

Kingdom Housing Association Limited – Consolidated
Report and Financial Statements
for the year ended 31st March 2017

Registration Details
Scottish Housing Regulator Reg. No. HEP 142
Scottish Charity No SC000874
Financial Conduct Authority Company number SP1981RS

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Board of Management, Executive, Advisers and Registration Details

Board of Management	<p>Freya Lees Charles Milne Laurie Naumann Gordon Campbell</p> <p>Thomas Condie Loretta Mordi Linda Leslie Tom Barr Iain Connelly</p> <p>Garry Dickson Gavin Thomson Laura Brotherton David Little</p> <p>Keith Haig Rose Duncan Louise Poole Douglas Murray</p>	<p>Chairperson from 17th October 2016 Chairperson to 17th October 2016 Vice Chairperson Chair of Audit and Corporate Governance from 21st November 2016</p> <p>(appointed 19th September 2016) (co-opted 16th May, 2016, appointed 19th September 2016)</p> <p>(co-opted 20th March 2017) (co-opted 20th March 2017) (co-opted 20th March 2017) (co-opted 21st December 2015, resigned 19th September 2016)</p> <p>Chair of Audit and Corporate Governance (resigned 19th September 2016)</p> <p>(appointed 19th September 2016, Resigned 16th January 2017)</p> <p>(resigned 16th January 2017) (resigned 19th September 2016)</p>
Executive	<p>William Banks Eleanor Fotheringham Norah Smith Nicholas Pollard Scott Kirkpatrick Alan Simpson</p>	<p>Chief Executive (and Company Secretary from 1st June 2016)</p> <p>Director of Resources and Company Secretary (retired 30th June 2016)</p> <p>Director of Housing and Care (resigned 31st March 2017)</p> <p>Director of Finance & IT (and Director of Corporate Support Services from 1st July 2016)</p> <p>Acting Director of Development (from 1st July 2016)</p> <p>Acting Director of Asset Management (from 1st July 2016)</p>
Registered Office	Saltire Centre, Pentland Court, Glenrothes, KY6 2DA	
Registration Numbers	Co-operative and Community Benefit Societies Act 2014, Reg. No.1981 R(S) Scottish Housing Regulator Reg. No. HEP 142 Scottish Charity No SC000874	
Independent Auditors	RSM UK Audit LLP First Floor, Quay 2, 139 Fountainbridge, Edinburgh EH3 9QG	
Principal Banker	Bank of Scotland 67 Bank Street, Lochgelly, Fife KY5 9QN	

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Report of the Board of Management

The Board of Management (the Board) presents its report and audited consolidated financial statements for the year ended 31st March 2017.

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 Act, 2014 as a mutual society under registration number SP1981RS and is registered as a Registered Social Landlord, 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 two wholly owned subsidiary companies, Kingdom Initiatives Limited (KI), registered with Companies House under the Companies Act 2006, registration number SC383963, which is a non charitable company limited by shares and Kingdom Support and Care Community Interest Company (KSC) also registered with Companies House under the Companies Act 2006, registration number SC545491, which is a Community Interest Company that is non charitable limited by shares.

These consolidated financial statements include the results of KHA, KI and KSC (the Group) for the year to 31st March 2017.

Principal activities

KHA

KHA's principal activity is the provision and management of affordable housing using Scottish Secure Tenancies. The mission statement of KHA is to 'provide more than a home' and this is reflected in the additional activities provided, relating to Wider Role which incorporates Fife Works Employability service and Care and Repair Small Repairs service. 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, local authorities as well as private finance and its own resources. KHA is committed to maintaining a development programme to provide affordable housing, including social rent and mid-market rent properties where the rent is based upon a percentage of the appropriate Local Housing Allowance and hence higher than social rents via KI. KHA also has a significant number of shared ownership properties and also provides accommodation for homeless people. During the period KHA provided support and care services under contracts with Local Authorities and service users. The support and care business was transferred to a new wholly owned subsidiary along with the staff providing those services on 1st April 2017.

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 budgeting, management accounts, key performance indicators and business planning tools to measure the performance of the business against its stated objectives both in the short, medium and long run. These indicators are reviewed regularly by KHA's Governing Body and its Audit and Corporate Governance sub committee and are reported to the SHR.

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Report of the Board of Management (Cont'd)

KI

The principal activities of KI are to manage properties through leases and Scottish Assured Tenancy agreements, relating mainly to properties leased to it but owned by KHA. KI also provides development services to third parties as well as undertaking any activities not allowed by KHA as a Scottish charity.

KSC

The principal activities of KSC will be to provide support and care services to approximately 260 individual service users across the Fife and Falkirk local authority areas under contract.

KSC was established during the 2016-17 financial year following an options appraisal of the Support and Care business currently undertaken by KHA. The transactions relating to the period 2016-17 are in respect of the set up of KSC. KSC transferred the contracts along with the staff from KHA on 1st April 2017 when it commenced trading.

Outturn and future plans

The Kingdom group of companies generated a net surplus for the period of £8.5 million. That significant surplus was as a result of a one off gain of more than £3.7 million arising from a remeasurement of the SHAPS past service deficit liability. Whilst that gain is welcome it is not guaranteed that in future years that this gain will not be eroded due to market movements in pensions and discount rates which affect the valuation of pension liabilities.

The reserves of the Kingdom group of companies increased by the £8.5 million to £43 million as at 31st March 2017. These outturn figures are positive and demonstrate that the Kingdom group of companies remains financially strong.

The surplus generated in the year and the historic reserves earned to date are required to meet the future commitments and obligations of the companies' to maintain the homes they rent at the Scottish Housing Quality Standard and to deliver the Energy Efficiency Standard in Social Housing by 2020 whilst continuing to manage the homes and deliver services to our customers.

In addition current and future surpluses along with the reserves are committed in our 30 year business plan and this enables the Kingdom group of companies to maintain its objective of delivering new affordable rented homes in and around Fife for future tenants.

Governance

The management, control and services between the three organisations KHA, KI and KSC 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 place and are operating effectively.

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 date of the statement of financial position, 31st March 2017 there were 12 Board members, including three co-opted members, with a wide range of skills, knowledge and experience.

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As at the date of the statement of financial position none of the Members was a tenant and one of the Members was a sharing owner.

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

The Governing Body of KI is a Board of Directors, which at the year end consisted of 4 Directors, one of whom is the appointed Chairperson. One of the Directors is also a member of the KHA Board of Management (Iain Connelly) and one of the Directors is KHA Chief Executive (William Banks).

The Governing body of KSC is a Board of Directors, which at the year end consisted of 4 Directors, one of whom is the appointed Chairperson. Two of the Directors are also members of the KHA Board of Management (Charles Milne and Thomas Condie) and one of the Directors is KHA Chief Executive (William Banks).

There are clear reporting arrangements between the members of the group with minutes of the KI and KSC meetings being presented to the KHA Board and a standing agenda item on the KI and KSC Board papers for any items to be referred from and to KHA. All governing bodies operate within agreed rules, policies and financial regulations with delegated authority given to the Chief Executive and Executive Management Team of KHA and KSC. Key performance indicators and regular operational reports are provided to the boards of KHA, KI and KSC to enable them to monitor progress in meeting the agreed objectives.

The Group recognises that retaining and attracting Board members for KHA and KI is a challenge for both organisations. During the year a comprehensive governance review was undertaken to assess the skills, knowledge and experience available within the Board and an action plan agreed to address any gaps identified and agree the succession planning arrangements for the Board composition.

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 141 new affordable homes, for Kingdom and our partner organisations, (2016: 213), bringing KHA's stock of social rented properties to 3,519, as at end March 2017 (2016: 3,419)
- 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 circa 260 service users, (2016: 257)
- We have delivered on our financial plans and comfortably comply with all our loan covenants

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- We have demonstrated innovation through the range of products and services we provide, including the further expansion of mobile working arrangements which improve customer services and provide organisational benefits
- We employ 402 staff and offer good terms and conditions and for the last 14 years we have maintained our Investors in People (IiP) Recognition
- 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 RSLs 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.

During the year we developed the business plan and transitional arrangements for the transfer of staff to Kingdom Support and Care CIC (KSC). As from 1st April 2017, all support and care activities undertaken by KHA, will be delivered through KSC.

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 that are comparable with or better than many other social landlords in the sector as set out on pages 14 to 20.

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.

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

We reviewed our development capacity during the year and this is reflected in our 2017 Corporate Plan, where an increase in the provision of new supply affordable housing, has been planned over the next five year period.

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 as set out on page 21 and 22.

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 five years and the development of our activities to improve our customer services.

Human Resources and Health & Safety

The human resources and health & safety services are provided by the Chief Executive's Department and are designed to support the governing bodies of the Group, Management and staff through the development, implementation, monitoring and review of effective policies, processes and procedures, with guidance and advice provided by experienced and qualified staff.

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Attracting, developing and retaining employees 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.

One of Kingdom's strategic objectives is to be a good employer and part of our vision is to be an employer of choice. Our values of fairness, innovation, sustainability, collaborative working, recognising the contribution of our tenants, stakeholders and workforce and treating people with respect underpin how we want to manage and develop our people.

During 2015-16 our liP re-accreditation, the Employee Opinion Survey (EOS) and our Staff Recruitment and Retention/Staff Development 2014-15 internal audit gave us a number of insights into how we are doing on those objectives, vision and values. We are doing very well. From the liP assessment we found that 96% of staff gave a positive score when asked to rate whether Kingdom is a "great place to work". We also heard that there are some great management practices, that employees are of the view that their terms and conditions are good and that we are getting better at organisational communication. The EOS told us that 93% of employees are satisfied with their overall job and nearly as many 89% are satisfied with Kingdom as an employer. The internal audit told us that we are good at following our policies and procedures on recruitment and retention and staff development. In 2016-17, an internal audit on absence management showed that, again, our policy and procedures are well understood and followed.

As always there is room for improvement. All four pieces of work highlighted some areas we can develop to make Kingdom an even better place to work. We continue to implement our plan to address those areas which fall under:

- Leadership & Management
- Performance Management and staff development
- Staff Recognition
- Absence Management
- Staff Communications and Consultation

Housing Management & Housing Stock

We own properties in Fife, Clackmannan, Falkirk and Perth and Kinross District Council areas. We manage our own stock in all of these areas except Perth and Kinross where we have a management agreement with Fairfield Housing Cooperative.

We allocated 316 properties in the period 1st April 2016 to 31st March 2017. This included 269 re-let properties and 47 new build properties.

The average time taken to re-let properties was 23 days. This was 8 days lower than the average for the previous year. Statutorily homeless applicants accounted for 28% of allocations which were made.

We did not have any hard to let properties or voids over 6 months and were under our void provision budget at the end of the reporting period.

Gross current tenant debt stood at £341,024 at the 31st March 2017. This represents 2.45% of the annual debit, and indicates improved performance compared to 31st March 2016 when debt was 2.58%

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In our customer survey, tenant satisfaction in relation to the rents being value for money was 85.5% an increase of 5% from the previous survey in 2015-16.

An affordability assessment study was carried out in 2016-17. This indicated that following a 2.5% increase our rents were affordable to the majority of our tenants based on earned income. We support tenants in accessing financial assistance to raise household income levels, for example through housing benefit uptake where appropriate.

We have continued to respond to the impacts of Welfare Reform, ensuring that the organisation and tenants are prepared for the future. We have assisted tenants to apply for and secure Discretionary Housing Payments to offset the under occupancy charge where applicable. We have continued to support tenants to secure the appropriate benefits and maximise their income so that we maximise rent collection.

Over the year we have investigated 93 complaints of anti-social behaviour. We have resolved 95.7% of these within our 20 day target

During the year we continued to develop our approach to tenant and customer participation. Our Customer Scrutiny Panel completed their first scrutiny exercise, examining our void performance. The panel also completed the CIH Stepping Up To Scrutiny programme. We held our first Tenant Gathering at The Falkirk Wheel, bringing together customers and staff.

We have continued to provide factoring services to approximately 448 owners and sharing owners.

We have continued to promote MMR and bring additional MMR properties into management.

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

- The introduction of universal credit full service 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
- The need for tenancy sustainment support is increasing and likely to continue to do so in the light of welfare reform. We have appointed a tenancy sustainment worker and a money advice /arrears officer to help us maximise our income and our customer's income as well as helping tenants to sustain their tenancies
- As we continue to have a healthy development programme, we must ensure that we have adequate resources to ensure that our houses are effectively managed and appropriate support to tenants is given

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At the end of the financial year 2016-17 the Group was managing 4,173 properties. A breakdown of the stock in management is provided below:

Social rented	3,467
Shared ownership	264
Leased	25
Lead tenancies	50
Non self contained leased	9
Non self contained	3
Non housing	34
MMR (managed by KI)	256
KI owned properties	20
Managed on behalf of Fife Council	45
Total	4,173

During the year, Kingdom consulted with tenants on the annual rent increase and applied a rent increase of 2.5% from 1st April 2017.

Kingdom, 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 56% represented by houses and 44% by flats. Most of KHA's housing stock was built after 1982.

Support and Care

In 2016-17 we continued to support approximately 260 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 provided temporary accommodation and outreach services for people who were homeless through the services at James Bank, Dunfermline.

During 2016-17, we expanded on the services in Falkirk, gaining around 100 hours per week and have started work on implementing a further 182 hours for two services which will become fully operational in 2017-18. We also began work on developing a further core and cluster service for adults with learning disabilities and challenge in Slammanan. We expect this to come into full operation in the financial year 2017-18, with the total additional hours being in the region of 350 per week.

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We have already begun transition work with some of the people who will use this service, providing a variable number of hours per week. This service will result in there being an additional staff base in the area.

Within Fife, the hours of support have also increased throughout the year; however, we have also lost hours as a result of deaths. This results in a small net gain over the year. We have established a large individual service requiring 2:1 staffing in Dunfermline and have begun transition work with another individual which will lead to an additional 112 hours per week and come to full operation in early 2017-18. A further two packages are also in transition work in the Central Fife area.

Both Local Authority frameworks were due to be renewed in 2016-17, however, both have been postponed, which has had an effect on the income as expected uplifts in contract rates have not been applied.

Staff turnover in 2016-17 for Support and Care has remained at the same levels as 2015-16 at 24.7% (2016 25%). This remains higher than we would wish and steps are being taken to reduce this. Factors affecting turnover include uncertainty in the sector, low salaries and significant choice of providers and alternative employment opportunities.

Sickness absence has reduced slightly, at 11.2 days lost per employee in 2016-17. This includes some long term absence for serious illness, therefore affects the figures negatively, being in relation to a small number of staff. However, it still remains a significant cost to the organisation and work will continue to reduce this.

We have continued to invest in training for staff and are well placed to meet the Scottish Social Services Council registration requirements with approximately 75% of support workers having achieved or working towards the appropriate qualification. All supervisory and managerial staff have or are actively working towards the relevant qualifications and have completed registration. The percentage of staff with appropriate qualification has reduced for a number of reasons, including turnover and growth, but is still high in the sector. There is an ongoing development program which will ensure these rates are increased over the coming year.

Further training for Managers in performance management was planned for early 2017 and the program is well underway, with one session outstanding which will take place in June 2017.

The Care Inspectorate reports improved with grades of 5 and 6, very good and excellent being achieved.

The financial contribution to the organisation from support and care is estimated at £158,000 before the allocation of overheads and prior to in year budgetary adjustments. There has been additional income of approximately £20,000 from Fife Council approved for 2016-17 which increases this figure to £178,000. The contribution is less than was forecast, the reasons for this include:

- Increased cost in relation to payment of the Scottish Living Wage and not fully covered by Local Authority uplifts
- High turnover of staff
- High sickness absence costs
- Non delivery of hours due to supported individuals being hospitalised or on holiday with family. There has been full clawback of all monies from the Local Authority; however, the staffing costs are still incurred.
- We delivered 98% on average of contracted hours across the year

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Over the financial year, work has been undertaken to create Kingdom Support and Care CIC, a wholly owned subsidiary of KHA. This has been done to ensure that the viability of the service is sustained for a greater number of years through having a sole focus on support and care activity, having an independent Board of Management which takes decisions in relation to the care sector only and driving both growth and efficiencies in service delivery.

There are a number of risks and uncertainties in the coming year:

- Both Local Authority frameworks will be retendered in 2017-18 and KSC will need to be accepted onto both of these with rates which enable us to make a reasonable surplus.
- The Scottish Living Wage will continue to rise and income will need to meet this increased cost.
- Continuous improvement is required in staff turnover and sickness management to reduce service delivery costs.
- KSC must achieve the forecast in both growth and efficiencies to meet the business plan.

Development

Most of our development activity is in Fife, but our areas of operation extend into adjacent Local Authorities and it has been another active year in respect of our Development Activity, where we continued to provide a new supply of affordable housing to meet a wide range of housing needs.

We can demonstrate strong results across development Key Performance Indicators (KPIs) and our track record, experience and history of collaborative working contributes to our delivery of a successful development programme.

During 2016-17 we invested £30.08 million in new development projects for Kingdom and our partners, with £19.94m 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 425 new units and we completed a further 141 units during the year as part of the development programme we manage.

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. During the year we put in place a strategy to significantly increase our outputs over the next five years.

While the priority is predominately the development of new social rented provision, we also recognise there is a high demand for other affordable housing tenures. The need for intermediate rented housing is addressed through provision of MMR homes. During the year we completed 15 MMR properties as part of the development programme in Fife.

Collaborative working is an approach that we have adopted for many years. It builds productive relationships, spreads and reduces risks and provides opportunities for us which would not easily be pursued 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.

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

- Affordable Housing Policy and Delivery Groups
- Strategic Housing Investment Programme (SHIP)
- Strategic Local Programme (SLP) Groups
- Local Housing Strategy Implementation Groups
- 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 Registered Social Landlords (RSLs), as part of the Fife Alliance arrangement. We have a similarly successful relationship with Fairfield Housing Co-operative in Perth and a new relationship that is being established with Ochil View HA in Clackmannanshire.

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 a key objective that results in high quality housing and reduces our long term management and maintenance costs through lower turnover, reduced reactive repairs, voids and housing management costs and enhanced component life cycles. High quality helps sustain tenancies, improves tenants' health & well-being and addresses issues associated with fuel poverty. The projects we developed were designed and built to fully meet Housing for Varying Needs Standards and Secured by Design accreditation. The majority of our projects secured enhanced greener standard subsidy, which allowed us to achieve elements of the building regulations Silver Standard for Sustainability.

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 year has confirmed an excellent 95% overall satisfaction level with the quality and design of the new homes; the target to be achieved was 92%.

Development of new housing entails risks and uncertainty so we have robust procurement and project management processes to mitigate the risks and contribute towards our outcomes. During the year we continued to use the Brixx Development module, which has allowed us to test different development scenarios and improve our project financial appraisal methodology, demonstrating viability and sustainability 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.

Although various factors impacted on our development programme during the year, which resulted in delayed project starts and slippage, it has been a successful year for new housing development. In addition to the project completions and much increased level of new site starts, we have continued to develop proposals for our pipeline programme, which will assist us in achieving our development objectives in the future.

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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 2016-17	Target 2016-17	Actual 2015-16
Site Starts (new supply)	425 units	437 units	154 units
Site Completions (new supply)	141 units	179 units	213 units

The target of 437 unit site starts was challenging, being a marked increase on previous years' targets, and to achieve 425 starts was a very good outcome. Some units programmed to complete late in March 2017 slipped to complete in the following month, resulting in not meeting the target for the year.

Kingdom Initiatives Limited (KI)

During 2016-17 KI has continued to manage Mid Market Rent (MMR) housing.

As at 31st March 2017, 256 completed MMR properties are owned by KHA and leased to KI. KI let the tenancies and are responsible for management and maintenance of the projects. KI also leases 45 flats from Fife Council (FC), which are let as MMR tenancies

KHA has a programme of future MMR projects and as at the end of the year there were 61 units on site, which will be completed during 2017-18. Additional FC projects will complete in 2017-18 with 76 MMR properties being developed by FC which will be leased to KI.

During the year KI has been developing a total of 47 new homes at Devilla, Kincardine. The project will provide 16 new homes for sale, supported by Partnership Support for Regeneration (PSR) funding and 31 new MMR tenancies. The Devilla project is being developed in partnership with KHA who are building 2 new Social Rent homes.

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 that provide good replacement life cycles
- Quality reactive repairs services and voids turnaround times and 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 a small repairs team who carry out our kitchen replacements programmes and property adaptations. This year we carried out a total of more than 12,348 repairs (2016: 12,650) of which 2,324 (2016: 2,587) were emergency repairs.

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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:-

	Actual 2016-17	Target 2016-17	Actual 2015-16
Out of hours emergency repairs (response target % achieved)	96.22%	95.00%	99.70%
Average time to complete an emergency repair (hours)	2.05hrs	-	2.21 hrs
Routine Repairs (response target % achieved)	89.51%	85.00%	87.40%
Repairs appointments kept	95.03%	-	90.76%
% properties with valid and current gas safety certificates	100.00%	100.00%	99.97%

Whilst the above results 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 maintained our Scottish Housing Quality Standard (SHQS) compliance and continued to work through our programme of works to bring all of our properties up to the Energy Efficiency Standard for Social Housing (EESH).

Satisfaction with our repairs service has continued and during 2016-17 we recorded a 91.81% (2016: 94.98%) satisfaction level for the overall repairs service provided to our tenants.

Our appointments system has been further developed during the year with a significant increase in the number of appointments offered to tenants.

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 such as recruitment and retention of suitably skilled and qualified staff as well as an apprentice programme.

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.

Kingdom Group's mission is to provide "more than a home" and KHA meets this through a range of services which provide added value.

Care and Repair Project

KHA has been managing the Fife Care and Repair Project for 22 years. The service has evolved from its inception and in 2010 it was appointed by Fife Council to manage and commission all of the major, permanent disability adaptations in the private sector.

The adaptations are grant funded on an individual basis, the clients firstly having been assessed by Occupational Therapy as having a requirement for an adaptation that will make daily life easier and allow them to continue to live in their own home for longer.

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Report of the Board of Management (Cont'd)

During 2016-17 Care and Repair received 276 disability adaptation referrals (2016: 293) of which 229 were completed at a total spend of £1,179,271. In addition to this 84 properties were upgraded to meet The Tolerable Standard.

The Small Repairs Service continued to be in high demand and completed 816 jobs (2016: 780) which if they had left unattended would in most cases have affected the fabric of the property.

The annual Satisfaction Survey Report continues to show very high levels of satisfaction for Care and Repair and Small Repairs at 98% and 100% respectively (2016: 98% & 99%).

Community Initiatives

We deliver various projects that provide potential benefits to our tenants and residents who live in the communities where we operated. Examples include education initiatives in local schools, support to community groups, energy advice services and public art and financial inclusion projects.

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 procurement and 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 customer base. The Group's financial risk is limited to its initial membership fee and the Our Power 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 we have already secured funding to take us into the summer of 2018. We will continue to identify and source funding that will extend the projects beyond this date. We are investigating processes that will mainstream many of the activities into the advice and assistance services we provide to tenants.

During the year Fife Works assisted over 466 people in our communities (2016: 517) and helped 275 people to access employment (2016: 237).

Information Communication Technology

During the year KHA focused on maintaining effective information systems and re-implemented Voids and Property Lettings in the housing management system. Maintenance of systems with regular updates and patches is an essential part of our ICT team. As part of the new Customer Contact Team KHA implemented a bespoke workflow and upgraded systems and ensured Housing's requirements were met and exceeded.

Reliance on mobile devices continues to provide employees and board members with improved system access and KHA finished the year with 450 mobile devices in management (2016: 350). In addition KHA tendered for unified communications system during the year which will be implemented during 2017-18.

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In the first half of 2017-18 our 'My Kingdom' customer portal and texting solutions will be completed providing 'Customer Focused Solutions'. A new Unified Communications and telephony system will also be implemented in the summer once a full procurement exercise is completed through Public Contract Scotland Ltd. This will provide effective information systems, reduced risk and improved business continuity.

We are focused on working closely with Housing to review the collection of rents and arrears management to ensure our systems and process are more effective and efficient.

Our technical infrastructure will be reviewed in line with our 'Cloud First' strategy and this may see significant changes towards the end of the financial year. Our Digital strategy is aligned with business objectives and we will continue to be a leader in the sector, driving innovation and creativity to meet the Kingdom Group vision.

Development of new solutions for an integrated human resources and payroll system, purchase to pay system and preparing for compliance with the General Data protection regulation are operational objectives for 2017-18.

Financial Report

Financial Reporting Standard 102/Statement of Recommended Practice 2014

This is the second period under which financial reporting has been made using the application of FRS102 and the consequent Statement of Recommended Practice for Registered Social Landlords 2014.

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 31st March 2017 KHA had 47.1% (2016: 50%) of its loan portfolio at fixed rates of interest. KHA is taking advantage of the low London Inter Bank Offer Rates (LIBOR) and base rates on offer on its variable rate debt but recognises 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 weighted average cost of funds of all KHA's borrowings is 2.30% (2016 2.46%).

KHA's lenders have set minimum levels of interest cover (operating surplus/ interest payable) that must be met. The level of interest cover at 31st March 2017 was a minimum of 524% (2016: 385%), significantly higher than the minimum level required by the lenders' financial covenant test of 115%.

KHA's lenders also require a gearing covenant test (debt/net worth) 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 year end was 26%, which was significantly below the maximum threshold.

KHA undertook during 2015-16 a whole stock loan security valuation exercise. The outcome of that is that KHA has secured 2,098 properties to its lenders under both Existing Use Value – Social Housing and Market Value-Subject to Tenancies amounting to £90.8 million in security value. The asset cover in place exceeds the minimum asset cover tests by approximately 10% across all loans.

All covenants with all lenders were therefore met during the period.

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During 2016-17 KHA entered in to a new loan agreement for £5.0 million with the Allia Scottish Government bond to fund off the shelf acquisitions in the final quarter of 2016-17 and the regeneration of a key development at Fraser Avenue. This takes the unsecured Allia borrowing to more than £10 million.

At the year ended 31st March 2017 the Group had £14.97 million (2016: £12.53 million) in cash at bank, KHA had £12.22 million cash at bank (2016: £11.93 million). In addition KHA had left to draw £5 million of its facility with Abbey National Treasury Services plc, part of Santander UK plc.

The RBS facility of £10 million due to expire in October 2017 has been extended by mutual agreement for a further 12 month period.

KHA has plans to obtain significant additional committed private finance within the next twelve months of approximately £75 million to support the next 3 to 5 years of its business plan. That additional private finance will be used to support the development of the 2,900 new homes planned over the next 5 years referred to in the Development objectives.

Statement of Comprehensive Income

The Kingdom group of companies

Group turnover for the year was £25.2 million (2016: £23.27 million) offset by operating costs of £18.8 million (2016: £17.23 million) and after adjusting for the gain on the remeasurement of the SHAPS past service deficit liability of £3.74 million creating an operating surplus of £10.13 million (2016: £6.04 million). After paying loan interest of £1.76 million (2016: £1.68 million) including an unwinding of discount of £0.16 million (2016: £0.16 million) in respect of the pension provision, adding gains on sales of £119k (2016: £144k), receiving interest of £35k (2016: £45k) giving a surplus for the year before taxation of £8.53 million (2016: £4.55 million). After provisions for the payment of tax in respect of the non charitable trading subsidiary company the surplus after taxation was £8.5 million (2016: £4.52 million).

KHA

KHA's turnover for the period was £24.82 million (2016: £22.94 million) offset by operating costs of £18.56 million (2016: £17.05 million), and after adjusting for the gain on the remeasurement of the SHAPS past service deficit liability of £3.74 million creating an operating surplus of £9.99 million (2016: £5.9 million). After paying loan interest of £1.76 million (2016: £1.68 million) including an unwinding of discount of £0.16 million (2016: £0.16 million) in respect of the pension provision, adding gains on sales of £119k (2016: £144k), receiving interest of £35k (2016: £45k) giving a surplus for the year before taxation of £8.39 million (2016: £4.41 million). As KHA is a Scottish charity it is exempt from corporation tax on its activities.

During the period rents were increased for 2016-17 by 2.5% and 70 new properties came in to the letting pool during the year. Void performance remains low at 0.36% of rents receivable (2016: 1.01%).

Management and maintenance administration costs per unit were higher than the prior year at £980 per unit (2016: £773). The higher costs were as a result of investment in additional overheads such as new vehicles and staffing resources associated with this activity. The routine and cyclical repair and maintenance cost per unit was £669 per unit (2016: £719 per unit).

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Report of the Board of Management (Cont'd)

Bad debts performance continues to remain low year on year accounting for 0.66% of rent receivable (2016: 0.48%). This is despite the Group taking a prudent 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. That loss however was a much lower loss than was originally forecast because of additional income being generated through new contracts being secured by the service during the period.

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

The Group received trading income from the established renewable energy equipment as a result of Feed in Tariff agreements. That income amounting to £118k has been offset by costs incurred in that activity. There is no corporation tax expected to be due on that activity owing to the application of Annual Investment Allowances (see Note 31).

Statement of Financial Position

The Kingdom group of companies

The fixed asset base of the Group continues to grow with the development of new units with grant funding to £282.11 million (2016: £262.87 million). The Group holds a small number of properties for sale to FHAA partners amounting to £2,358k (2016: £1k). The level of stock materials is similar to prior year at £0.19 million (2016: £0.15 million). Work in progress of £1.24 million is for properties for sale being developed by KI under Partnership Support for Regeneration (PSR).

The high cash holdings of the Group at £14.97 million (2016: £12.53 million) are a reflection of the prudent forecasting but also delays in planned development expenditure where funds had been drawn in anticipation of expenditure that did not occur. Trade debtors and other receivables are much reduced at £2.49 million (2016: £3.77 million). The Group reserves now stand at £43.03 million (2016: £34.53 million).

KHA

The fixed asset base of KHA also continues to grow with the development of new units with grant funding to £279.30 million (2016: £261.94 million). KHA holds a small number of properties for sale to FHAA partners amounting to £2,358k (2016: £1k). The level of stock and work in progress is similar to prior year at £0.19 million (2016: £0.15 million).

The high cash holdings of KHA at £12.22 million (2016: £11.93 million) are reflective of the delays in planned development expenditure where funds had been drawn in anticipation of that expenditure that did not occur. Trade debtors and other receivables includes the inter company loan to KI of £2.62 million and are therefore higher than the prior year at £5.30 million (2016: £3.39 million).

The pensions deficit recovery plan committed payment profile was significantly reduced during the period as a result of the 2015 valuation leading to a reduction in the plan payments from 2027 to 2022. This resulted in a favourable adjustment to the operating surplus of £3.7 million. The Group met its annual historic deficit recovery plan payment cost of £0.64 million for the pension scheme during the year and plans further payments up to 2022 to clear the deficit. The KHA reserves now stand at £41.86 million (2016: £33.47 million).

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Report of the Board of Management (Cont'd)

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 Fife 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 2016-17	Target 2016-17	Actual 2015-16	Actual 2014-15
Void loss [as per ARC report] (%)	0.44%	0.75%	1.01%	0.50%
Gross arrears - all tenants [as per ARC report] (%)	3.93%	3.50%	4.45%	5.60%
Average re-let time [as per ARC report] (days)	23.1 days	27 days	31 days	27 days
Staff costs: Turnover (excluding developments for sale) (%)	37.51%	45.20%	36.86%	39.05%
Sickness absence (days per employee)	11.2	<10	12.5	13.3
Management & Maintenance Administration costs per unit (£)	£980	£867	£773	£789
Routine Maintenance costs per unit (£)	£669	£665	£719	£741
Properties meeting SHQS requirements (%)	100.00%	100.00%	100.00%	93.40%

Void loss performance improved year on year and met the target for the year. Owing to proactive assistance services the arrears performance is positive year on year although not quite at the target figure.

Average re-let times are improved against target and above last year's performance.

Staff costs as a proportion of turnover are less than planned. Sickness absence levels remain higher than target and while an improvement over last year substantially exceed national averages.

Management and maintenance costs per unit were above target owing to less than forecast numbers of additional units coming in to let.

Routine repairs costs are around the target for the year.

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Report of the Board of Management (Cont'd)

KHA fully complied with the SHQS by the deadline set by Scottish Ministers taking account of exemptions and abeyances. The emergency repair service response times exceeded targets and improved on last year.

Financial Review & Going Concern

At the year end the Group's reserves amounted to £43.03 million, (Association: £41.87 million). During the year the Group created a surplus of £8.53 million (Association: £8.39 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. At 31st March 2017 KHA had £5 million in committed funding available to draw against. In addition a loan due to mature in October 2017 has been extended in June 2017 for a further 12 months by mutual agreement. Plans are in place to deliver sufficient committed funding for the next 3 years in the amount of approximately £75 million.

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 subsidiaries, KI and KSC.

Staffing

At 31st March 2017 the full time equivalent number of employees is 331 (2016: 296).

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 management and elected staff representatives.

We value inclusion and diversity in our workforce and are currently modernising our policy and procedures in this area.

Charitable Fund and Donations

Each year the Board approves an amount to be made available to support appropriate registered charitable causes. During the year to 31st March 2017 the Board approved an amount of £7,500 (2016: £7,500) for charitable causes, of which £4,348 (2016: £3,374) was distributed. During the year a Community Initiatives Fund was also set up, the Board approved an amount of £ 5,000 (2016: Nil), of which £1,340 was distributed (2016: Nil)

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. The Group aims to make all employees aware of risks through training and communication.

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Report of the Board of Management (Cont'd)

The Board employs external 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.

KHA has a number of insurance policies in place transferring key risks that the Group are exposed to.

Key strategic 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. A more recent key risk is the ONS reclassification of RSLs. The Group mitigates 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.

The table below outlines the key strategic risks faced by KHA, the inherent risk and the residual risk after the application of operational management and monitoring tools referred to above.

Key risks	Inherent risk level	Residual Risk Level
Reduced private finance availability	Minor	Minor
Increased cost of finance	Serious	Minor
Reduced grant funding for new development	Serious	Moderate
Increased Voids	Serious	Minor
Increased cost inflation	Minor	Minor
Failure to optimise existing IT	Serious	Minor
Welfare reform impact on tenancy sustainability	Serious	Moderate
Pension costs	Serious	Minor
Weak governance	Serious	Moderate
New entrants increasing competition in social housing	Serious	Moderate
New entrants increasing competition in support and care	Serious	Moderate
Reduced Support and Care funding	Serious	Moderate
Risk of rent controls	Minor	Minor
Increased sustainability requirements	Serious	Moderate
Fraud	Critical	Moderate
Increased employment legislation increasing costs	Serious	Moderate
ONS reclassification	Serious	Serious

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.

Rental increases are determined by the Board having consideration to affordability based on an independent affordability analysis, the effects of inflation on our cost base as well as ensuring we can meet our future maintenance and repair obligations and new stock development objectives.

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Report of the Board of Management (Cont'd)

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 favourable 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. KHA determined using a similar approach that in 2016-17 rents rose by 2.5%. KHA has implemented a rise in rents of 2.5% for the 2017-18 financial year.

Maintenance

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

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 statement of comprehensive income. 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 2016. In addition KHA will be expected to meet the EESSH by 2020.

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 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, public sector funding pressures and welfare reforms affecting our tenants.

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.

The Group has development plans for the next 5 years which include more than 2,900 homes being built by the Group for affordable housing letting along with FHAA developments. This will lead to a significant future private finance requirement over that period of £75 million which KHA is seeking to secure during the 2017-18 financial year.

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Report of the Board of Management (Cont'd)

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.

During 2016-17 KHA settled 11,855 invoices, of that number of invoices 58.09% were paid within 30 days of the invoice date however 82.32% were paid within 30 days of receipt. KHA paid no late payment interest to any supplier.

Group Structure

The Group comprises Kingdom Housing Association Limited, Kingdom Initiatives Limited and Kingdom Support and Care Community Interest Company.

Kingdom Initiatives Limited

The main activity of KI during 2016-17 has been the management of Mid Market Rented Housing (MMR). As at the date of the Statement of Financial Position, 31st March 2017, KI owned 20 properties in its own right which are rented (2016: 20) of which 12 are leased to KHA for lead tenancy purposes (2016: 12). The properties owned by KI strengthen the asset base and contribute to meeting affordable housing needs.

KI managed 301 MMR units which are leased to them (2016: 262). KHA completed the projected development during the year of 15 MMR units which were leased to KI for letting. Of the properties in management 20 are owned by KI (2016: 20), 256 are owned by KHA (2016: 241) and 45 by Fife Council (2016: 21). KI let the tenancies and are responsible for the management and maintenance of the properties in accordance with lease agreements between them and the landlords.

KI is developing a site in its own right at Devilla in Kincardine, Fife. The Board of KI has entered into an agreement with KHA to deliver development at this site on its behalf. The site includes Phase 1 MMR development of 9 units, which will be owned and let by KI, and 16 units of Partnership Support for Regeneration (PSR) which is development for sale by KI to specific groups. Phase 2 at the site provides for the development of up to 22 units in total with an anticipated profile of 10 PSR units and 12 MMR units. Phase 1 and 2 are expected to be completed during 2017-18.

The Board of KI has also agreed to an inter-company borrowing facility of £2.62 million between KHA and KI to facilitate the development of Phase 1. That facility is unsecured but is supported by a floating charge. The facility is for a 10 year term with a fixed interest rate of 4.5% per annum. The facility is, as at the date of the Statement of Financial Position, fully drawn down. Further funding, if required, will be sought for Phase 2 as necessary.

KHA has a programme of future MMR housing developments for 2017-18 and expects that by the end of 2017-18 a further 83 units will be handed over by KHA for KI to manage. In addition, Fife Council is developing 76 units of MMR stock during 2017/18 which will be leased to KI for management.

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

KI has loans amounting to £102,368 which are all LIBOR linked loans (2016: £112,335). The weighted average cost of funds on those loans is 1.27% and the loans are amortising until 2028. KI also has an inter company loan of £2,620,000 with KHA at 4.5% fixed. KI as at the year ended 31st March 2017 had cash at bank of £2,755,572 (2015: £600,113).

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Report of the Board of Management (Cont'd)

During 2017-18 the KHA Group Corporate Plan has been developed and proposals have been identified which will provide opportunities for KI to expand current activities and introduce further business development initiatives, in the future. The current projections are that over the next five years KI will develop up to 40 units per annum in its own right.

KI does not employ staff and receives services from KHA under a service level agreement. There is a KI Independence Agreement, however KHA exercises control over KI by approving the business plan and budget and reviewing this on a quarterly basis. Board members of KI are also approved and can be removed by KHA. KI currently has four appointed Directors; David Little (Chairperson), Derek Helmore, Iain Connelly and William Banks, who is also the Chief Executive of KHA.

During the year to 31st March 2017 KI made a surplus after finance income and charges, but before taxation, of £140,428 (2016: £142,461).

Kingdom Support and Care Limited

KSC was incorporated on 15th September 2016 in order to take on the support and care activities previously operated by KHA.

KSC was dormant in the period from 15th September 2016 to 31st March 2017 and commenced operations with effect from 1 April 2017. The accounts represent the substance of transactions involved in the set up of the new company during the period. The Board of KSC operated during the period in the run up to the trading date.

The period saw considerable investment by KHA in time and resources together with the existing support and care business in KHA establishing compliant policies, procedures and processes in readiness for the new company's operations.

Registration with the Care Inspectorate was obtained during the period to their satisfaction. KSC also satisfied contracting clients during the period that KSC was a company with which they could maintain contractual relationships as had been the case under KHA.

During the period KHA invested via a qualifying equity investment in KSC an amount of £427k representing prior year's surpluses associated with support and care activity. That investment will enable KSC to have working capital without the need to borrow externally or from its parent.

KSC during 2016-17 made a loss, of £3,975.

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Report of the Board of Management (Cont'd)

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 themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Auditors

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

By Order of the Board



William Banks
Chief Executive and Secretary
Date: 21st August 2017

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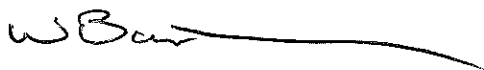
Statement of Board of Management's responsibilities under the Co-operative and Community Benefit Societies Act 2014 for a registered social landlord (RSL)

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 (Scotland) Act 2010 and the Registered Housing Associations Determination of Accounting Requirements 2014. It is responsible for safeguarding the assets of the RSL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



William Banks
Chief Executive and Secretary
Date 21st August 2017

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Board of Management's Statement of Internal Financial Control

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

- the reliability of financial information used within the RSL, or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposition

It is the Board's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable, and not absolute, assurance against material financial mis-statement or loss or failure to meet objectives. Key elements of KHA's systems include the following:

- a) An appropriate control environment has been created by careful recruitment training and appraisal of suitably qualified staff and provision of comprehensive guidance on the standards and controls in the form of formal policies and procedures to be applied throughout KHA.
- b) The system of internal financial control has been developed to ensure it monitors control, 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) Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies.
- e) 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.
- f) 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.
- g) 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.
- h) 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.

**KINGDOM HOUSING ASSOCIATION LIMITED – CONSOLIDATED
Report and Financial Statements
for the year ended 31st March 2017**

Board of Management's Statement of Internal Financial Control (Cont'd)

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 which resulted in material losses, contingencies or uncertainties which require disclosure in these financial statements or in the auditors' report on the financial statements.

By Order of the Board



William Banks
Chief Executive and Secretary
Date: 21st August 2017

KINGDOM HOUSING ASSOCIATION LIMITED – CONSOLIDATED
Report and Financial Statements
for the year ended 31st March 2017

Independent External Auditor's Report to the Members of Kingdom Housing Association Limited on Corporate Governance

In addition to our audit of the Financial Statements, we have reviewed your statement on pages 28 and 29 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 28 and 29 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.

RSM UK Audit LLP

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: *4 September*
~~August~~ 2017

**KINGDOM HOUSING ASSOCIATION LIMITED – CONSOLIDATED
Report and Financial Statements
for the year ended 31st March 2017**

Independent External Auditor’s Report to the Members of Kingdom Housing Association Limited

Opinion on financial statements

We have audited the group and parent association financial statements of Kingdom Housing Association Limited for the year ended 31 March 2017 (the “financial statements”) on pages 33 to 66. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

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 2017 and of the income and expenditure of the Group and the income and expenditure of the Association for the year then ended;
- 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 – December 2014.

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>

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; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of the Board and auditor

As explained more fully in the Board’s Responsibilities Statement set out on page 27 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.

**KINGDOM HOUSING ASSOCIATION LIMITED – CONSOLIDATED
Report and Financial Statements
for the year ended 31st March 2017**

**Independent External Auditor's Report to the Members of Kingdom Housing Association
Limited (Cont'd)**

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 and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed

RSM UK Audit LLP

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

Date 4 September ~~2017~~ 2017

KINGDOM HOUSING ASSOCIATION LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31st March 2017

	Notes	2017 £000	2016 £000
Turnover	3	25,205	23,265
Gain on pension revaluation	20	3,735	-
less: Operating expenditure	3	<u>(18,805)</u>	<u>(17,225)</u>
Operating surplus		10,135	6,040
Gain on sale of housing properties	6	109	144
Gain on sale of other fixed assets		10	-
Interest receivable and similar income	7	35	45
Interest payable and financing costs	8	<u>(1,758)</u>	<u>(1,679)</u>
Surplus on ordinary activities before taxation	5	8,531	4,550
Taxation	9	<u>(30)</u>	<u>(31)</u>
Total comprehensive income for the year		<u>8,501</u>	<u>4,519</u>

The notes on pages 39 to 66 form part of these financial statements.

The results relate wholly to continuing operations.

There were no unrecognised surpluses or deficits in the current year other than those included in the statement of comprehensive income.

KINGDOM HOUSING ASSOCIATION LIMITED
HOUSING ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31st March 2017

	Notes	2017	2016
		£000	£000
Turnover	3	24,822	22,944
Gain on pension revaluation	20	3,735	-
less: Operating expenditure	3	<u>(18,560)</u>	<u>(17,045)</u>
Operating surplus		9,997	5,899
Gain on sale of housing properties	6	109	144
Gain on sale of other fixed assets		10	-
Interest receivable and similar income	7	35	44
Interest payable and financing costs	8	<u>(1,756)</u>	<u>(1,678)</u>
Surplus on ordinary activities before taxation	5	8,395	4,409
Taxation	9	<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>8,395</u>	<u>4,409</u>

The notes on pages 39 to 66 form part of these financial statements.

The results relate wholly to continuing operations.

There were no unrecognised surpluses or deficits in the current year other than those included in the statement of comprehensive income.

KINGDOM HOUSING ASSOCIATION LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31st March 2017

	Notes	2017 Group £000	2017 Association £000	2016 Group £000	2016 Association £000
Tangible fixed assets					
Housing properties - depreciated cost	10	282,114	279,303	262,868	261,939
Other tangible fixed assets	10	1,166	1,165	1,179	1,177
Intangible fixed assets	10	82	82	98	98
Fixed asset investment - Homestake	11	-	-	1,935	1,935
Fixed asset investment	11	-	427	-	-
Total fixed assets		<u>283,362</u>	<u>280,977</u>	<u>266,080</u>	<u>265,149</u>
Current assets					
Properties held for sale	12	2,358	2,358	1	1
Stock and work in progress	13	1,437	192	152	152
Trade and other receivables	14	2,493	5,297	3,765	3,390
Cash and cash equivalents	19	<u>14,974</u>	<u>12,218</u>	<u>12,527</u>	<u>11,927</u>
		21,262	20,065	16,445	15,470
Payables: amounts falling due within one year	15	<u>(24,071)</u>	<u>(23,344)</u>	<u>(9,648)</u>	<u>(9,196)</u>
Net current (liabilities)/assets		<u>(2,809)</u>	<u>(3,279)</u>	<u>6,797</u>	<u>6,274</u>
Total assets less current liabilities		280,553	277,698	272,877	271,423
Payables: amounts falling due after more than one year					
Deferred capital grants	16,17	(57,349)	(57,257)	(63,979)	(63,877)
Provisions	18	(176,947)	(175,346)	(166,967)	(166,671)
	20	<u>(3,231)</u>	<u>(3,231)</u>	<u>(7,406)</u>	<u>(7,406)</u>
		<u>(237,527)</u>	<u>(235,834)</u>	<u>(238,352)</u>	<u>(237,954)</u>
Net assets		<u>43,026</u>	<u>41,864</u>	<u>34,525</u>	<u>33,469</u>
Capital and reserves					
Share capital	21	-	-	-	-
Revenue reserves		<u>43,026</u>	<u>41,864</u>	<u>34,525</u>	<u>33,469</u>
		<u>43,026</u>	<u>41,864</u>	<u>34,525</u>	<u>33,469</u>

Approved by the Board of Management on 21st August 2017 and signed on its behalf and authorised for issue by:

..... *Freya Lees* **Freya Lees, Board Member**
..... *Laurie Naumann* **Laurie Naumann, Board Member**
..... *William Banks* **William Banks, Secretary**

The notes on pages 39 to 66 form part of these financial statements.

**KINGDOM HOUSING ASSOCIATION LIMITED
STATEMENT OF CHANGES IN RESERVES**

As at 31st March 2017

GROUP	Income and expenditure reserve £000
Balance at 1 st April 2016	34,525
Surplus for the year ended 31 st March 2017	<u>8,501</u>
Balance at 31 st March 2017	<u>43,026</u>
ASSOCIATION	
Balance at 1 st April 2016	33,469
Surplus for the year ended 31 st March 2017	<u>8,395</u>
Balance at 31 st March 2017	<u>41,864</u>

The notes on pages 39 to 66 form part of these financial statements.

KINGDOM HOUSING ASSOCIATION LIMITED
CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2017

	Notes	2017 £000	2016 £000
Net cash inflow from operating activities	27	5,106	7,895
Cashflow from investing activities			
Payments to acquire tangible fixed assets		(21,542)	(13,879)
Receipts of housing grants		16,738	5,251
Receipts from sales of tangible fixed assets		336	374
Interest received		<u>35</u>	<u>45</u>
Net cash used in investing activities		<u>(4,433)</u>	<u>(8,209)</u>
Cashflow from financing activities			
Interest paid		(1,597)	(1,518)
Housing loans received		5,000	5,222
Housing loans paid		(1,805)	(1,797)
Other changes		<u>176</u>	<u>14</u>
Net cash from financing activities		<u>1,774</u>	<u>1,921</u>
Net increase in cash		2,447	1,607
Cash at beginning of year		<u>12,527</u>	<u>10,920</u>
Cash at end of year		<u>14,974</u>	<u>12,527</u>

The notes on pages 39 to 66 form part of these financial statements.

KINGDOM HOUSING ASSOCIATION LIMITED
HOUSING ASSOCIATION CASH FLOW STATEMENT

For the year ended 31st March 2017

	Notes	2017 £000	2016 £000
Net cash inflow from operating activities	28	2,971	7,942
Cashflow from investing activities			
Payments to acquire tangible fixed assets		(19,913)	(13,763)
Receipts of housing grants		15,070	4,954
Receipts from sales of tangible fixed assets		336	374
Interest received		<u>40</u>	<u>44</u>
Net cash used in investing activities		<u>(4,467)</u>	<u>(8,391)</u>
Cashflow from financing activities			
Interest paid		(1,597)	(1,516)
Housing loans received		5,000	5,222
Housing loans repaid		(1,795)	(1,787)
(Decrease)/Increase in share capital		-	-
Other changes		<u>179</u>	<u>13</u>
Net cash from financing activities		<u>1,787</u>	<u>1,932</u>
Net increase in cash		291	1,483
Cash at beginning of year		<u>11,927</u>	<u>10,444</u>
Cash at end of year		<u>12,218</u>	<u>11,927</u>

The notes on pages 39 to 66 form part of these financial statements.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31st March 2017**

1. Legal status

Kingdom Housing Association Limited (KHA) is a limited company incorporated under the Co-operative and Community Benefit Societies Act 2014. It is a housing association, registered with the Scottish Housing Regulator under the Housing (Scotland) Act 2010, a Registered Social Landlord and a Scottish Charity.

KHA and its subsidiaries are referred to as "the Group". KHA has two wholly owned subsidiaries, Kingdom Initiatives Limited (KI), a non-charitable body, whose principal role is to support the achievement of the Group's objectives as a public benefit entity and Kingdom Support and Care Community Interest Company (KSC), a non charitable body whose principal role is to provide support and care services to Local Authority clients and private individuals under contract.

The principal activity of the Group is the provision of social housing and associated housing management and property maintenance services.

2. Accounting Policies

The following accounting policies are Kingdom Group policies applying to all member companies.

The financial statements have been prepared under the Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102) and the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords 2014. These statements are presented in £'000's Sterling.

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

a) Basis of Preparation

These financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), the Housing SORP 2014 "Statement of Recommended Practice for Registered Housing Providers" and they comply with the Determination of Accounting Requirements 2014, and under the historical cost convention, modified to include certain financial instruments at fair value. There are no instruments at fair value (Note 19).

b) Basis of Consolidation

The Group financial statements consolidate those of KHA and its wholly owned subsidiary companies KI and KSC. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

c) Going Concern

The Board of Management consider that 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 Executive Management Team and, where appropriate, in conjunction with KHA's Housing Investment Group, and demonstrate that KHA is financially viable. The assumptions used for the long term plans and the impairment review are considered to be appropriate.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

d) Significant Judgements and Estimates

Preparation of the financial statements requires management to make significant judgements and estimates concerning the future. Judgements and estimates are based on experience, advice from experts and other factors. The resulting accounting may not equal the eventual results. The items in the financial statements where such judgements and estimates have been made include:

- The Group's loans from its funders are judged by management to be basic financial instruments under the definition in FRS 102 and are accounted for under the amortised cost method (see (r) below).
- The Group's housing assets are judged by management to be social housing and are accounted for at cost less depreciation and impairments (see (i) – (n) below and Note 10).
- Government grants are judged by management to be associated with social housing and are accounted for as deferred income and amortised on a pro rata basis over the life of each related building component (see (g) below and Note 18). In addition the conditions associated with grants are considered by management to determine any contingent liability arising from potential repayment (see Note 31).
- Management are not aware of any impairment indicators that would trigger impairment reviews of the Group's housing assets and cause a significant reduction in value.
- Management have estimated the residual values of housing properties and the life cycles of the components of buildings and have depreciated accordingly (see (n) below).
- The lease arrangements entered into by the Group are judged by management to be operational.
- Based on actuarial review management have considered the historic pension liability and have made appropriate provision (see (h) below and Note 20).
- Judgements have been made over the recoverability of receivables based on experience and accord with the Group's provisioning policy (see (r) below).

e) Investment in Subsidiary

KHA's investment in its subsidiary companies, KI and KSC are accounted for at cost less impairment.

f) Turnover

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

Rental and service charge income is recognised from the date that the property is let. Income from sales of housing built for sale and first tranche sales of shared equity properties is recognised on legal completion of the sales transaction

Support and care services income is recognised when due under the agreed contractual terms.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

g) Government Grants: Housing Association Grant and Other Grants

Housing Association Grant (HAG) is payable by Scottish Ministers to enable KHA to develop new properties and modernise existing properties for social housing. The amount of HAG is calculated on qualifying costs of each scheme in accordance with instructions issued from time to time by the Housing & Regeneration Directorate of the Scottish Government. Other grants are provided by Local Authorities from second home Council tax and Mortgage to Rent schemes operated by Scottish Government and are also defined as Government grants.

Government grants include:

i) Acquisition and development allowances

Acquisition and development allowances are intended to finance certain internal administrative costs relating to the acquisition and development of housing land and buildings for approved schemes and are taken to income when the schemes are completed.

ii) Clerk of works allowances

Clerk of works allowances are intended to finance the costs of employing a clerk of works and are taken to income when the schemes are completed.

iii) Building components

Government grants attributable to building components are intended to offset construction costs and are accounted for as deferred income, which is amortised to income over the life of the relevant components. When a component is replaced the associated balance of grant is taken to income.

Government grants are paid directly to Group member companies and are reflected in the accounts when due to be received.

Allowances received in advance are shown as grants repayable in payables (Note 15) and allowances receivable are shown as grants receivable in receivables (Note 14).

Government grants are 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 is included at (Note 31) detailing the level of grants potentially repayable.

Grants received in respect of revenue expenditure are credited to income in the same period as the expenditure to which it relates. Where grants are provided for performance related schemes they are taken to income when the conditions of the grant have been met.

Non-housing grants

Other Non-housing grants are included in income when received. At the year end any amounts of grant not fully applied for the purpose received are accounted for as deferred income and are included in accounts payable: amounts falling due within one year (Note 15).

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

h) Employee benefits

Short term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred. The cost of annual leave and time off in lieu earned but not taken by employees at the year end date is accrued as a liability.

KHA participates in the Scottish Housing Associations' Pension Scheme (SHAPS), a defined contribution scheme administered by The Pensions Trust on a multi-employer shared basis.

KHA previously participated in a SHAPS defined benefit pension scheme, which closed to new members. There is a shortfall of scheme assets compared to the estimated actuarial liability, which is accounted for as a provision at the present value of the future contributions payable to remedy the shortfall. The discount rate is derived from the rate of return on high quality corporate bonds. The unwinding of the discount is recognised as a finance cost in the period in which it arises (Notes 20 and 29).

i) Tangible Fixed Assets – Housing Land and Buildings

The Group categorises its housing tangible fixed assets into housing properties held for letting, shared ownership and hostel. The development cost of housing properties held for letting is attributed to individual components and includes the following:

- cost of acquiring land and buildings
- development expenditure
- capitalised interest

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. All housing properties are stated at cost less depreciation and impairment.

j) Expenditure on New Properties

The cost of each property held for letting is attributed to the individual components that comprise that property to create a cost and depreciation provision 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. New properties under construction are accounted for at cost and are not depreciated.

k) Expenditure on Existing Properties and Components

Planned maintenance expenditure is attributed to individual components that are depreciated over their useful lives. As this expenditure relates to the replacement of existing components, the cost is capitalised and 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 expenditure.

l) Sale of Housing Properties

KHA has charitable status and is exempt from right to buy legislation, as it was registered prior to enactment. KHA has developed 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. The apportioned cost of the initial tranche is recorded as a current asset with the remaining balance held as a tangible fixed asset.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
 NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
 for the year ended 31st March 2017**

The sale of initial tranches is accounted for through income, where sales proceeds are shown in turnover and the appropriate proportion of the cost of the property sold charged to cost of sale. Sales of subsequent tranches are accounted as disposals of tangible fixed assets. Any grants received that cannot be repaid from the proceeds of sale are abated and credited to income.

m) Properties Managed by Agents

KHA uses an agent to manage a number of its properties. 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 expenditure on an accruals basis.

n) Depreciation

Social Housing assets except land are depreciated. Depreciation is charged at rates calculated to write off the cost, less estimated residual value, of each property or component of asset evenly over its expected useful life.

Component life cycles are set out below:

Housing Properties

Land	Infinite
Structure	100 years
Bathroom	35 years
Electrics	20 - 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
Lifts	25 years
Shared Ownership	100 years
Hostel	100 years

Where impairment indicators or reversals thereof are identified, housing properties are reviewed for any change in value by comparing their carrying value with the higher of their estimated value in use as social housing and fair value less costs to sell, with any material loss charged to expenditure.

If the impairment loss reverses, the carrying amount is increased to the revised estimate of its recoverable amount, but not in excess of its original carrying value. The impairment loss reversal is recognised in income.

o) Other Tangible Fixed Assets

Other tangible fixed assets are stated at cost less depreciation and impairment. The rates of depreciation are as follows:

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

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

p) Intangible Fixed Assets

Intangible fixed assets are stated at cost less depreciation and comprise computer software and licences. The rate of depreciation is 3 years.

q) Inventories and Work in Progress

Inventories and Work in Progress (WIP) are stated at the lower of cost and fair value less costs to sell. Developments in progress for other Registered Social Landlords are included in WIP at cost.

r) Financial Instruments

i) Receivables

Receivables due within one year are measured at transaction price, less settlements and any impairment. Where receivables are determined to be longer term and where the effect of time value of money is considered significant, the estimated cashflows are discounted at an appropriate rate.

ii) Payables

Payables due within one year are measured at transaction price less settlements.

iii) Bank Loans

All bank loans are judged to be basic financial instruments and are measured initially at fair value, net of transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method, which discounts estimated future cashflows for the expected life of the loan.

s) 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 financial statements.

t) Leases

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

u) Taxation

KHA as a registered charity is not subject to corporation tax on its charitable activities, but is subject to corporation tax on its non-charitable trading activities. KI and KSC are subject to corporation tax. Taxation is accrued based on taxable profits for the year.

The Group is registered for VAT. A significant proportion of the Group income is exempt from VAT, but VAT is reclaimed where possible under partial exemption calculations of activity deemed subject to VAT.

v) Contingencies

Contingent assets and liabilities are not recognised, but are disclosed in Note 31.

KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd) for the year ended 31st March 2017

3. Turnover, operating costs and operating surplus/ (deficit)

	Turnover	Operating Costs	Gain on Pension Revaluation	Operating Surplus/(Deficit)
i) By Class of Business - Group:				
	£000	£000	£000	£000
Social lettings (Note 4 (i))	18,822	(11,754)	-	7,068
Other activities (Note 4 (iii))	<u>6,383</u>	<u>(7,051)</u>	<u>3,735</u>	<u>3,067</u>
Total	<u>25,205</u>	<u>(18,805)</u>	<u>3,735</u>	<u>10,135</u>
2016	<u>23,265</u>	<u>(17,225)</u>	<u>-</u>	<u>6,040</u>
ii) By Class of Business - Association:				
	£000	£000	£000	£000
Social lettings (Note 4 (ii))	17,260	(11,508)	-	5,752
Other activities (Note 4 (iv))	<u>7,562</u>	<u>(7,052)</u>	<u>3,735</u>	<u>4,245</u>
Total	<u>24,822</u>	<u>(18,560)</u>	<u>3,735</u>	<u>9,997</u>
2016	<u>22,944</u>	<u>(17,045)</u>	<u>-</u>	<u>5,899</u>

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

	General Needs Housing	Supported Housing Accommodation	Shared Ownership Housing	2017 Total
i) Social Letting Activities – Group				
	£000	£000	£000	£000
Turnover	14,745	774	507	16,026
Rent receivable net of service charges	<u>333</u>	<u>128</u>	<u>3</u>	<u>464</u>
Service charges	15,078	902	510	16,490
Gross income from rents & service charges	<u>(79)</u>	<u>(24)</u>	<u>(2)</u>	<u>(105)</u>
Less voids	14,999	878	508	16,385
Net income from rents and service charges and total turnover from Social Letting activities	<u>2,343</u>	<u>10</u>	<u>84</u>	<u>2,437</u>
Grant released from deferred income (Note 18)	<u>17,342</u>	<u>888</u>	<u>592</u>	<u>18,822</u>
Total turnover from social letting activities				

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

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

	General Needs Housing	Supported Housing Accommodation	Shared Ownership Housing	Total 2017	Total 2016
Operating Costs	£000	£000	£000	£000	£000
Management & maintenance administration costs	3,683	92	273	4,048	3,035
Service costs	402	9	28	439	486
Planned & cyclical maintenance including major repairs costs	730	18	-	748	539
Reactive maintenance costs	2,628	65	-	2,693	2,833
Bad debts – rents & service charges	99	3	-	102	72
Depreciation of social housing	<u>3,592</u>	<u>10</u>	<u>122</u>	<u>3,724</u>	<u>3,979</u>
Operating costs for social letting activities	<u>11,134</u>	<u>197</u>	<u>423</u>	<u>11,754</u>	<u>10,944</u>
Operating surplus for social letting activities	<u>6,208</u>	<u>691</u>	<u>169</u>	<u>7,068</u>	<u>6,800</u>
2016 Operating surplus for social letting activities	<u>5,836</u>	<u>688</u>	<u>276</u>	<u>6,800</u>	

ii) Social Letting Activities - Association

	General Needs Housing £000	Supported Housing Accommodation £000	Shared Ownership Housing £000	Total 2017	Total 2016
Turnover	£000	£000	£000	£000	£000
Rent receivable net of service charges	13,169	774	507	14,450	13,759
Service charges	331	128	3	462	482
Gross income from rents & service charges	<u>13,500</u>	<u>902</u>	<u>510</u>	<u>14,912</u>	<u>14,241</u>
Less voids	(63)	(24)	(2)	(89)	(129)
Net income from rents & service charges from social letting activities	<u>13,437</u>	<u>878</u>	<u>508</u>	<u>14,823</u>	<u>14,112</u>
Grants released from deferred income (Note 18)	<u>2,343</u>	<u>10</u>	<u>84</u>	<u>2,437</u>	<u>2,392</u>
Total turnover from social letting activities	<u>15,780</u>	<u>888</u>	<u>592</u>	<u>17,260</u>	<u>16,504</u>
Operating Costs					
Management & maintenance administration costs	3,614	92	273	3,979	2,971
Service costs	369	9	28	406	463
Planned & cyclical maintenance including major repairs costs	726	18	-	744	453
Reactive maintenance costs	2,498	65	-	2,563	2,825
Bad debts – rents & service charges	99	3	-	102	68
Depreciation of social housing	<u>3,582</u>	<u>10</u>	<u>122</u>	<u>3,714</u>	<u>3,968</u>
Operating costs for social letting activities	<u>10,888</u>	<u>197</u>	<u>423</u>	<u>11,508</u>	<u>10,749</u>
Operating surplus for social letting activities	<u>4,892</u>	<u>691</u>	<u>169</u>	<u>5,752</u>	<u>5,754</u>
2016 Operating surplus for social letting activities	<u>4,791</u>	<u>687</u>	<u>276</u>	<u>5,754</u>	

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

4. 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	2017 Total Turnover £000	2016 Total Turnover £000
Turnover						
Wider Role activities undertaken to support the community	-	-	-	43	43	35
Care and repair of property	-	262	-	-	262	271
Development and construction of property activities	-	-	-	-	-	-
Support activities	-	-	4,499	549	5,048	4,435
Care activities	-	-	-	-	-	-
Other agency/ management services	-	-	-	101	101	35
Developments for sale to registered social landlords	-	-	-	247	247	-
Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords	-	-	-	-	-	-
Mid Market Rent Received	-	-	-	1,114	1,114	882
Factoring	-	-	-	101	101	116
Gain on pension revaluation	-	-	-	3,735	3,735	-
Other activities	-	-	-	646	646	666
		<u>262</u>	<u>4,499</u>	<u>6,536</u>	<u>11,297</u>	<u>9,440</u>
Operating surplus/(deficit)		Total Turnover £000	Operating Costs – Bad Debts £000	Other Operating Costs £000	2017 Operating Surplus/(Deficit) £000	2016 Operating Surplus/(Deficit) £000
Wider Role activities undertaken to support the community		43	-	(54)	(11)	(16)
Care and repair of property		262	-	(254)	8	6
Development and construction of property activities		-	-	(699)	(699)	(719)
Support activities		5,048	-	(5,271)	(223)	(417)
Care activities		-	-	-	-	-
Other agency/ management services		101	-	-	101	35
Developments for sale to registered social landlords (Note 8)		247	-	(217)	30	-
Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords		-	-	-	-	15
Mid Market Rent Received		1,114	-	-	1,114	882
Factoring		101	-	(108)	(7)	(12)
Gain on pension revaluation		3,735	-	-	3,735	-
Other activities		646	-	(449)	197	369
Operating surplus/ (deficit)		<u>11,297</u>	<u>-</u>	<u>(7,052)</u>	<u>4,245</u>	<u>143</u>
2016 Operating surplus/ (deficit) for other activities		<u>6,440</u>	<u>(15)</u>	<u>(6,282)</u>	<u>143</u>	

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

5. Operating Surplus

	Group 2017 £000	Association 2017 £000	Group 2016 £000	Association 2016 £000
Operating surplus is stated after charging/(crediting):				
Grants released from deferred income	2,437	2,437	2,392	2,392
Depreciation of housing properties	3,724	3,714	3,979	3,969
Depreciation of other tangible fixed assets	125	125	131	129
Operating lease rental	12	12	8	8
Internal Audit fees	11	11	25	21
Accounting, tax and services advice	6	2	9	9
External Audit fees	25	20	16	14

6. Surplus on Sale of Housing Properties

	Group & Association 2017 £000	Group & Association 2016 £000
Sale proceeds	321	424
Cost of properties	(197)	(272)
Expenses on disposal of properties	(3)	(8)
Loss On disposal of components	<u>(12)</u>	<u>-</u>
	<u>109</u>	<u>144</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, subsequent to first tranche sales.

7. Interest receivable and similar income

	Group 2017 £000	Association 2017 £000	Group 2016 £000	Association 2016 £000
Interest on cash balances	<u>35</u>	<u>35</u>	<u>45</u>	<u>44</u>

8. Interest payable and finance costs

	Group 2017 £000	Association 2017 £000	Group 2016 £000	Association 2016 £000
Interest payable in the year has been charged as follows:				
Loan Interest	1,597	1,595	1,518	1,517
Unwinding of discount on provisions (Note 20)	<u>161</u>	<u>161</u>	<u>161</u>	<u>161</u>
	<u>1,758</u>	<u>1,756</u>	<u>1,679</u>	<u>1,678</u>

KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017

9. Taxation

KHA has charitable status and therefore it has no liability to corporation tax on its charitable activities for the year. KHA's tax charges relate to non-charitable trading activity.

KHA receives income from energy suppliers from renewable energy systems which is subject to corporation tax but owing to historic costs and losses no taxation falls due in this period on this activity.

Kingdom Initiatives Limited is liable to pay UK corporation tax and its liability is included in the consolidated financial statements.

	2017 Group £000	2017 Association £000	2016 Group £000	2016 Association £000
Current tax charge on income for the year on surplus on ordinary activities	<u>30</u>	=	<u>31</u>	=
Corporation tax calculated at 20% (2016: 20%)				
<u>Reconciliation:</u>				
Group surplus on ordinary activities before tax	8,531	-	4,550	-
Non-taxable surplus relating to Association	<u>(8,380)</u>	=	<u>(4,397)</u>	=
Taxable surplus on ordinary activities	151	-	153	-
Surplus on ordinary activities multiplied by the small company CT rate of 20% (2016: 20%)	30	-	31	-
Effects of:				
Depreciation in excess of Capital Allowances	<u>-</u>	-	<u>-</u>	-
	<u>30</u>	=	<u>31</u>	=

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

10. 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 st April 2016	12,515	281,045	5,454	1,053	300,067
Additions during year	-	205	22,979	-	23,184
Disposals during year	(244)	(86)	-	-	(330)
Transfers	-	<u>6,886</u>	<u>(6,886)</u>	-	-
At 31 st March 2017	<u>12,271</u>	<u>288,050</u>	<u>21,547</u>	<u>1,053</u>	<u>322,921</u>
Depreciation					
At 1 st April 2016	1,850	35,204	-	142	37,196
Provided in year	122	3,592	-	10	3,724
Disposals in year	(40)	(73)	-	-	(113)
Transfers	-	-	-	-	-
At 31 st March 2017	<u>1,932</u>	<u>38,723</u>	-	<u>152</u>	<u>40,807</u>
Net depreciated value					
At 31 st March 2017	<u>10,339</u>	<u>249,327</u>	<u>21,547</u>	<u>901</u>	<u>282,114</u>
At 31 st March 2016	<u>10,664</u>	<u>245,839</u>	<u>5,454</u>	<u>911</u>	<u>262,868</u>

No interest was capitalised during the year.

Major repairs expenditure during the period of £912,316 (2016: £799,548) is included in the statement of comprehensive income. During the period £315,162 (2016: £184,650) in respect of maintenance administration costs, was included in housing property additions. Major repairs expenditure included in housing property additions amounted to £163,744 (2016: £231,365).

Development administration costs included in the statement of financial position amounted to £123,777 (2016: £101,838). KHA's properties have been reviewed for impairment and no provision was considered necessary.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

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

ii) 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 st April 2016	12,515	280,363	5,151	1,053	299,082
Additions during year	-	204	21,089	-	21,293
Disposals during year	(244)	(85)	-	-	(329)
Transfers	-	6,886	(6,886)	-	-
At 31 st March 2017	<u>12,271</u>	<u>287,368</u>	<u>19,354</u>	<u>1,053</u>	<u>320,046</u>

Depreciation

At 1 st April 2016	1,850	35,151	-	142	37,143
Provided in year	122	3,582	-	10	3,714
Disposals in year	(40)	(74)	-	-	(114)
Transfers	-	-	-	-	-
At 31 st March 2017	<u>1,932</u>	<u>38,659</u>	<u>-</u>	<u>152</u>	<u>40,743</u>

Net depreciated value

At 31 st March 2017	<u>10,339</u>	<u>248,709</u>	<u>19,354</u>	<u>901</u>	<u>279,303</u>
At 31 st March 2016	<u>10,665</u>	<u>245,212</u>	<u>5,151</u>	<u>911</u>	<u>261,939</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

Stock numbers

	General Housing	Support Housing Accommodation	Shared Ownership Housing	Total
Units Owned				
As at 1 April 2016 - Owned by the Association	3,651	89	268	4,008
As at 31 March 2017 - Owned by the Association	3,682	89	264	4,035
As at 1 April 2016 - Owned by Group	3,669	89	268	4,026
As at 31 March 2017 - Owned by Group	3,690	89	264	4,043
Units in Management				
As at 1 April 2016 - managed by the Association	3,419	89	268	3,776
As at 31 March 2017 - managed by the Association	3,435	89	253	3,777
As at 1 April 2016 - managed by Group	3,711	89	257	4,057
As at 31 March 2017- managed by Group	3,756	89	253	4,098
Units in Management				
As at 1 April 2016 - managed by Fairfield	29	-	11	40
As at 31 March 2017 - managed by Fairfield	29	-	11	40

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

10. Tangible fixed assets (Contd.)

**(iii) Other tangible fixed assets
Group:**

	Heritable office Property £000	Furniture and equipment £000	Motor vehicles £000	Computer hardware £000	Total £000
Cost					
At 1 st April 2016	1,432	307	449	440	2,628
Additions during year	15	15	-	82	112
Disposals during the year	-	-	(123)	-	(123)
As at 31 st March 2017	<u>1,447</u>	<u>322</u>	<u>326</u>	<u>522</u>	<u>2,617</u>
Depreciation					
At 1 st April 2016	433	278	365	374	1,450
Provided during year	24	14	39	45	122
Disposals during the year	-	-	(121)	-	(121)
At 31 st March 2017	<u>457</u>	<u>292</u>	<u>283</u>	<u>419</u>	<u>1,451</u>
Net book value	<u>990</u>	<u>30</u>	<u>43</u>	<u>103</u>	<u>1,166</u>
At 31 st March 2017					
At 31 st March 2016	<u>999</u>	<u>29</u>	<u>84</u>	<u>66</u>	<u>1,179</u>

**(iv) Other tangible fixed assets
Association:**

	Heritable office Property £000	Furniture and equipment £000	Motor vehicles £000	Computer hardware £000	Total £000
Cost					
At 1 st April 2016	1,427	307	449	440	2,623
Additions during year	20	12	-	82	114
Disposals during the year	-	-	(123)	-	(123)
As at 31 st March 2017	<u>1,447</u>	<u>319</u>	<u>326</u>	<u>522</u>	<u>2,614</u>
Depreciation					
At 1 st April 2016	430	277	365	374	1,446
Provided during year	27	13	39	45	124
Disposals during the year	-	-	(121)	-	(121)
At 31 st March 2017	<u>457</u>	<u>290</u>	<u>283</u>	<u>419</u>	<u>1,449</u>
Net book value	<u>990</u>	<u>29</u>	<u>43</u>	<u>103</u>	<u>1,165</u>
At 31 st March 2017					
At 31 st March 2016	<u>997</u>	<u>30</u>	<u>84</u>	<u>66</u>	<u>1,177</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

(v) Intangible fixed assets

	Group and Association Computer Software £000
Cost	
At 1 st April 2016	536
Additions during year	49
Disposals in year	<u>-</u>
At 31 st March 2017	<u>585</u>
Depreciation	
At 1 st April 2016	438
Provided during year	65
Disposals	<u>-</u>
At 31 st March 2017	<u>503</u>
Net book value	
At 31 st March 2017	<u>82</u>
At 31 st March 2016	<u>98</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

11. Fixed Asset Investments

Investment in Subsidiary

The fixed asset investment comprises 100 ordinary shares of £1 each fully paid in Kingdom Initiatives Limited, a wholly owned subsidiary engaged in the provision of social housing and associated services and 427,000 ordinary shares of £1 each in Kingdom Support and Care CIC, a wholly owned subsidiary engaged in the provision of support and care services

	2017 Association £	2016 Association £
	427,100	427,100

Investment in Homestake

Homestake at cost

Following a review of legal liability and risk it has been determined that the asset and liability are no longer to be included in the financial statements resulting in removal as above.

	2017 Group £000	2017 Association £000	2016 Group £000	2016 Association £000
	-	-	1,935	1,935

12. Properties Held for Sale

	2017 Group and Association £000	2016 Group and Association £000
--	--	--

Work In Progress for other RSLs at 1st April 2016

Net additions during the year – costs less applicable HAG

Net transfers to operating costs on disposals (Note 4 (ii))

Balance of Work In Progress for other RSLs at 31st March 2017

	1	-
	2,580	1
	<u>(223)</u>	<u>-</u>
	<u>2,358</u>	<u>1</u>

13. Stocks and Work in Progress

Stock of materials held by Maintenance teams
WIP for KI Partnership Support for Regeneration sales

	2017 Group and Association £000	2016 Group and Association £000
	192	152
	1,245	-
	<u>1,437</u>	<u>152</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

14. Receivables	2017	2017	2016	2016
	Group	Association	Group	Association
	£000	£000	£000	£000
Arrears of rent	516	502	388	382
Less: Provision for bad debts	<u>(271)</u>	<u>(266)</u>	<u>(271)</u>	<u>(267)</u>
	245	236	117	115
Sundry receivables	1,215	1,066	989	860
Prepayments	117	117	410	410
Due from Kingdom Initiatives Limited	-	2,962	-	52
Due from Kingdom Support and Care	-	-	-	-
Interest Receivable	9	9	14	14
Car loans to employees	65	65	77	77
HAG in arrears	<u>842</u>	<u>842</u>	<u>2,158</u>	<u>1,862</u>
	<u>2,493</u>	<u>5,297</u>	<u>3,765</u>	<u>3,390</u>

15. Payables: amounts falling due within one year	2017	2017	2016	2016
	Group	Association	Group	Association
	£000	£000	£000	£000
Contractors for certified work	3,950	3,504	2,148	1,958
Trade payables	702	702	460	460
Deferred income – Government grants	4,713	4,348	2,327	2,327
Sundry payables and accruals	1,654	1,363	1,702	1,492
Prepaid rent	229	218	217	206
Other Taxation & Social Security costs	209	209	160	160
Due to Kingdom Support and Care CIC	-	426	-	-
Interest payable accrual	41	41	42	42
Corporation Tax	30	-	31	-
HAG repayable	706	706	726	726
Housing loans (Note 17)	<u>11,837</u>	<u>11,827</u>	<u>1,835</u>	<u>1,825</u>
	<u>24,071</u>	<u>23,344</u>	<u>9,648</u>	<u>9,196</u>

16. Payables: amounts falling due after more than one year	2017	2017	2016	2016
	Group	Association	Group	Association
	£000	£000	£000	£000
Housing loans (Note 17)	<u>57,349</u>	<u>57,257</u>	<u>63,979</u>	<u>63,877</u>

The current instalments due on the above loans are included in Note 15 above.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

17. Loans	2017 Group £000	2017 Association £000	2016 Group £000	2016 Association £000
Housing loans				
Loans secured by a charge on KHA's Housing, Land and Buildings and advanced by private lenders:	69,186	69,084	65,813	65,701
The loans are repayable by annual instalments of principal and interest, the last of which fall to be repaid on dates between 2019 and 2044: the loans bear interest at rates from 0.51% to 4.725% (2016 – 0.76% to 4.75%).				
	<u>69,186</u>	<u>69,084</u>	<u>65,813</u>	<u>65,701</u>
Repayable:				
Within one year (Note 15)	<u>11,837</u>	<u>11,827</u>	<u>1,835</u>	<u>1,825</u>
Between one & two years	6,838	6,827	11,834	11,824
Between two & five years	5,256	5,225	10,437	10,406
After more than five years	<u>45,255</u>	<u>45,205</u>	<u>41,707</u>	<u>41,646</u>
Amounts falling due after more than one year (Note 16)	<u>57,349</u>	<u>57,257</u>	<u>63,978</u>	<u>63,877</u>
	<u>69,186</u>	<u>69,084</u>	<u>65,813</u>	<u>65,701</u>

18. Deferred income – Government grants

	Group 2017 £000	Association 2017 £000	Group 2016 £000	Association 2016 £000
As at 1 st April 2016	169,294	168,998	166,435	166,435
Received in year	16,919	15,249	5,445	5,149
Repayable	(181)	(181)	(195)	(194)
Homestake released to income	(1,935)	(1,935)	-	-
Released to income	<u>(2,437)</u>	<u>(2,437)</u>	<u>(2,392)</u>	<u>(2,392)</u>
As at 31 st March 2017	<u>181,660</u>	<u>179,694</u>	<u>169,294</u>	<u>168,998</u>
Amounts to be released within 1 year	4,713	4,348	2,327	2,327
Amounts to be released in more than 1 year	<u>176,947</u>	<u>175,346</u>	<u>166,967</u>	<u>166,671</u>
	<u>181,660</u>	<u>179,694</u>	<u>169,294</u>	<u>168,998</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

19. Financial Instruments

	2017	2017	2016	2016
	Group	Association	Group	Association
	£000	£000	£000	£000
Financial assets: Debt instruments measured at amortised cost				
Arrears of rent	245	236	117	115
Sundry receivables	1,215	1,066	990	861
Due from Kingdom Initiatives Limited	-	2,962	-	52
Interest receivable	9	9	14	14
Car loans to employees	65	65	77	77
Cash	<u>14,974</u>	<u>12,218</u>	<u>12,527</u>	<u>11,927</u>
Total	<u>16,508</u>	<u>16,556</u>	<u>13,725</u>	<u>13,046</u>
Financial liabilities: Measured at amortised cost				
Housing loans	69,186	69,084	65,813	65,701
Contractors for certified work	3,950	3,504	2,148	1,958
Trade payables	702	702	460	460
Sundry payables and accruals	1,654	1,363	1,702	1,492
Due to Kingdom Initiatives	-	-	-	-
Due to Kingdom Support & Care CIC	-	426	-	-
Interest payable accrual	41	41	42	42
HAG repayable	706	706	726	726
Pension provision	<u>3,231</u>	<u>3,231</u>	<u>7,406</u>	<u>7,406</u>
Total	<u>79,470</u>	<u>79,057</u>	<u>78,297</u>	<u>77,785</u>

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 NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
 for the year ended 31st March 2017**

20. Provisions

The provision represents the Association's share of the deficit of the Scottish Housing Associations' Pension Scheme, a defined benefit scheme (Note 29).

	Group & Association 2017 £000	Group & Association 2016 £000
As at 1 st April 2016	7,406	7,875
Utilised in the year	(621)	(603)
Additional provision in year	(3,735)	-
Unwinding of discount	161	161
Change in discount rate	<u>20</u>	<u>(27)</u>
As at 31 st March 2017	<u>3,231</u>	<u>7,406</u>

21. Share Capital

	2017 Number	2016 Number	2017 £	2016 £
Group and Association				
Shares of £1 each issued and fully paid:				
At 1 st April 2016	53	58	53	58
Issued during the year	7	3	7	3
Cancelled during the year	<u>(4)</u>	<u>(8)</u>	<u>(4)</u>	<u>(8)</u>
At 31 st March 2017	<u>56</u>	<u>53</u>	<u>56</u>	<u>53</u>

22. Capital Commitments

	Group 2017 £000	Association 2017 £000	Group 2016 £000	Association 2016 £000
Housing Properties:				
Expenditure contracted but not provided in the financial statements	<u>34,757</u>	<u>32,299</u>	<u>13,043</u>	<u>10,361</u>

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NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
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23. Employees

	Group & Association 2017 £000	Group & Association 2016 £000
i) Staff costs during year:		
Wages and salaries	8,243	7,596
Social security costs	676	593
Other pension costs	360	331
Change in assumption regarding pension provision	<u>20</u>	<u>(27)</u>
	<u>9,299</u>	<u>8,493</u>

There were no redundancy costs incurred during the year (2016: £Nil) included in staff costs.

	2017 No.	2016 No.
ii) Staff numbers:		
Average monthly number of employees (including relief staff working on an "as required" basis)	<u>395</u>	<u>367</u>
Number of employees as at 31 st March 2017:		
Support & care staff	228	204
Administration staff	127	128
Maintenance staff	<u>35</u>	<u>25</u>
	<u>390</u>	<u>357</u>
Full time equivalent employees	<u>331</u>	<u>296</u>

Agency staff were employed during the year at a cost of £128,701 (2016: £190,298).

24. Auditors' Remuneration

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

	2017 Group £000	2017 Association £000	2016 Group £000	2016 Association £000
External Audit Services	25	20	25	21
Tax & Advisory Services	6	2	7	5
Internal Audit	<u>11</u>	<u>11</u>	<u>14</u>	<u>14</u>
	<u>42</u>	<u>33</u>	<u>46</u>	<u>40</u>

25. 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 £2,208 (2016: £2,380).

During the year 1 (2016: 2) Member of the Board was a tenant of KHA. The tenancy of this Member is on normal terms.

During the year 1 Member of the Board was a sharing owner. The shared owner arrangements for this Member are on normal terms.

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NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

26. Remuneration of Key Management Personnel	2017	2016
	£000	£000
The aggregate remuneration of four directors and two acting directors (2016 – four directors) including benefits in kind was	<u>468</u>	<u>367</u>
The pension contributions of four directors were	<u>34</u>	<u>27</u>
Emoluments (excluding pension contributions) were paid in the following bandings:	No.	No.
£10,001 - £60,000	1	-
£60,001 - £70,000	1	-
£70,001 - £80,000	1	2
£80,001 - £90,000	2	1
£90,001 - £100,000	-	-
£100,001 - £110,000	1	1

The total emoluments (excluding pension contributions) received by the highest paid director was £107,165 (2016: £106,153).

Key Management Personnel 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 29. 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 8% (2016: 8%) and amounted to £8,332 (2016: £8,250).

At the year end one director and one acting director had a car loan from KHA. The total balance of car loans due by directors at 31st March 2017 was £19,517 (2016: £3,704). The maximum balance outstanding during the year was £29,354 (2016: £7,726). 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.

27. Reconciliation of surplus to net cash generated from operations – Group

	2017	2016
	£000	£000
Surplus for the year	8,501	4,519
Adjustments for non-cash items:		
Depreciation on fixed assets	3,915	4,208
Capital grants taken to income	(2,437)	(2,392)
Decrease in provisions	(4,336)	(27)
(Gain) on disposal of tangible fixed assets	(119)	(144)
Interest received	(35)	(45)
Interest paid	<u>1,758</u>	<u>1,680</u>
Operating cashflows before movement in working capital	7,247	7,799
Increase in stock	(3,642)	(23)
Decrease/ (increase) in debtors	1,267	(185)
Increase in creditors	<u>234</u>	<u>304</u>
Cash generated from operations	<u>5,106</u>	<u>7,895</u>

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

28. Reconciliation of surplus to net cash generated from operations - Association

	2017	2016
	£000	£000
Surplus for the year	8,395	4,409
Adjustments for non-cash items:		
Depreciation on fixed assets	3,903	4,196
Capital grants taken to income	(2,437)	(2,392)
Decrease in provisions	(4,336)	(27)
Gain on disposal of tangible fixed assets	(119)	(144)
Interest received	(35)	(44)
Interest paid	<u>1,756</u>	<u>1,678</u>
Operating cashflows before movement in working capital	7,127	7,676
Increase in stock	(2,397)	(23)
Decrease/(increase) in debtors	(1,911)	115
Increase in creditors	<u>152</u>	<u>174</u>
Cash generated from operations	<u><u>2,971</u></u>	<u><u>7,942</u></u>

29. Pension Obligations

Scottish Housing Associations' Pension Scheme

The company participates in the scheme, a multi-employer scheme which provides benefits to over 150 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30th December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

Deficit contributions

A full actuarial valuation for the scheme was carried out at 30th September 2012. This actuarial valuation showed assets of £394m, liabilities of £698m and a deficit of £304m.

A full actuarial valuation for the scheme was carried out at 30th September 2015. This actuarial valuation showed assets of £616m, liabilities of £814m and a deficit of £198m.

KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017

To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

From 1 st April 2017 to 28 th February 2022:	£25,735,092 per annum (payable monthly, increasing by 3% each 1 st April)
From 1 st April 2017 to 30 th June 2025:	£727,217 per annum (payable monthly, increasing by 3% each 1 st April)
From 1 st April 2017 to 31 st October 2026:	£1,239,033 per annum (payable monthly, increasing by 3% each 1 st April)

Unless a concession has been agreed with the Trustee the term to 28th February 2022 applies.

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present Value of provision

	31 st March 2017 (£000s)	31 st March 2016 (£000s)	31 st March 2015 (£000s)
Present value of provision	3,231	7,332	7,798

Reconciliation of opening and closing provisions

	Period Ending 31 st March 2017 (£000s)	Period Ending 31 st March 2016 (£000s)
Provision at start of period	7,332	7,798
Unwinding of the discount factor (interest expense)	161	166
Deficit contribution paid	(621)	(603)
Remeasurements - impact of any change in assumptions	94	(29)
Remeasurements - amendments to the contribution schedule	(3,735)	-
Provision at end of period	3,231	7,332

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

Income and Expenditure impact

	Period Ending 31st March 2017 (£000s)	Period Ending 31st March 2016 (£000s)
Interest expense	161	166
Remeasurements – impact of any change in assumptions	94	(29)
Remeasurements – amendments to the contribution schedule	(3,735)	-
Contributions paid in respect of future service	621	603
Costs recognised in income and expenditure account	1,056	897

Assumptions

	31 st March 2017 % per annum	31 st March 2016 % per annum	31 st March 2015 % per annum
Rate of discount	1.06	2.29	2.22

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

30. Financial Commitments

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

	2017 £000	2016 £000
Amounts due:		
Within one year	146	95
Between 1 and 5 years	<u>401</u>	<u>279</u>
	<u>547</u>	<u>374</u>

31. Contingent Liabilities

KHA participates in a multi employer pension scheme. Should KHA leave the Scheme the amount of employer debt has been estimated as £28,608,114 (2016 £22,660,526) (Note 29). At the present time KHA has no intention of leaving the Scheme.

Repayment of Housing Association Grant is not required on any component disposals. There are certain circumstances under which the total grant received by KHA and KI as at 31st March 2017 of £203,725,143 (2016 £190,800,000) which may be repayable to Scottish Ministers. The Board does not expect those circumstances to crystallize.

KHA is in on going discussion with HMRC regarding income generated from Feed in Tariff activities and any related corporation tax liabilities and at present the Board are unable to quantify any potential liability.

**KINGDOM HOUSING ASSOCIATION LIMITED - CONSOLIDATED
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
for the year ended 31st March 2017**

32. Related Party Transactions

Certain Members of the Board identified on page 3 had tenancy and occupancy agreements with KHA during the period. These operate in the same way as all of KHA's other tenancy and occupancy agreements. As at the date of the statement of financial position no Members had outstanding balances due to the Association.

During the year one Member of the Board was a sharing owner. The shared owner arrangements for this Member are on normal terms.

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

At the date of these financial statements one Board member of KHA also serves on the Board of KI and two Board members serve on the Board of KSC.

KHA issued invoices to KI for purchases, re-invoiced charges and management services provided by KHA amounting to £1,276,144 (2016: £921,386). KI issued invoices to KHA for purchases and re-invoiced charges totaling £24,180 (2016: £23,455).

At the date of the statement of financial position the balance due by KHA to KSC as at 31st March 2017 was £426,000 (2016: £Nil).

At the date of the statement of financial position the balance due by KI to KHA as at 31st March 2017 was £2,961,990 which includes the long term loan from KHA of £2,620,000 (2016: £51,658) with the remainder being short term.

On 1st April 2017 the support and care activities of KHA transferred to the new wholly owned subsidiary company KSC along with the relevant staff carrying out those activities under the Transfer of Undertakings and Protection of Employment Regulations.