>	<u>(721)</u>
Balance at 31 <sup>st</sup> March	<u>27,607</u>	<u>22,586</u>	<u>26,661</u>	<u>21,750</u>

**ii) Designated Reserves**

**Group & Association:**

	2015 Total	2014 Total
	£000	£000
Balance at 1 <sup>st</sup> April	7,388	6,667
Transfer from (to) Revenue Reserves	<u>(156)</u>	<u>721</u>
Balance at 31 <sup>st</sup> March	<u>7,232</u>	<u>7,388</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**7. Tangible fixed assets  
Group:**

**i) Housing properties Cost**

	Shared Ownership properties held for letting	Housing Properties held for letting	Housing Properties in course of construction	Hostel Property held for letting	Housing Properties Total
	£000	£000	£000	£000	£000
At 1 <sup>st</sup> April 2014	13,225	243,602	10,417	1,053	268,297
Additions during year	-	680	18,494	-	19,174
Disposals during year	(374)	(151)	-	-	(525)
Transfers	-	13,580	(13,580)	-	-
At 31 <sup>st</sup> March 2015	<u>12,851</u>	<u>257,711</u>	<u>15,331</u>	<u>1,053</u>	<u>286,946</u>
<b>Depreciation</b>					
At 1 <sup>st</sup> April 2014	-	9,577	-	-	9,577
Provided in year	-	1,256	-	-	1,256
Disposals in year	=	(134)	=	=	(134)
At 31 <sup>st</sup> March 2015	=	<u>10,699</u>	=	=	<u>10,699</u>

**Net depreciated value**

At 31 <sup>st</sup> March 2015	<u>12,851</u>	<u>247,012</u>	<u>15,331</u>	<u>1,053</u>	<u>276,247</u>
At 31 <sup>st</sup> March 2014	<u>13,225</u>	<u>234,025</u>	<u>10,417</u>	<u>1,053</u>	<u>258,720</u>

No interest was capitalised during the year.

Major repairs expenditure of £692,696 including £240,896 in respect of maintenance administration costs, was included in the income and expenditure account. No major repairs expenditure was capitalised during the year as it did not relate to components.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

ii) Housing Association Grant and Other Capital Grants	Shared Ownership properties held for letting	Housing properties held for letting	Housing properties in course of construction	Hostel Property held for letting	Housing Properties Total
	£000	£000	£000	£000	£000
Housing Association Grant					
At 1 <sup>st</sup> April 2014	10,111	154,769	5,294	1,053	171,227
Received during year	-	12	8,806	-	8,818
Repayable during year	(244)	(39)	-	-	(283)
Transfers	-	4,951	(4,951)	-	-
At 31 <sup>st</sup> March 2015	<u>9,867</u>	<u>159,693</u>	<u>9,149</u>	<u>1,053</u>	<u>179,762</u>
<b>Other Capital Grants</b>					
At 1 <sup>st</sup> April 2014	-	8,425	1,145	-	9,570
Received during year	-	-	940	-	940
Repayable during year	-	-	-	-	-
Transfers	-	1,513	(1,513)	-	-
At 31 <sup>st</sup> March 2015	-	<u>9,938</u>	<u>572</u>	-	<u>10,510</u>
<b>Net book value</b>					
At 31 <sup>st</sup> March 2015	<u>2,984</u>	<u>77,381</u>	<u>5,610</u>	-	<u>85,975</u>
At 31 <sup>st</sup> March 2014	<u>3,114</u>	<u>70,831</u>	<u>3,978</u>	-	<u>77,923</u>

Development administration costs capitalised amounted to £620,895 (2014: £235,719) for which HAG amounting to £336,239 (2014: £336,239) was received during the year. KHA's properties have been reviewed for impairment and no provision was considered necessary.



**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**7. Tangible fixed assets (cont'd)  
Association:**

**iii) Housing properties Cost**

	Shared Ownership properties held for letting £000	Housing properties held for letting £000	Housing properties in course of construction £000	Hostel Property held for letting £000	Housing Properties Total £000
At 1 <sup>st</sup> April 2014	13,225	242,922	10,417	1,053	267,617
Additions in year	-	680	18,494	-	19,174
Disposal in year	(374)	(151)	-	-	(525)
Transfers	-	13,580	(13,580)	-	-
At 31 <sup>st</sup> March 2015	<u>12,851</u>	<u>257,031</u>	<u>15,331</u>	<u>1,053</u>	<u>286,266</u>

**Depreciation**

At 1 <sup>st</sup> April 2014	-	9,543	-	-	9,543
Provided in year	-	1,246	-	-	1,246
Disposals in year	-	(134)	-	-	(134)
At 31 <sup>st</sup> March 2015	-	<u>10,655</u>	-	-	<u>10,655</u>

**Net depreciated value**

At 31 <sup>st</sup> March 2015	<u>12,851</u>	<u>246,376</u>	<u>15,331</u>	<u>1,053</u>	<u>275,611</u>
At 31 <sup>st</sup> March 2014	<u>13,225</u>	<u>233,379</u>	<u>10,417</u>	<u>1,053</u>	<u>258,074</u>

No interest was capitalised during the year.



**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**7. Tangible fixed assets (Contd.)**

**(v) Fixed Asset Investments –  
Homestake & Shared Equity  
Group and Association**

	Completed Properties £000	Properties In course of Construction £000	Total £000
<b>Cost</b>			
As at 1 <sup>st</sup> April 2014	1,950	(7)	1,943
Additions during the year	(15)	7	(8)
Disposals during the year	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 <sup>st</sup> March 2015	<u>1,935</u>	<u>-</u>	<u>1,935</u>
<b>Grant</b>			
As at 1 <sup>st</sup> April 2014	1,935	-	1,935
Received during the year	-	-	-
Repayable on disposal	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 <sup>st</sup> March 2015	<u>1,935</u>	<u>-</u>	<u>1,935</u>
<b>Net Book Value</b>	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 <sup>st</sup> March 2015			
As at 31 <sup>st</sup> March 2014	<u>15</u>	<u>7</u>	<u>8</u>

There is not a significant difference between the carrying value shown above and the market value of the Homestake properties held by KHA.

<b>(vi) Other fixed assets Group:</b>	Heritable office Property £000	Furniture and equipment £000	Motor vehicles £000	Computer hardware and software £000	Total £000
<b>Cost</b>					
At 1 <sup>st</sup> April 2014	1,416	332	527	1,229	3,504
Additions during year	-	5	21	106	132
Disposals during the year	<u>-</u>	<u>-</u>	<u>(31)</u>	<u>-</u>	<u>(31)</u>
As at 31 <sup>st</sup> March 2015	<u>1,416</u>	<u>337</u>	<u>517</u>	<u>1,335</u>	<u>3,605</u>
<b>Depreciation</b>					
At 1 <sup>st</sup> April 2014	376	273	373	993	2,015
Provided during year	27	17	53	135	232
Disposals during the year	<u>-</u>	<u>-</u>	<u>(31)</u>	<u>-</u>	<u>(31)</u>
At 31 <sup>st</sup> March 2015	<u>403</u>	<u>290</u>	<u>395</u>	<u>1,128</u>	<u>2,216</u>
<b>Net book value</b>					
At 31 <sup>st</sup> March 2015	<u>1,013</u>	<u>47</u>	<u>122</u>	<u>207</u>	<u>1,389</u>
At 31 <sup>st</sup> March 2014	<u>1,040</u>	<u>59</u>	<u>154</u>	<u>236</u>	<u>1,489</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

<b>(vii) Other fixed assets Association:</b>	<b>Heritable office Property £000</b>	<b>Furniture and equipment £000</b>	<b>Motor vehicles £000</b>	<b>Computer hardware and software £000</b>	<b>Total £000</b>
<b>Cost</b>					
At 1 <sup>st</sup> April 2014	1,416	329	527	1,229	3,501
Additions during year	-	5	21	106	132
Disposals during the year	-	-	(31)	-	(31)
As at 31 <sup>st</sup> March 2015	<u>1,416</u>	<u>334</u>	<u>517</u>	<u>1,335</u>	<u>3,602</u>
<b>Depreciation</b>					
At 1 <sup>st</sup> April 2014	376	273	373	993	2,015
Provided during year	27	16	53	135	231
Disposals during the year	-	-	(31)	-	(31)
At 31 <sup>st</sup> March 2015	<u>403</u>	<u>289</u>	<u>395</u>	<u>1,128</u>	<u>2,215</u>
<b>Net book value</b>					
At 31 <sup>st</sup> March 2015	<u>1,013</u>	<u>45</u>	<u>122</u>	<u>207</u>	<u>1,387</u>
At 31 <sup>st</sup> March 2014	<u>1,040</u>	<u>59</u>	<u>154</u>	<u>236</u>	<u>1,489</u>

<b>2015 Group and Association £000</b>	<b>2014 Group and Association £000</b>
--	--

**8. Stocks and Work in Progress**

Stock of Housing Properties	-	-
Work In Progress for other Registered Social Landlords (RSLs)	-	969
Stock of materials held by Maintenance Teams	<u>130</u>	<u>113</u>
	<u>130</u>	<u>1,082</u>
Note:		
Work In Progress for other RSLs at 1 April	969	244
Net additions during the year – costs less applicable HAG	869	725
Net transfers to operating costs on disposals (Note 3 (iv))	<u>(1,838)</u>	-
Balance of Work In Progress for other RSLs at 31 <sup>st</sup> March	<u>-</u>	<u>969</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

<b>9. Debtors</b>	<b>2015 Group £000</b>	<b>2015 Association £000</b>	<b>2014 Group £000</b>	<b>2014 Association £000</b>
Arrears of rent	541	537	676	673
Less: Provision for bad debts	<u>(310)</u>	<u>(309)</u>	<u>(307)</u>	<u>(306)</u>
	231	228	369	367
Sundry debtors and prepayments	1,480	1,406	1,059	1,006
Due from Kingdom Initiatives Limited	5	2	-	-
Grants Receivable	-	-	225	225
Interest Receivable	14	14	15	15
Car loans to employees	110	110	82	82
SHG in arrears	<u>1,743</u>	<u>1,743</u>	<u>1,159</u>	<u>1,159</u>
	<u><u>3,583</u></u>	<u><u>3,503</u></u>	<u><u>2,909</u></u>	<u><u>2,854</u></u>

<b>10. Creditors: amounts falling due within one year</b>	<b>2015 Group £000</b>	<b>2015 Association £000</b>	<b>2014 Group £000</b>	<b>2014 Association £000</b>
Contractors for certified work	2,410	2,410	1,954	1,954
Trade creditors	377	377	232	232
Sundry creditors and accruals, including prepaid rent	1,441	1,350	1,438	1,375
Other Taxation & Social Security costs	148	148	160	160
Due to Kingdom Initiatives Limited	6	-	-	1
Interest Payable accrual	42	42	123	123
Homestake cost accruals	-	-	136	136
Corporation Tax	30	-	30	-
HAG repayable	330	330	475	475
Housing loans (Note 12)	<u>2,425</u>	<u>2,413</u>	<u>2,318</u>	<u>2,306</u>
	<u><u>7,209</u></u>	<u><u>7,070</u></u>	<u><u>6,866</u></u>	<u><u>6,762</u></u>

<b>11. Creditors: amounts falling due after more than one year</b>	<b>2015 Group £000</b>	<b>2015 Association £000</b>	<b>2014 Group £000</b>	<b>2014 Association £000</b>
Housing loans (Note 12)	<u>59,949</u>	<u>59,840</u>	<u>56,942</u>	<u>56,822</u>

The current instalments due on the above loans are included in Note 10 above.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

	2015 Group £000	2015 Association £000	2014 Group £000	2014 Association £000
<b>12. Loans</b>				
<b>Housing loans</b>				
Loans secured by a charge on KHA's Housing, Land and Buildings and advanced by private lenders:	62,374	62,253	59,260	59,128
The loans are repayable by annual instalments of principal and interest, the last of which fall to be repaid on dates between 2020 and 2044: the loans bear interest at rates between 0.76% to 4.91% (2014 – 0.76% to 5.5%).				
	<u>62,374</u>	<u>62,253</u>	<u>59,260</u>	<u>59,128</u>
Repayable:				
Within one year (Note 10)	<u>2,318</u>	<u>2,306</u>	<u>2,318</u>	<u>2,306</u>
Between one & two years	2,425	2,413	2,437	2,413
Between two & five years	17,242	17,205	17,242	17,206
After more than five years	<u>40,389</u>	<u>40,328</u>	<u>37,263</u>	<u>37,203</u>
Amounts falling due after more than one year (Note 11)	<u>59,949</u>	<u>59,840</u>	<u>56,942</u>	<u>56,822</u>
	<u>62,374</u>	<u>62,253</u>	<u>59,260</u>	<u>59,128</u>
<b>13. Share Capital</b>				
	2015 Number	2014 Number	2015 £	2014 £
<b>Group</b>				
Shares of £1 each issued and fully paid:				
At 1 <sup>st</sup> April	68	72	68	72
Issued during the year	1	4	1	4
Cancelled during the year	<u>(11)</u>	<u>(8)</u>	<u>(11)</u>	<u>(8)</u>
At 31 <sup>st</sup> March	<u>58</u>	<u>68</u>	<u>58</u>	<u>68</u>
<b>Association</b>				
Shares of £1 each issued and fully paid:				
At 1 <sup>st</sup> April	68	72	68	72
Issued during the year	1	4	1	4
Cancelled during the year	<u>(11)</u>	<u>(8)</u>	<u>(11)</u>	<u>(8)</u>
At 31 <sup>st</sup> March	<u>58</u>	<u>68</u>	<u>58</u>	<u>68</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**14. Interest Payable and similar charges**

	2015 Group £000	2015 Association £000	2014 Group £000	2014 Association £000
Interest payable in the year has been charged as follows:				
Loan Interest	<u>1,560</u>	<u>1,559</u>	<u>1,534</u>	<u>1,533</u>

**15. Capital Commitments**

Group and Association

Housing Properties:

Expenditure contracted less certified	<u>8,889</u>	<u>11,920</u>
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**16. Employees**

Group and Association

i) Staff costs during year:

	2015 £000	2014 £000
Wages and salaries	7,122	6,945
Social security costs	538	474
Other pension costs	<u>834</u>	<u>689</u>

Within staff costs are £19,000 relating to redundancy costs incurred during the year (2014: £66,000).

ii) Staff numbers:

	2015 No.	2014 No.
Average weekly number of employees (including relief staff working on an "as required" basis)	<u>357</u>	<u>356</u>
Number of employees as at 31 <sup>st</sup> March		
Support & care staff	179	192
Administration staff	123	120
Maintenance staff	<u>24</u>	<u>23</u>
	<u>326</u>	<u>335</u>

As at 31<sup>st</sup> March 2014 the full time equivalent number of employees in post was 274 (2014: 276).

Agency staff were employed during the year at a cost of £224,966 (2014: £62,019).

**17. Auditors' Remuneration**

The remuneration of the auditors for the year (including expenses and VAT)

	2015 Group £000	2015 Association £000	2014 Group £000	2014 Association £000
External Auditors:				
Audit Services	19	16	20	15
Tax & Advisory Services	-	-	6	6
Internal Audit	<u>10</u>	<u>10</u>	<u>9</u>	<u>9</u>
	<u>29</u>	<u>26</u>	<u>35</u>	<u>30</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

**18. Payments to Members and Board Members**

No Member of KHA received any fee or remuneration during the year. Members of the Board were reimbursed for out of pocket travel expenses amounting to £3,197 (2014: £2,650).

During the year 2 (2014: 2) Members of the Board were tenants of KHA. The tenancies of these Members are on normal terms.

<b>19. Remuneration of Directors</b>	<b>2015 £000</b>	<b>2014 £000</b>
The aggregate remuneration of 5 directors (2014 – 5) including benefits in kind was	<u>308</u>	<u>403</u>
The pension contributions of 5 directors were	<u>16</u>	<u>34</u>
Emoluments (excluding pension contributions) were paid in the following bandings:	<b>No.</b>	<b>No.</b>
£60,001 - £70,000	-	-
£70,001 - £80,000	2	2
£80,001 - £90,000	-	1
£90,001 - £100,000	-	1
£100,001 - £110,000	1	-

The total emoluments (excluding pension contributions) received by the highest paid director was £103,861 (2014: £92,432).

Directors are defined to include the Chief Executive and any other person reporting directly to the Chief Executive or the Board. The Chief Executive is an ordinary member of KHA's Pension Scheme described in Note 30. No enhanced or special terms apply to his membership and KHA does not contribute to any other pension on his behalf. KHA's pension contributions for the Chief Executive in the year are 6% (2014: 9.6%) and amounted to £6,051 (2014: £4,695).

The Acting Chief Executive was an ordinary member of KHA's Pension Scheme described in Note 28. No enhanced or special terms apply to his membership and KHA does not contribute to any other pension on his behalf. KHA's pension contributions for the Acting Chief Executive in the year were 6% (2014: 9.6%) and amounted to £976 (2014: £4,080).

At the year end, in addition to the above, 2 of the directors had car loans from KHA. The total balance of car loans due by directors at 31<sup>st</sup> March 2015 was £7,726 (2014: £22,036). The maximum balance outstanding during the year was £22,936 (2014: £28,711). Interest is charged on these loans at a rate equivalent to the Bank of England base rate on the day of inception of the loan and is the same for other eligible employees of KHA.

<b>20. Reconciliation of operating surplus to net cash flow from operating activities - Group</b>	<b>2015 £000</b>	<b>2014 £000</b>
Operating surplus	6,224	5,208
Depreciation charges	1,491	1,374
(Decrease)/increase in creditors	6	(300)
Decrease/(Increase) in debtors	(316)	506
(Increase)/decrease in Stocks and Work in Progress	<u>952</u>	<u>(461)</u>
Net cash inflow from operating activities	<u>8,357</u>	<u>6,327</u>



**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

<b>21. Reconciliation of net cash flow to movement in net debt – Group</b>	<b>2015 £000</b>	<b>2014 £000</b>
(Decrease)/increase in cash in the period	549	(4,654)
Loans repaid	1,886	1,873
Cash received from new loans	<u>(5,000)</u>	<u>-</u>
Change in net debt	(2,565)	(2,781)
Net debt - opening	<u>(48,890)</u>	<u>(46,110)</u>
Net debt at 31 <sup>st</sup> March	<u>(51,455)</u>	<u>(48,891)</u>

**22. Gross cash flows - Group**

	<b>2015 £000</b>	<b>2014 £000</b>
a) Returns on investments and servicing of finance		
Interest received	48	62
Interest paid	<u>(1,641)</u>	<u>(1,561)</u>
	<u>(1,593)</u>	<u>(1,499)</u>
b) Capital expenditure		
Payments to acquire tangible fixed assets	(18,842)	(13,396)
Receipts of housing grants	8,971	5,639
Receipts from sales of housing	<u>572</u>	<u>178</u>
	<u>(9,299)</u>	<u>(7,579)</u>
c) Financing		
Housing loans received	5,000	-
Housing loans repaid	<u>(1,886)</u>	<u>(1,873)</u>
Net cash inflow from financing	<u>3,114</u>	<u>(1,873)</u>

**23. Analysis of changes in net debt - Group**

	<b>At 1<sup>st</sup> April 2014 £000</b>	<b>Cash flows £000</b>	<b>Other Changes £000</b>	<b>At 31<sup>st</sup> March 2015 £000</b>
Cash in hand and at bank	10,371	549	-	10,920
Debt due within 1 year	(2,318)	(1,886)	1,779	(2,425)
Debt due between 1 and 2 years	(2,437)	-	17	(2,420)
Debt due between 2 and 5 years	(17,242)	-	16	(17,226)
Debt due after more than 5 years	<u>(37,265)</u>	-	<u>(3,038)</u>	<u>(40,303)</u>
Total	<u>(48,891)</u>	<u>(1,335)</u>	<u>(1,228)</u>	<u>(51,454)</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

**For the year ended 31<sup>st</sup> March 2015**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
<b>24. Reconciliation of operating surplus to net cash flow from operating activities - Association</b>		
Operating surplus	6,084	5,052
Depreciation charges	1,479	1,364
Depreciation – loss on disposal of components	-	-
(Decrease)/increase in creditors	(29)	(379)
Decrease/(increase) in debtors	(291)	665
(Increase)/decrease in Stocks and Work in Progress	<u>952</u>	<u>(461)</u>
Net cash inflow from operating activities	<u>8,195</u>	<u>6,241</u>
<b>25. Reconciliation of net cash flow to movement in net debt – Association</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
(Decrease)/increase in cash in the period	430	(4,667)
Loans repaid	1,875	1,865
Cash received from new loans	<u>(5,000)</u>	-
Change in net debt	(2,695)	<u>(2,802)</u>
Net debt at 1 <sup>st</sup> April	<u>(49,114)</u>	<u>(46,311)</u>
Net debt at 31 <sup>st</sup> March	<u>(51,809)</u>	<u>(49,113)</u>
<b>26. Gross cash flows - Association</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
a) Returns on investments and servicing of finance		
Interest received	47	61
Interest paid	<u>(1,640)</u>	<u>(1,560)</u>
	<u>(1,593)</u>	<u>(1,499)</u>
b) Capital expenditure		
Payments to acquire tangible fixed assets	(18,842)	(13,396)
Receipts of housing grants	8,971	5,640
Receipts from sales of housing	<u>574</u>	<u>212</u>
	<u>(9,297)</u>	<u>(7,544)</u>
c) Financing		
Housing loans received	5,000	-
Housing loans repaid	<u>(1,875)</u>	<u>(1,865)</u>
Net cash inflow/(outflow) from financing	<u>3,125</u>	<u>(1,865)</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED  
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**For the year ended 31<sup>st</sup> March 2015**

**27. Analysis of changes in net debt - Association**

	At 1 <sup>st</sup> April 2014 £000	Cash flows £000	Other Changes £000	At 31 <sup>st</sup> March 2015 £000
Cash in hand and at bank	10,014	430	-	10,444
Debt due within 1 year	(2,306)	(1,875)	1,768	(2,413)
Debt due between 1 and 2 years	(2,413)	-	5	(2,408)
Debt due between 2 and 5 years	(17,206)	-	17	(17,189)
Debt due after more than 5 years	<u>(37,202)</u>	-	<u>(3,041)</u>	<u>(40,243)</u>
Total	<u>(49,113)</u>	<u>(1,445)</u>	<u>(1,251)</u>	<u>(51,809)</u>

**28. Pension Obligations**

**a) Scottish Housing Associations' Pension Scheme**

**Summary of Scheme**

Kingdom Housing Association participates in the Scottish Housing Associations' Pension Scheme ('the Scheme'). The Scheme is funded and is contracted-out of the State Pension scheme.

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

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

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

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30<sup>th</sup> September 2014. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £539 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £281 million, equivalent to a past service funding level of 66%.

The annual cost of KHA's deficit contributions to the Scheme is £624,080.

KHA has been notified of the amount to be paid for the past service pension deficit being £52,007 per month.

**Employer Debt**

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 buy-out basis, i.e. the cost of securing benefits by purchasing annuity policies from an

## **KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED NOTES to the CONSOLIDATED ACCOUNTS (Cont'd)**

### **For the year ended 31<sup>st</sup> March 2015**

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 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.

Kingdom Housing Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scheme based on its financial position as at 30<sup>th</sup> September 2014. As of this date the estimated employer debt for KHA was £21,059,999.

#### **b) Pensions Trust's Growth Plan**

##### **Summary of Scheme**

Kingdom Housing Association also participates in The Pensions Trust's Growth Plan (the Plan). The Plan is funded and is not contracted-out of the State Pension scheme.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Plan is a multi-employer scheme where the scheme assets are co-mingled for investment purposes and benefits are paid from the total scheme assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The Trustee commissions an actuarial valuation of the Plan every three years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The valuation results at 30<sup>th</sup> September 2011 were completed in 2012 and have been formalised. The valuation of the Plan was performed by a professionally qualified Actuary using the Projected Unit Method. The market value of the Plan's assets at the valuation date was £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore, revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a funding level of 84%.

KHA does not make any contributions to the Plan.

##### **Legislation Changes**

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 Plan. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (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 Plan. If the liabilities exceed assets there is a buy-out debt.

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**For the year ended 31<sup>st</sup> March 2015**

The leaving employer's share of the buy-out debt is the proportion of the Plan's liability attributable to employment with the leaving employer compared to the total amount of the Plan'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 Plan liabilities, Plan 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. Therefore, the amounts of debt can be volatile over time.

KHA has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Plan of £21,059,999 based on the financial position of the Plan as at 30<sup>th</sup> September 2014.

**29. Financial Commitments**

The Group and Association have annual commitments under non-cancellable operating leases as follows:

	<b>Offices, Works Depot £000</b>
<u>At 31<sup>st</sup> March 15 expiry:</u>	
Less than 1 year	1,397
Between 1-2 years	-
Total as at 31 March 15	<u>1,397</u>

**30. Contingent Liabilities**

KHA participates in a multi employer pension scheme. Should KHA leave the Scheme the amount of employer debt has been estimated as £21,059,999 (Note 28(a)). At the present time KHA has no intention of leaving the Scheme.

Repayment of Housing Association Grant is not required on any component disposals.

**31. Related Party Transactions**

Certain Members of the Board identified on page 1 have tenancy and occupancy agreements with KHA. These operate in the same way as all of KHA's other tenancy and occupancy agreements.

At the date of these financial statements, no Member of the Board was a councillor or an employee of a related local authority.

KHA issued invoices to KIL for purchases, re-invoiced charges and management services provided by KHA amounting to £511,698 (2014: £277,770). KIL issued invoices to KHA for purchases and re-invoiced charges totaling £23,056 (2014: £22,213).

