

Kingdom Housing Association Limited
Consolidated Report and Financial Statements
for the year ended 31st March 2018

Registration Details

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

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for the year ended 31st March 2018**

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**Kingdom Housing Association Limited
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Board of Management, Executive, Advisers and Registration Details

| | | |
|-----------------------------|---|--|
| Board of Management | Freya Lees Charles Milne Laurie Naumann Gordon Campbell Thomas Condie Loretta Mordi Linda Leslie Tom Barr Iain Connelly Garry Dickson Gavin Thomson Laura Brotherton | Chairperson (deceased 30 th March 2018) Vice Chairperson Chair of Audit and Corporate Governance (resigned 21 st August 2017) |
| Executive | William Banks Nicholas Pollard Scott Kirkpatrick Alan Simpson | Chief Executive and Company Secretary Director of Corporate Support Services Director of Development (appointed 1 st June 2017) Director of Housing and Asset Management (appointed 1 st April 2017) |
| 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 Financial Conduct Authority number SP1981RS | |
| Independent Auditors | RSM UK Audit LLP Third Floor Centenary House 69 Wellington Street Glasgow G2 6HG | |
| Principal Banker | Bank of Scotland | |
| Internal Auditors | Henderson Loggie | |

**Kingdom Housing Association Limited
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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 2018.

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 these are; 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 a non charitable company limited by shares.

These consolidated financial statements include the results of KHA, KI and KSC (the Group) for the year to 31st March 2018.

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 community initiatives 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. The support and care business which was previously provided by KHA was transferred to a new wholly owned subsidiary KSC, 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 Group, Glen Housing Association and Ore Valley Housing Association. This alliance works to provide new affordable housing in Fife. KHA is currently the lead developer in Fife.

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 are to provide support and care services to approximately 250 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 formerly undertaken by KHA. KSC took transfer of the contracts along with the staff from KHA on 1st April 2017 when it commenced trading. The transactions relating to the period 2017-18 are in respect of the first year of full trading of KSC.

Outturn and future plans

The Kingdom group of companies generated a net surplus for the period of £5.55 million.

The reserves of the Kingdom group of companies increased by the £5.55 million to £48.58 million as at 31st March 2018. 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 group 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 and the surrounding areas of Perth and Kinross and Clackmannanshire 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 2018 there were 10 Board members (2017: 12), there were no co-opted members (2017: 3), with a wide range of skills, knowledge and experience.

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Report of the Board of Management (cont'd)

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 5 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. One of the Directors is also members of the KHA Board of Management (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, KI and KSC is a challenge for those organisations. During the year a comprehensive governance review was undertaken to assess the skill's, knowledge and experience available within the Boards and an action plan agreed to address any gaps identified and agree the succession planning arrangements for the Board composition in each entity.

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 261 new affordable homes, for Kingdom and our partner organisations, (2017: 141);
- 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 256 service users, (2017: 260);
- We have delivered on our financial plans and comfortably comply with all our loan covenants;

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Report of the Board of Management (cont'd)

- 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 of the increased use of digital solutions;
- We employ 158 (2017: 390) staff and offer good terms and conditions and for the last 15 years we have maintained our Investors in People (IiP) Recognition; and
- 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.

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 13 and 19.

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 20 and 21.

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.

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.

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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 are reflected in CARES, Customer, Accountable, Respect, Efficient and Supportive and these underpin how we aim to manage and develop our people.

We published our Gender Pay Gap report for both KHA and KSC in April of 2018. We were pleased that KSC's gender pay gap, at -7.6% mean, was much closer to being gender balanced than the UK national average. KHA, on the other hand, with a 20.2% mean gap, is a little above the UK national average. We recognise the challenge in reducing our gender pay gaps and we are taking actions such as reviewing our approach to recruitment and selection and considering how we can attract people to under represented roles/levels.

We believe our people practices are sufficiently robust to protect the interests of the group. We have had no Employment Tribunal claims lodged against us in the past year despite actively managing a number of absence and conduct cases including the need for several dismissals.

We continue to work on improving Kingdom's employment proposition including:

- Promoting and encouraging employment opportunities for young people through various projects which have resulted in us being accredited as an Investor in Young People, being shortlisted for the CIH award for developing people and winning the Fife Business Award for Developing the Young Workforce;
- Undertaking a variety of wellbeing initiatives for our people which have resulted in us receiving a Healthy Working Lives Bronze Award and we are now working towards a Silver Award;
- Conducting a full review of all our people management policies;
- Creating a new employee appraisal system, underpinned by a competency framework which reflects our corporate values, that will also allow us to develop our approaches to succession planning and talent management;
- Putting every line manager in KHA through an Institute of Leadership and Management (ILM) accredited Management & Leadership course;
- Relaunching the employee consultative bodies in both KHA and KSC; and
- Implementing a culture change programme, driven by our Chief Executive, across the organisation.

Housing Management & Housing Stock

We own properties in Fife, Clackmannan, Falkirk and Perth and Kinross 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 376 properties in the period 1st April 2017 to 31st March 2018. This included 273 (2017: 269) re-let properties and 103 (2017: 47) new build properties.

The average time taken to re-let properties was 28 days, (2017: 23 days). This was 5 days higher than the average for the previous year, (2017:8 days). Statutorily homeless applicants accounted for 31% of allocations which were made, (2017: 28%).

Gross tenant rent and service charge debt, including former tenant debt, stood at £567,403 at the 31st March 2018. This represents 3.91% of the annual debit, and indicates improved performance compared to 31st March 2017 when gross debt was 3.93%.

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Report of the Board of Management (cont'd)

In our 2017 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 October 2017. 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. We are now working to support tenants who are claiming Universal Credit.

Over the year we investigated 94 complaints of anti-social behaviour. We have resolved 93.6% 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 a comprehensive scrutiny exercise, examining our landscaping services. The panel also completed the CIH Stepping Up To Scrutiny programme. We held our second successful Tenant Gathering at Craigtoun Park, bringing together tenants and staff.

We have continued to provide factoring services to approximately 450 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:

- Full service universal credit is now in operation across all our operational area. A significant amount of work continues to be done to support tenants moving on to this benefit; 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. Our tenancy sustainment worker and money advice /arrears officer help us to maximise our income and our customer's income as well as helping tenants to sustain their tenancies;
- In response to a growing stock portfolio, and some external challenges such as the introduction of Full Service Universal Credit, we continue to review our operations and to look for new ways to develop efficiencies and drive service improvements.

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Report of the Board of Management (cont'd)

At the end of the financial year 2017-18 the Group was managing 4,400 properties, (2017: 4,098). A breakdown of the stock in management is provided below:

| | |
|-----------------------------------|--------------|
| Social rented | 3,542 |
| Shared ownership | 247 |
| Leased | 33 |
| Lead tenancies | 50 |
| Non self contained leased | 9 |
| Non self contained | 2 |
| MMR (managed by KI) | 351 |
| KI owned properties | 51 |
| Managed on behalf of Fife Council | 115 |
| Total | 4,400 |

During the year, Kingdom consulted with tenants on the annual rent increase and applied a rent increase of 2.5% from 1st April 2017, (2016: 2.5%).

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, (2017: 56% and 44%). Most of KHA's housing stock has been built after 1982.

Kingdom Support and Care Community Interest Company (KSC)

In 2017-18 we continued to support approximately 256 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 2017-18, we expanded on the services in the Falkirk area, gaining around 389 hours per week and have started work on implementing a further 112 hours for two services which will become fully operational in 2018-19.

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 net gain over the year of 496 hours per week.

Both Local Authority frameworks were due to be renewed in 2017-18 and we duly submitted tender bids for both Fife and Falkirk. It was confirmed that we were accepted onto the Falkirk Framework and this new contract became effective from 1st April 2018. We have also been accepted onto the Fife Framework and this became operational from 28th May 2018.

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Report of the Board of Management (cont'd)

During 2017-18, we achieved the required uplifts from Falkirk Council to meet the increases to the Scottish Living Wage. In Fife, whilst we achieved uplifts to cover the cost of the increases to the Scottish Living Wage to staff for day hours, we did not achieve uplifts to cover these increases in relation to sleepover hours. This resulted in a loss of income.

Staff turnover in 2017-18 for Support and Care has remained at the same levels as 2016-17 at 24%, (2017: 24.7%). 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 10 days lost per employee in 2017-18, (2016-17: 11.2 days). 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.

At the end of the financial year, KSC employed 211.76 FTE staff, (246 people).

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 took place in 2017 and we took advantage of training through the Apprenticeship Levy funding in time management, coaching and IT skills for first line supervisors and above.

The first Care Inspections took place as KSC and an improvement was seen when compared with inspections undertaken in KHA in prior years, with all services gaining grades 5 or 6, good or excellent.

The financial out turn achieved has been less than forecast due to a number of issues, including:

- 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;
- Loss of services due to death or increasing need requiring alternative care;
- Non delivery of hours due to supported individuals being hospitalised or on holiday with family; There has been full clawback of all monies by the Local Authority; however, the staffing costs are still incurred; and
- We delivered 95% on average of contracted hours across the year.

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Kingdom Initiatives Limited (KI)

During 2017-18 KI has continued to manage Mid Market Rent (MMR) housing but also sought to meet its objective of developing its own housing stock.

As at 31st March 2018, 351 completed MMR properties are owned by KHA (2017: 256) and leased to KI. KI let the tenancies and is responsible for management and maintenance of the projects. KI also leases 115 flats from Fife Council (FC), which are let as MMR tenancies, (2017: 45).

KHA has a programme of future MMR projects and as at the end of the year 2017-18 there were 13 units on site, which will be completed during 2018-19 (2017-18: 61 units). Additional FC projects will complete in 2018-19 with 6 MMR properties being developed by FC which will be leased to KI.

During the year KI has completed a total of 47 new homes at Devilla, Kincardine. The Devilla project also provides 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 have built 2 new Social Rent homes at the site.

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 2017-18 KHA invested £33.55 million (2017: £21.29 million) in new development projects for Kingdom and our partners, with £22.23 million (2017: £15.25 million) being provided in subsidies from the Scottish Government and Local Authorities. The investment in new supply housing resulted in Kingdom starting on site with 362 new units (2017: 425 units) and we completed 261 units (2017: 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 95 MMR properties as part of the development programme in Fife (2017: 15).

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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Report of the Board of Management (cont'd)

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 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 98% overall satisfaction level with the quality and design of the new homes; the target to be achieved was 93%.

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 Brix 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, 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 increased project completions and 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 development KPIs is as follows:

| | Actual 2016-17 | Target 2017-18 | Actual 2017-18 |
|-------------------------------|-------------------|-------------------|-------------------|
| Site Starts (new supply) | 425 units | 348 units | 362 units |
| Site Completions (new supply) | 141 units | 248 units | 261 units |
| Starts and Completions | 566 units | 596 units | 623 units |

The 2017-18 year was again a marked increase on the previous year outcomes. It was an excellent outcome to achieve and exceed both the start and completion targets for the year.

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 incorporates durable components that provide good replacement life cycles;
- Quality reactive repairs services and voids turnaround times and standards;
- Planned replacement and improvement programmes; and
- Reactive and proactive customer services, which maintain high levels of satisfaction.

We operate an in-house repairs service which does most of our building repairs including our reactive and emergency repairs. The service includes a small repairs team who carry out our kitchen replacements programmes and property adaptations. This year using both our in-house service and contractors we carried out a total of more than 12,124 repairs to our social rented properties (2017: 12,348) of which 2,611, (2017: 2,324) were emergency repairs.

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 2017-18 | Actual 2017-18 |
|---|-------------------|-------------------|-------------------|
| Emergency repairs (response target % achieved) | 96.95% | 95.00% | 94.81% |
| Average time to complete an emergency repair (hours) | 2.05 hrs | - | 2.21 hrs |
| Routine Repairs (response target % achieved) | 89.51% | 87.00% | 90.30% |
| Average time to complete Routine repairs (days) | 6.17 | - | 5.96 |
| Repairs appointments kept | 95.03% | - | 95.92% |
| % properties with valid and current gas safety certificates | 100.00% | 100.00% | 99.97% |

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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 (ESSH).

Satisfaction with our repairs service has continued and during 2017-18, we recorded a 92.03% (2017: 91.81%) satisfaction level for the overall repairs service provided to our tenants.

Our appointments system has been further developed during the year with a further 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 use of mobile working technologies and systems.

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

KHA has been managing the Fife Care and Repair Project for 23 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.

During 2017-2018 Care and Repair completed 294 major permanent adaptations (2017: 276) in the homes of disabled homeowners allowing them to live longer and safer in their own homes and communities. Allied to the adaptations work the service also carried out improvements to 199 of the 294 (2017: 84) properties as they failed to meet the Tolerable Standard.

The Small Repairs Service carried out 836 jobs (2017: 816) which helped older homeowners maintain the fabric of their properties as well as fitting security devices such as spy holes and safety chains. The annual Satisfaction Survey Report continues to show very high levels of satisfaction for Care and Repair and Small Repairs at 98% and 99% respectively, (2017: 98% and 100%).

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Report of the Board of Management (cont'd)

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.

Charitable Fund and donations

During the 2017-18 year Kingdom supported many organisations donating £8,550 (2017: £4,348) from the Community Initiatives Fund and £4,527 (2017: £1,340) from the Common Causes Fund, including annual gala fun day events throughout Fife.

Kingdom helped Silverburn in Leven regenerate a sensory garden and assisted Cupar community council install handrails at the War memorial. Kingdom also provided funds for equipment for a local playground in Lochgelly as well as sponsoring music events and sports teams.

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 Our Power does not distribute profits to members.

During the year Kingdom's wholly owned subsidiary company Kingdom Initiatives invested £15,000 in a 3 year, 6.5% interest bearing bond to support Our Power in its next stage of development and evolution.

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 2019.

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 431 people in our communities (2017: 466) and helped 291 people to access employment (2017: 275).

Information Communication Technology

During the year 'My Kingdom' customer portal was launched to provide customers 24/7 access and a new texting system implemented with a focus on Repairs appointments and reminders.

A cloud based Unified Communications system was implemented to improve external and internal communication and mobile working continued to expand with 500 mobile devices supported (2017: 450). During the year Kingdom tendered for a cloud based HR and Payroll system which will be implemented during 2018-19.

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Report of the Board of Management (cont'd)

Financial Report

Financial Reporting Standard 102/Statement of Recommended Practice 2014

This is the third 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 2018 KHA had 63% (2017: 47%) 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 2.27%, (2017: 2.30%).

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 2018 was a minimum of 410% (2017: 524%), 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 25.74%, which was significantly below the maximum threshold.

KHA undertook during 2015-16 a whole stock loan security valuation exercise. The outcome of that was 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 £100 million in security value. Since that time the new stock developed has been added to the unencumbered security pool. The asset cover in place against borrowings exceeds the minimum asset cover tests by more than 10% across all existing loans.

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

During 2017-18 KHA entered in to a new loan agreement for £5.0 million with the Allia Scottish Government bond in the final quarter of 2017-18 to fund new development. This takes the unsecured Allia borrowing to more than £15 million. KHA drew down the remaining £5 million of its facility with Abbey National Treasury Services plc, part of Santander UK plc during the period.

At the year ended 31st March 2018 the Group had £17.30 million (2017: £14.97 million) in cash at bank, KHA had £15.41 million cash at bank (2017: £12.22 million).

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

KHA has post the statement of financial position date secured significant additional committed private finance of £85 million to support the next 2 to 3 years of its business plan. That additional private finance will be used to repay the RBS loan which is due for repayment in 2018-19 and support the development of 1,100 new homes which is part of the overall 5 year plan for Kingdom to build 2,000 new homes for itself and support the development of almost 700 new homes through the FHAA.

**Kingdom Housing Association Limited
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Report of the Board of Management (cont'd)

Statement of Comprehensive Income

The Kingdom group of companies

Group turnover for the year was £30.86 million (2017: £25.2 million) offset by operating costs of £23.40 million, (2017: £18.81 million). After paying loan interest of £1.78 million (2017: £1.76 million) including an unwinding of discount of £30k (2016: £161k) in respect of the pension provision, adding net gains on sales of £36k (2017: £119k), receiving interest of £8k (2017: £35k) giving a surplus for the year before taxation of £5.72 million, (2017: £8.53 million). After provisions for the payment of tax the surplus after taxation was £5.55 million, (2017: £8.5 million).

KHA

KHA's turnover for the period was £22.29 million (2017: £24.82 million) offset by operating costs of £14.98 million (2017: £18.56 million), creating an operating surplus of £7.32 million, (2017: £10.0 million). After paying loan interest of £1.78 million (2017: £1.76 million), adding gains on sales of property of £50k (2017: £109k), deducting net losses on disposals of other fixed assets of £15k (2017: gain £10k), receiving interest of £8k (2017: £35k) giving a surplus for the year before taxation of £5.58 million, (2017: £8.40 million). As KHA is a Scottish charity it is exempt from corporation tax on its activities however during the period taxation arose on Feed in Tariff energy generation which was not exempt. The taxation covered periods from 2013-14 to 2016-17 and amounted to a tax charge of £124k which together with the charge for the year of £22k this year's tax charge totalled £146k. Accounting for the tax due realised a surplus of £5.43 million for the period, (2017: £8.4 million).

During the period rents were increased for 2017-18 by 2.5% and 189 new properties came in to the letting pool during the year. Void performance remains low at 0.81% of rents receivable, (2017: 0.36%).

Management and maintenance administration costs per unit were higher than the prior year at £1,136 per unit (2017: £980). 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 was £897 per unit, (2017: £669 per unit).

The bad debts performance has increased compared to the prior year but continues to remain low accounting for 1.00% of rent receivable (2017: 0.66%). This is despite the Association taking a prudent view on writing off and providing for bad debts at the year end and the launch of Universal Credit in the final quarter of the period.

The Group received trading income from the established renewable energy equipment as a result of Feed in Tariff agreements.

**Kingdom Housing Association Limited
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Report of the Board of Management (cont'd)

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 £313.37 million, (2017: £282.11 million). The Group holds a small number of properties for sale to FHAA partners amounting to £344k, (2017: £2,358k). The level of the stock of materials is similar to prior year at £0.19 million, (2017: £0.19 million).

The high cash holdings of the Group at £17.30 million (2017: £14.97 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 £4.04 million, (2017: £2.49 million). The Group reserves now stand at £48.58 million, (2017: £43.03 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 of similar amounts to clear the deficit.

KHA

The fixed asset base of KHA also continues to grow with the development of new units with grant funding to £308.59 million, (2017: £279.30 million). KHA holds a small number of properties for sale to FHAA partners amounting to £344k, (2017: £2,358k). The level of stock of materials is similar to prior year at £0.19 million, (2017: £0.19 million).

The high cash holdings of KHA at £15.41 million (2017: £12.22 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 £6.69 million, (2017: £5.30 million).

Long term borrowings increased as a result of further debt draw downs during the year and amount to £60.98 million, (2017: £57.26 million). Deferred capital grants increased to £197.43 million (2017: £179.69 million) as a result of new stock being developed and provisions have reduced during the year to £2.6 million, (2017: £3.23 million).

The KHA reserves now stand at £47.30 million, (2017: £41.86 million).

The Environment & Sustainability

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

Sustainability extends beyond the physical housing and this is also recognised through the Wider Role and 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.

Kingdom Housing Association Limited
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Report of the Board of Management (cont'd)

Key Performance Indicators (KPIs)

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

| | Actual 2014-15 | Actual 2015-16 | Actual 2016-17 | Target 2017-18 | Actual 2017-18 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Void loss [as per ARC report] (%) | 0.50% | 1.01% | 0.44% | 0.75% | 0.61% |
| Gross arrears - all tenants [as per ARC report] (%) | 5.60% | 4.45% | 3.93% | 2.70% | 3.91% |
| Average re-let time [as per ARC report] (days) | 27 days | 31 days | 23 days | 26 days | 28.53 days |
| Staff costs: Turnover (excluding developments for sale) (%) | 39.05% | 36.86% | 37.51% | 23.98% | 24.32% |
| Sickness absence (days per employee) | 13.30 | 12.50 | 11.20 | 7.50 | 7.84 |
| Management & Maintenance Administration costs per unit (£) | £789 | £773 | £980 | £822 | £1,005 |
| Routine Maintenance costs per unit (£) | £741 | £719 | £669 | £331 | £767 |
| Properties meeting SHQS requirements (%) | 93.40% | 100.00% | 100.00% | 100.00% | 100.00% |

Void loss performance deteriorated marginally year on year but 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 have deteriorated against target and is above last year's performance. Staff costs as a proportion of turnover are marginally above the planned objective. Sickness absence levels remain marginally higher than target whilst an improvement over last year.

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 £48.58 million, (Association: £47.30 million). During the year the Group created a surplus of £5.55 million, (Association: £5.43 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 1st April 2017 KHA had £5 million in committed funding available to draw against. In addition a loan with RBS which was due to mature in October 2017 was extended in June 2017 for a further 12 months by mutual agreement. In June 2018 KHA secured a private placement investment of £85 million from institutional investors with an immediate draw down of £35 million and a second drawdown in June 2019 of £50 million.

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

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Report of the Board of Management (cont'd)

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 2018 the full time equivalent number of employees in the Group is 345 (2017: 331) and in KHA is 147, (2017: 331).

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.

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.

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.

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Report of the Board of Management (cont'd)

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 |
| 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.

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 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 2017-18 rents rose by 2.5%. KHA has implemented a rise in rents of 2.5% for the 2018-19 financial year.

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Report of the Board of Management (cont'd)

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. In addition KHA will be expected to meet the EESSH by 2020.

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 which £85 million has already been secured. KHA will return to the financial markets for further funding in due course.

Creditor 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 2017-18 KHA settled 11,512 invoices (2017: 11,855), of that number of invoices 64.40% were paid within 30 days of the invoice date (2017: 58.09%) however 85.57% were paid within 30 days of receipt (2017: 82.32%). KHA paid no late payment interest to any supplier.

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Report of the Board of Management (cont'd)

Kingdom Initiatives Limited

The main activity of KI during 2017-18 is the management of Mid Market Rented Housing (MMR). As at the date of the Statement of Financial Position, 31st March 2018, KI owned 51 properties in its own right which are rented (2017: 20), of which 12 are leased to KHA for lead tenancy purposes (2017: 12). The properties owned by KI strengthen the asset base and contribute to meeting affordable housing needs.

KI owned and managed 517 units (2017: 321) of which 351 MMR units are leased to them by KHA (2017: 301). KHA completed the projected development during the year of 30 MMR units which were leased to KI for letting. Of the properties in management 51 are owned by KI (2017: 20), 351 are owned by KHA (2017: 256) and 115 by Fife Council (2017: 45). KI let the tenancies and is responsible for the management and maintenance of the properties in accordance with lease agreements between them and the landlords.

During the reporting period, KI has developed a site in its own right at Devilla in Kincardine, Fife which included the MMR development of 31 units, which are owned and let by KI, and 16 units of Partnership Support for Regeneration (PSR) which was developed for sale by KI to specific groups. The PSR properties were all sold during the period.

The Board of KI has also agreed in 2017 to an inter-company borrowing facility of £2.62 million from KHA to KI to facilitate the development of the Kincardine site. That facility is not secured by properties but is supported by a floating charge over all KI assets. 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.

KHA has a programme of future MMR housing developments for 2018-19 and expects that by the end of 2018-19 a further 15 units will be handed over by KHA for KI to manage.

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

KI has bank loans amounting to £92,267 which are all LIBOR linked loans (2017: £102,368). 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 which has a bullet repayment at the end of the 10 year term on 1st March 2026. KI as at the year ended 31st March 2018 had cash at bank of £1,536,155 (2017: £2,755,572).

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 approximately 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 5 appointed Directors; David Little (Chairperson), Derek Helmore, Iain Connelly, Garry Dickson and William Banks, who is also the Chief Executive of KHA.

During the year to 31st March 2018 KI made a surplus after finance income and charges, but before taxation, of £236,819 (2017: £140,428). The surplus generated after planned taxation charges is £212,095 (2017: £110,161).

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Report of the Board of Management (cont'd)

During 2017-18 KI settled 749 invoices, of that number of invoices 59.55% were paid within 30 days of the invoice date however 85.05% were paid within 30 days of receipt. KI paid no late payment interest to any supplier.

During the year KI made an investment in Our Power of £15,000. That investment is for a three year term and bears a projected interest rate of 6.5%. The KI Board determined that as the investment is unsecured that it should be fully impaired.

KI determined that it would gift aid £36,087 to KHA from the 2016-17 surplus and this movement was effected during the 2017-18 period.

Kingdom Support and Care Limited

KSC commenced trading on 1st April 2017. The new company was established with an initial equity investment from KHA of £100. This equity investment was subsequently increased to £427,000 by KHA.

KSC has on going contracts with Falkirk and Fife Council for the provision of support and care services. KSC expects that continued growth of activities will be seen in both areas during 2018-19.

In 2017-18 KSC continued to support approximately 256 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 2017-18, we expanded on the services in the Falkirk area, gaining around 389 hours per week and have started work on implementing a further 112 hours for a services which will become fully operational in 2018-19. Within Fife, the hours of support have also increased throughout the year; however, we have also lost hours as a result of individuals passing away. This results in a net gain over the year of 496 hours per week.

Fife Council's contracts ended in May 2017 but contract extensions were negotiated to ensure continuity of service delivery. The procurement of new contracts by Fife Council was commenced in March 2018, with the results known on the 17th May 2018. The Falkirk contract, due to expire in September 2017, was extended until 31st March 2018 and a tender process was undertaken with new contracts due to begin on 1st April 2018.

KSC has been successful in being accepted onto both Fife and Falkirk Frameworks for the next three years.

KSC's most important asset is its people and during 2017-18 KSC committed to the implementation of the Scottish Living Wage (SLW) across its services with the support of its contracting clients. Although additional funding was secured through negotiation with contracting clients, the timing and levels of increases agreed have impacted on the surplus for the trading year. In this period, two increases to salaries were approved to meet the SLW requirements. This has also had an impact on the surplus for the trading year. The 2017-18 period was is the first year of operations for KSC under which significant work was undertaken to ensure that KSC attempted to deliver modest operating efficiencies during the 2017-18 period to strengthen its financial position. Although efficiencies in processes have been achieved, the financial impact of this has not been seen to date, due to the level of work required following the transfer of tasks from KHA to KSC.

KSC has adopted the Kingdom Group policies where appropriate and has developed specific policies of its own to ensure appropriate operating procedures and guidance is in place.

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Report of the Board of Management (cont'd)

KSC underwent the first inspections from the Care Inspectorate in March 2018 and grades of 5 (Good) and 6 (Excellent) were achieved across the board. Individual service gradings are as follows:

Care at home and Housing Support 1

Quality of support – 6

Quality of staffing – 6

Quality of leadership and management – 5

Care at home and Housing Support 2

Quality of support – 6

Quality of staffing – 6

Quality of leadership and management – 6

James Bank Housing Support

Quality of support – 5

Quality of staffing – 5

Quality of leadership and management – 5

Due to having no clients in the two registered services for Children and Young People, these were given inactive status by the Care Inspectorate and will be made active again in 2018-19.

The company has generated an operating deficit as at 31st March 2018 of £56,435 (2017: deficit £3,925). That deficit is reflected in the deficit in revenue reserves during the period of £61,941 although this is offset by the share capital of £427,000 making reserves of KSC £365,059 (2017: £423,025).

During 2017-18 KSC settled 471 invoices, of that number of invoices 78.34% were paid within 30 days of the invoice date however 94.90% were paid within 30 days of receipt. KSC paid no late payment interest to any supplier.

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

[Redacted signature]

Freya Lees
Chairperson

Date:

[Redacted date]

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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.

The Board are responsible for the maintenance and integrity of the corporate and financial information on the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Freya Lees
Chairperson

Date:



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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
Report and Financial Statements
for the year ended 31st March 2018

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



Freya Lees
Chairperson

Date:



**Kingdom Housing Association Limited
Report and Financial Statements
for the year ended 31st March 2018**

Report by the Auditors to the Members of Kingdom Housing Association Limited on Corporate Governance Matters

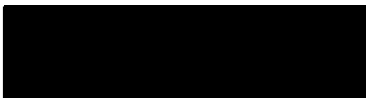
In addition to our audit of the Financial Statements, we have reviewed your statement on Page 27 to 28 concerning the Association's compliance with the information required by the Regulatory Standards for systemically important Registered Social Landlords in respect of internal financial controls contained 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 27 to 28 has provided the disclosures required by the relevant Regulatory Standards for systemically important Registered Social Landlords 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
Statutory Auditor
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG

Date:



**Kingdom Housing Association Limited
Report and Financial Statements
for the year ended 31st March 2018**

Independent Auditors Report to the Members of Kingdom Housing Association Limited

Opinion

We have audited the financial statements of Kingdom Housing Association Limited (the 'Association') and its subsidiaries (the 'Group') for the year ended 31st March 2018 which comprise the consolidated statement of comprehensive income, standalone statement of comprehensive income, consolidated statement of financial position, standalone statement of financial position, consolidated statement of changes in reserves, standalone statement of changes in reserves, consolidated statement of cash flows, standalone statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. 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 31st March 2018 and of the income and expenditure of the Group and the income and expenditure of the Association for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KINGDOM HOUSING ASSOCIATION LIMITED
Report and Financial Statements
for the year ended 31st March 2018

Independent Auditors Report to the Members of Kingdom Housing Association Limited (cont'd)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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.

Responsibilities of the Board

As explained more fully in the Board's responsibilities statement set out on page 26, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

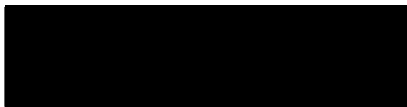
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>
This description forms part of our auditor's report.

**Kingdom Housing Association Limited
Report and Financial Statements
for the year ended 31st March 2018**

Independent Auditors Report to the Members of Kingdom Housing Association Limited (cont'd)

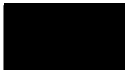
Use of our report

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
Statutory Auditor
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG

Date:



Kingdom Housing Association Limited
Consolidated Statement of Comprehensive Income
For the year ended 31st March 2018

| | Notes | 2018 £ 000 | 2017 £ 000 |
|--|-------|---------------------|---------------------|
| Turnover | 3 | 30,855 | 25,205 |
| Gain on pension revaluation | 20 | - | 3,735 |
| less: Operating expenditure | 3 | <u>(23,395)</u> | <u>(18,805)</u> |
| Operating surplus | | 7,460 | 10,135 |
| | | | |
| Gain on sale of housing properties | 6 | 50 | 109 |
| (Loss)/Gain on sale of other fixed assets | | (14) | 10 |
| Interest receivable and similar income | 7 | 8 | 35 |
| Interest payable and financing costs | 8 | <u>(1,783)</u> | <u>(1,758)</u> |
| Surplus on ordinary activities before taxation | 5 | 5,721 | 8,531 |
| Taxation | 9 | <u>(170)</u> | <u>(30)</u> |
| Total comprehensive income for the year | | <u><u>5,551</u></u> | <u><u>8,501</u></u> |

The notes on pages 39 to 71 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 2018

| | Notes | 2018 £ 000 | 2017 £ 000 |
|--|-------|---------------------|---------------------|
| Turnover | 3 | 22,292 | 24,822 |
| Gain on pension revaluation | 20 | - | 3,735 |
| less: Operating expenditure | 3 | <u>(14,976)</u> | <u>(18,560)</u> |
| Operating surplus | | 7,316 | 9,997 |
| Gain on sale of housing properties | 6 | 50 | 109 |
| (Loss)/Gain on sale of other fixed assets | | (15) | 10 |
| Interest receivable and similar income | 7 | 8 | 35 |
| Interest payable and financing costs | 8 | <u>(1,780)</u> | <u>(1,756)</u> |
| Surplus on ordinary activities before taxation | 5 | 5,579 | 8,395 |
| Taxation | 9 | <u>(146)</u> | - |
| Total comprehensive income for the year | | <u><u>5,433</u></u> | <u><u>8,395</u></u> |

The notes on pages 39 to 71 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 and Housing Association Statement of Financial Position
As at 31st March 2018

| | Notes | 2018 Group £ 000 | 2018 Association £ 000 | 2017 Group £ 000 | 2017 Association £ 000 |
|---|-------|------------------------|------------------------------|------------------------|------------------------------|
| Fixed assets | | | | | |
| Housing properties - depreciated cost | 10 | 313,372 | 308,590 | 282,114 | 279,303 |
| Other tangible fixed assets | 10 | 1,062 | 1,061 | 1,166 | 1,165 |
| Intangible fixed assets | 10 | 50 | 37 | 82 | 82 |
| Fixed asset investment - Our Power | 11 | - | - | - | - |
| Fixed asset investment - Subsidiaries | 11 | - | 427 | - | 427 |
| Total fixed assets | | 314,484 | 310,115 | 283,362 | 280,977 |
| Current assets | | | | | |
| Properties held for sale | 12 | 344 | 344 | 2,358 | 2,358 |
| Stock and work in progress | 13 | 188 | 188 | 1,437 | 192 |
| Trade & other receivables: | | | | | |
| amounts falling due within one year | 14 | 4,037 | 4,070 | 2,493 | 2,677 |
| amounts falling due after one year | 14 | - | 2,620 | - | 2,620 |
| Cash & cash equivalents | | 17,295 | 15,413 | 14,974 | 12,218 |
| | | 21,864 | 22,635 | 21,262 | 20,065 |
| Payables: amounts falling due within one year | 15 | (28,451) | (27,791) | (24,071) | (23,344) |
| Net current assets/ liabilities | | (6,587) | (5,156) | (2,809) | (3,279) |
| Total assets less current liabilities | | 307,897 | 304,959 | 280,553 | 277,698 |
| Payables: amounts falling due after more than one year | 16,17 | (61,057) | (60,975) | (57,349) | (57,257) |
| Deferred capital grants | 18 | (195,660) | (194,084) | (176,947) | (175,346) |
| Provisions | 20 | (2,603) | (2,603) | (3,231) | (3,231) |
| | | (259,320) | (257,662) | (237,527) | (235,834) |
| Net assets | | 48,577 | 47,297 | 43,026 | 41,864 |
| Capital and reserves | | | | | |
| Share capital | 21 | - | - | - | - |
| Revenue reserves | | 48,577 | 47,297 | 43,026 | 41,864 |
| | | 48,577 | 47,297 | 43,026 | 41,864 |

Approved by the Board of Management on 20th August 2018 and signed on its behalf and authorised for issue by:

Freya Lees, Chairperson

Laurie Naumann, Board Member

William Banks, Secretary

The notes on pages 39 to 71 form part of these financial statements.

Kingdom Housing Association Limited
Statement of Changes in Reserves
For the year ended 31st March 2018

| | 2018 | 2017 |
|---|---|---|
| | Income and expenditure reserve | Income and expenditure reserve |
| | £ 000 | £ 000 |
| GROUP | | |
| At 1st April | 43,026 | 34,525 |
| Surplus for the year ended 31 st March | 5,551 | 8,501 |
| At 31 st March | <u>48,577</u> | <u>43,026</u> |

| | Income and expenditure reserve | Income and expenditure reserve |
|---|---|---|
| | £ 000 | £ 000 |
| ASSOCIATION | | |
| At 1st April | 41,864 | 33,469 |
| Surplus for the year ended 31 st March | 5,433 | 8,395 |
| At 31 st March | <u>47,297</u> | <u>41,864</u> |

The notes on pages 39 to 71 form part of these financial statements.

Kingdom Housing Association Limited
Cash Flow Statement
For the year ended 31st March 2018

| | Notes | 2018 £ 000 | 2017 £ 000 |
|--|-------|-----------------|----------------|
| Net cash inflow from operating activities | 27 | 8,735 | 9,017 |
| Cashflow from investing activities | | | |
| Purchase of tangible fixed assets | | (35,549) | (23,184) |
| Purchase of other fixed assets | | (23) | (110) |
| Purchase of intangible assets | | (45) | (49) |
| Purchase of additions to WIP | | (765) | (1,245) |
| Purchase of additions to held for sale | | (663) | (2,580) |
| Payment to acquire investment in Our Power | | (15) | - |
| Receipts of housing grants | | 20,667 | 18,235 |
| Receipts from sales of fixed assets | | 332 | 319 |
| Proceeds on sale of WIP | | 1,813 | - |
| Proceeds on sale of assets held for sale | | 1,008 | 247 |
| Interest received | | 12 | 41 |
| Net cash used in investing activities | | <u>(13,228)</u> | <u>(8,326)</u> |
| Cashflow from financing activities | | | |
| Interest paid | | (1,754) | (1,597) |
| Housing loans received | | 10,030 | 5,000 |
| Housing loans repaid | | (1,539) | (1,822) |
| Other changes | | 77 | 175 |
| | | <u>6,814</u> | <u>1,756</u> |
| Net increase in cash | | 2,321 | 2,447 |
| Cash at beginning of year | | 14,974 | 12,527 |
| Cash at end of year | | <u>17,295</u> | <u>14,974</u> |

The notes on pages 39 to 71 form part of these financial statements.

Kingdom Housing Association Limited
Housing Association Cash Flow Statement
For the year ended 31st March 2018

| | Notes | 2018 £ 000 | 2017 £ 000 |
|--|-------|-----------------|----------------|
| Net cash inflow from operating activities | 28 | 8,614 | 6,322 |
| Cashflow from investing activities | | | |
| Purchase of tangible fixed assets | | (33,548) | (21,295) |
| Purchase of other fixed assets | | (22) | (114) |
| Purchase of intangible assets | | (23) | (49) |
| Purchase of additions to held for sale | | (663) | (2,580) |
| Receipts of housing grants | | 20,670 | 15,860 |
| Receipts from sales of fixed assets | | 332 | 319 |
| Proceeds on sale of assets held for sale | | 1,008 | - |
| Interest received | | 12 | 41 |
| Net cash used in investing activities | | <u>(12,234)</u> | <u>(7,818)</u> |
| Cashflow from financing activities | | | |
| Interest paid | | (1,751) | (1,597) |
| Housing loans received | | 10,030 | 5,000 |
| Housing loans repaid | | (1,546) | (1,795) |
| Other changes | | 82 | 179 |
| | | <u>6,815</u> | <u>1,787</u> |
| Net increase in cash | | 3,195 | 291 |
| Cash at beginning of year | | <u>12,218</u> | <u>11,927</u> |
| Cash at end of year | | <u>15,413</u> | <u>12,218</u> |

The notes on pages 39 to 71 form part of these financial statements.

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements
for the year ended 31st March 2018

1. Legal status

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

KHA and its subsidiaries are referred to as "the Group". KHA has two wholly owned subsidiaries, limited by shares, 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. Details of the registered office are provided on page 2.

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. 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
Notes to the Consolidated Financial Statements (cont'd)
for the year ended 31st March 2018

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 operating leases;
- Based on actuarial review management have considered the historic pension liability and have made appropriate provision (see (h) below and Note 29);
- 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.

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
Notes to the Consolidated Financial Statements (cont'd)
for the year ended 31st March 2018

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 the SHAPS defined benefit pension scheme, which KHA 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
Notes to the Consolidated Financial Statements (cont'd)
for the year ended 31st March 2018

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
Notes to the Consolidated Financial Statements (cont'd)
for the year ended 31st March 2018

p) Intangible Fixed Assets

Intangible fixed assets are stated at cost less depreciation and comprise computer software and licences. The rate of amortisation is 3 to 5 years on a straight line basis. The amortisation of intangible assets is included within operating costs in the Statement of Comprehensive Income.

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 tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period.

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
for the year ended 31st March 2018

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

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

i) By Class of Business - Group

| | Turnover | Operating Costs | Pension Remeasured | Operating Surplus/(deficit) 2018 |
|---------------------------------|---------------|-----------------|--------------------|----------------------------------|
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Social lettings (note 4 (i)) | 20,452 | (13,124) | - | 7,328 |
| Other activities (note 4 (iii)) | 10,403 | (10,271) | - | 132 |
| | 30,855 | (23,395) | - | 7,460 |
| Total 2017: | 25,205 | (18,805) | 3,735 | 10,135 |

ii) By Class of Business - Association

| | Turnover | Operating Costs | Pension Remeasured | Operating Surplus/(deficit) |
|--------------------------------|---------------|-----------------|--------------------|-----------------------------|
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Social lettings (note 4 (ii)) | 18,180 | (12,486) | - | 5,694 |
| Other activities (note 4 (iv)) | 4,112 | (2,490) | - | 1,622 |
| | 22,292 | (14,976) | - | 7,316 |
| Total 2017: | 24,822 | (18,560) | 3,735 | 9,997 |

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

(i) Social Letting Activities - Group

| Turnover | General Needs Housing | Supported Housing Accommodation | Shared Ownership Housing | 2018 Total | 2017 Total |
|--|-----------------------|---------------------------------|--------------------------|--------------|--------------|
| Rent receivable net of service charges | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| Service charges | 16,240 | 765 | 517 | 17,522 | 16,026 |
| Gross income from rents & service charges | 353 | 152 | 3 | 508 | 464 |
| Less voids | 16,593 | 917 | 520 | 18,030 | 16,490 |
| Net income from rents & service charges | (125) | (35) | (3) | (163) | (105) |
| Grant released from deferred income | 16,468 | 882 | 517 | 17,867 | 16,385 |
| Total turnover from social letting activities | 2,485 | 10 | 90 | 2,585 | 2,437 |
| | 18,953 | 892 | 607 | 20,452 | 18,822 |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

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

| (i) Social Letting Activities - Group (cont'd) | General Needs Housing | | Supported Housing Accommodation | | Shared Ownership Housing | | 2018 Total | | 2017 Total | |
|---|-----------------------|------------|---------------------------------|------------|--------------------------|-------|---------------|-------|---------------|-------|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| Operating costs for social letting activities | | | | | | | | | | |
| Management & maintenance administration costs | 4,253 | 88 | | | 254 | | 4,595 | | 4,048 | |
| Service Costs | 609 | 13 | | | 37 | | 659 | | 439 | |
| Planned and cyclical maintenance including major repairs costs | 252 | 6 | | | - | | 258 | | 748 | |
| Reactive Maintenance costs | 3,345 | 72 | | | - | | 3,417 | | 2,693 | |
| Bad debts - rents & service charges | 182 | 3 | | | - | | 185 | | 102 | |
| Depreciation of social housing | 3,881 | 10 | | | 119 | | 4,010 | | 3,724 | |
| Operating costs for social letting activities | 12,522 | 192 | | 192 | 410 | | 13,124 | | 11,754 | |
| Operating surplus for social letting activities | 6,431 | 700 | | 700 | 197 | | 7,328 | | 7,068 | |
| 2017 Operating surplus/ (deficit) for social letting activities | 6,208 | 691 | | 691 | 169 | | 7,068 | | | |

| (ii) Social Letting Activities - Association | General Needs Housing | | Supported Housing Accommodation | | Shared Ownership Housing | | 2018 Total | | 2017 Total | |
|--|-----------------------|------------|---------------------------------|------------|--------------------------|-------|---------------|-------|---------------|-------|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| Turnover | | | | | | | | | | |
| Rent receivable net of service charges | 13,940 | 765 | | | 517 | | 15,222 | | 14,450 | |
| Service charges | 353 | 152 | | | 3 | | 508 | | 462 | |
| Gross income from rents & service charges | 14,293 | 917 | | | 520 | | 15,730 | | 14,912 | |
| Less voids | (89) | (35) | | | (3) | | (127) | | (89) | |
| Net income from rents & service charges | 14,204 | 882 | | | 517 | | 15,603 | | 14,823 | |
| Grant released from deferred income | 2,477 | 10 | | | 90 | | 2,577 | | 2,437 | |
| Total turnover from social letting activities | 16,681 | 892 | | 892 | 607 | | 18,180 | | 17,260 | |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

| | General Needs Housing | | Supported Housing Accommodation | | Shared Ownership Housing | | 2017 Total |
|---|-----------------------|------------|---------------------------------|-------|--------------------------|-------|---------------|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | |
| 4. Particulars of turnover, operating costs and operating surplus/ (deficit) by class of business (cont'd) | | | | | | | |
| (ii) Social Letting Activities - Association (cont'd) | | | | | | | |
| Operating costs for social letting activities | | | | | | | |
| Management & maintenance administration costs | 3,903 | 88 | 254 | | | | £ 000 |
| Service Costs | 565 | 13 | 37 | | | | 3,979 |
| Planned and cyclical maintenance including major repairs costs | 250 | 6 | - | | | | 406 |
| Reactive Maintenance costs | 3,167 | 71 | - | | | | 744 |
| Bad debts - rents & service charges | 149 | 3 | - | | | | 2,563 |
| Depreciation of social housing | 3,851 | 10 | 119 | | | | 102 |
| Operating costs for social letting activities | 11,885 | 191 | 410 | | | | 3,714 |
| Operating surplus for social letting activities | 4,796 | 701 | 197 | | | | 11,508 |
| 2017 Operating surplus for social letting activities | 4,892 | 691 | 169 | | | | 5,752 |

2017 Operating surplus for social letting activities

(iii) Other activities - Group

| | Other Revenue Grants | | Supporting People Income | | Other Income | | 2017 Total Turnover |
|---|----------------------|--------------|--------------------------|-------|--------------|-------|---------------------|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | |
| Turnover | | | | | | | |
| Wider role activities undertaken to support the community | - | - | 30 | | | | 43 |
| Care & repair of property | 290 | - | - | | | | 262 |
| Fire Works | 455 | - | - | | | | 442 |
| Support activities | - | 5,490 | 508 | | | | 5,048 |
| Other agency/management services | - | - | 257 | | | | 99 |
| Developments for sale to registered social landlords | - | - | 1,008 | | | | 247 |
| Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords | 1,814 | - | - | | | | - |
| Factoring | - | - | 104 | | | | 100 |
| Renewable Energy | - | - | 131 | | | | 133 |
| Gain on Pension revaluation | - | - | - | | | | 3,735 |
| Other activities | - | - | 316 | | | | 9 |
| Total turnover from other activities | 2,559 | 5,490 | 2,354 | | | | 10,118 |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

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

| | Total Turnover | Operating Costs - bad debts | Other Operating Costs | 2018 Operating Surplus/ (deficit) | 2017 Operating Surplus/ (deficit) |
|---|----------------|--------------------------------|-----------------------------|---|---|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| (iii) Other activities - Group (cont'd) | | | | | |
| Operating surplus/ deficit - Group | | | | | |
| Wider role activities undertaken to support the community | 30 | - | (40) | (10) | (11) |
| Care & repair of property | 290 | - | (282) | 8 | 8 |
| Fife Works | 455 | - | (455) | - | - |
| Development and construction of property activities | - | - | (364) | (364) | (699) |
| Support activities | 5,998 | - | (6,054) | (56) | (223) |
| Other agency/management services | 257 | - | (26) | 231 | 99 |
| Developments for sale to registered social landlords (Note 12) | 1,008 | - | (990) | 18 | 30 |
| Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords | 1,814 | - | (1,722) | 92 | - |
| Factoring | 104 | (26) | (87) | (9) | (7) |
| Renewable Energy | 131 | - | - | 131 | 133 |
| Gain on Pension revaluation | - | - | - | - | 3,735 |
| Other activities | 316 | - | (225) | 91 | 2 |
| Operating surplus / (deficit) | 10,403 | (26) | (10,245) | 132 | 3,067 |
| 2017 Operating surplus/ (deficit) for other activities | 10,118 | - | (7,051) | 3,067 | |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

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

(iv) Other activities - Association

| Turnover | Revenue Grants | | Supporting People Income | | Other Income | 2018 Total Turnover | 2017 Total Turnover |
|---|----------------|----------|--------------------------|--------------|--------------|---------------------------|---------------------------|
| | £ 000 | £ 000 | £ 000 | £ 000 | | | |
| Wider role activities undertaken to support the community | - | - | - | 30 | 30 | 30 | 43 |
| Care & repair of property | 290 | - | - | - | - | 290 | 262 |
| Fife Works | 455 | - | - | - | - | 455 | - |
| Support activities | - | - | - | - | - | - | 5,048 |
| Other agency/management services | - | - | - | 257 | 257 | 257 | 101 |
| Developments for sale to registered social landlords | - | - | - | 1,008 | 1,008 | 1,008 | 247 |
| Mid Market Rent Received | - | - | - | 1,367 | 1,367 | 1,367 | 1,114 |
| Factoring | - | - | - | 104 | 104 | 104 | 101 |
| Renewable Energy | - | - | - | 130 | 130 | 130 | - |
| Gain on pension valuation | - | - | - | - | - | - | 3,735 |
| Other activities | - | - | - | 471 | 471 | 471 | 646 |
| Total turnover from other activities | 745 | - | - | 3,367 | 4,112 | 4,112 | 11,297 |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

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

(iv) Other activities - Association (cont'd)

| | Total Turnover | Operating Costs - bad debts | Other Operating Costs | 2018 Operating Surplus/(deficit) | 2017 Operating Surplus/(deficit) |
|--|----------------|-----------------------------|-----------------------|----------------------------------|----------------------------------|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| Operating surplus/ deficit - Association | | | | | |
| Wider role activities undertaken to support the community | 30 | - | (40) | (10) | (11) |
| Care & repair of property | 290 | - | (282) | 8 | 8 |
| Fife Works | 455 | - | (455) | - | - |
| Development and construction of property activities | - | - | (364) | (364) | (699) |
| Support activities | - | - | - | - | (223) |
| Other agency/management services | 257 | - | - | 257 | 101 |
| Developments for sale to registered social landlords (Note 12) | 1,008 | - | (990) | 18 | 30 |
| Mid Market Rent Received | 1,367 | - | - | 1,367 | 1,114 |
| Factoring | 104 | (26) | (86) | (8) | (7) |
| Renewable Energy | 130 | - | - | 130 | - |
| Gain on pension valuation | - | - | - | - | 3,735 |
| Other activities | 471 | - | (247) | 224 | 197 |
| Operating surplus / (deficit) | 4,112 | (26) | (2,464) | 1,622 | 4,245 |
| 2017 Operating surplus/(deficit) for social letting activities | 11,297 | - | (7,052) | 4,245 | |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|---|------------------------|------------------------------|------------------------|------------------------------|
| 5. Operating Surplus | | | | |
| Operating surplus is stated after charging / crediting: | | | | |
| Surplus on disposal of tangible fixed assets | 36 | - | 119 | - |
| Grants released from deferred income (Note 18) | 4,706 | 4,339 | 2,437 | 2,437 |
| Depreciation of Housing Properties (Note 10) | 4,010 | 3,980 | 3,724 | 3,714 |
| Depreciation of other tangible fixed assets (Note 10) | 132 | 132 | 125 | 125 |
| Amortisation of intangible fixed assets (Note 10) | 48 | 39 | 65 | 65 |
| Operating lease rental | 12 | 12 | 12 | 12 |
| Impairment of investment in Our Power | 15 | - | - | - |
| Internal Audit fees | 10 | 10 | 11 | 11 |
| Accounting, tax and services advice | 12 | 9 | 6 | 2 |
| External Audit fees | 31 | 22 | 25 | 20 |

6. Gain/Loss on Sale of Housing Properties and Disposal of Components

| | Group & Association 2018 £ 000 | Group & Association 2017 £ 000 |
|------------------------------------|---|---|
| Sale proceeds | 335 | 321 |
| Net Book Value of properties | (179) | (197) |
| Expenses on disposal of properties | (3) | (3) |
| Gain on sale of housing properties | 153 | 121 |
| Loss on disposal of components | (103) | (12) |
| | <u>50</u> | <u>109</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. Properties sold in 2018: 6, (2017: 4)

The loss on disposal of components arises from the replacements of components in general rented housing properties.

7. Interest receivable and similar income

| | Group & Association 2018 £ 000 | Group & Association 2017 £ 000 |
|---------------------------|---|---|
| Interest on cash balances | <u>8</u> | <u>35</u> |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

8. Interest payable and finance costs

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|---|------------------------|------------------------------|------------------------|------------------------------|
| Interest payable in the year has been charged as follows: | | | | |
| Loan Interest | 1,753 | 1,750 | 1,597 | 1,595 |
| Unwinding of discount on provisions (Note 20) | 30 | 30 | 161 | 161 |
| | <u>1,783</u> | <u>1,780</u> | <u>1,758</u> | <u>1,756</u> |

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 for renewable energy systems which is subject to corporation tax. We have been in contact with HMRC regarding outstanding taxation and have received demands for corporation tax payable for years ending 31st March 2013 to the current year totalling £145,779 of which £123,345 has been paid within this financial year.

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

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|--|------------------------|------------------------------|------------------------|------------------------------|
| Based upon the results for the year to 31 st March 2018: | | | | |
| Corporation tax charge on income for the year on surplus on ordinary activities: | (57) | (27) | (30) | - |
| Prior year over/(under) provision | 35 | 4 | - | - |
| Paid during year and charged in respect of previous periods | (148) | (123) | - | - |
| | <u>(170)</u> | <u>(146)</u> | <u>(30)</u> | <u>-</u> |

Corporation tax calculated at 19% (2017:20%)

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

10. Fixed assets

(i) Housing Properties - Group

| | Shared Ownership properties held for letting | Housing properties held for letting | Housing properties in course of construction | Hostel properties held for letting | Housing properties total |
|-----------------------------------|--|--|---|---|--------------------------------|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| Cost | | | | | |
| At 1 st April 2017 | 12,271 | 288,050 | 21,547 | 1,053 | 322,921 |
| Additions during year | 44 | 550 | 34,956 | - | 35,550 |
| Disposals in year | (219) | (336) | - | - | (555) |
| Transfer | (61) | 28,809 | (28,748) | - | - |
| At 31 st March 2018 | <u>12,035</u> | <u>317,073</u> | <u>27,755</u> | <u>1,053</u> | <u>357,916</u> |
| Depreciation | | | | | |
| At 1 st April 2017 | 1,932 | 38,723 | - | 152 | 40,807 |
| Provided during year (note 4) | 119 | 3,881 | - | 10 | 4,010 |
| Disposals in year | (40) | (233) | - | - | (273) |
| Transfers | (7) | 7 | - | - | - |
| At 31 st March 2018 | <u>2,004</u> | <u>42,378</u> | <u>-</u> | <u>162</u> | <u>44,544</u> |
| Net book value | | | | | |
| At 31 st March 2018 | <u>10,031</u> | <u>274,695</u> | <u>27,755</u> | <u>891</u> | <u>313,372</u> |
| As at 31 st March 2017 | <u>10,339</u> | <u>249,327</u> | <u>21,547</u> | <u>901</u> | <u>282,114</u> |

No interest was capitalised during the year (2017: Nil).

The total major repairs expenditure during the period was £831,237, (2017: £1,076,060). Major repairs expenditure during the period of £244,558, (2017: £912,316) is included in the statement of comprehensive income. Major repairs expenditure included in housing property additions amounted to £586,679 (2017: £163,744).

During the period £10,592, (2017: £315,162) in respect of maintenance administration costs, was included in housing property additions.

Development administration costs included in the statement of financial position amounted to £478,048, (2017: £123,777).

KHA's properties have been reviewed for impairment and no provision was considered necessary.

Included in housing properties held for letting is land of £32,060,870, (2017: £31,077,993) which is not depreciated.

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (Cont'd)
For the year ended 31st March 2018

10. Fixed assets (cont'd)

(ii) Housing properties - Association

| | Shared Ownership properties held for letting £ 000 | Housing properties held for letting £ 000 | Housing properties in course of construction £ 000 | Hostel properties held for letting £ 000 | Housing properties total £ 000 |
|-----------------------------------|---|---|--|--|---|
| Cost | | | | | |
| At 1 st April 2017 | 12,271 | 287,368 | 19,354 | 1,053 | 320,046 |
| Additions during year | 44 | 549 | 32,955 | - | 33,548 |
| Disposals in year | (219) | (336) | - | - | (555) |
| Transfer | (61) | 24,615 | (24,554) | - | - |
| As at 31 st March 2018 | <u>12,035</u> | <u>312,196</u> | <u>27,755</u> | <u>1,053</u> | <u>353,039</u> |
| Depreciation | | | | | |
| At 1 st April 2017 | 1,932 | 38,659 | - | 152 | 40,743 |
| Provided during year | 119 | 3,851 | - | 10 | 3,980 |
| Disposals in year | (40) | (234) | - | - | (274) |
| Transfers | (7) | 7 | - | - | - |
| At 31 st March 2018 | <u>2,004</u> | <u>42,283</u> | <u>-</u> | <u>162</u> | <u>44,449</u> |
| Net book value | | | | | |
| At 31 st March 2018 | <u>10,031</u> | <u>269,913</u> | <u>27,755</u> | <u>891</u> | <u>308,590</u> |
| At 31 st March 2017 | <u>10,339</u> | <u>248,709</u> | <u>19,354</u> | <u>901</u> | <u>279,303</u> |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

10. Fixed assets (cont'd)
Stock numbers

| | General Housing | Support Housing Accommodation | Shared Ownership Housing | Total |
|--|-----------------|-------------------------------|--------------------------|--------------|
| Units Owned | | | | |
| As at 1 st April 2017 - Owned by the Association | 3,682 | 89 | 264 | 4,035 |
| As at 31st March 2018 - Owned by the Association | 3,963 | 3 | 258 | 4,224 |
| As at 1 st April 2017 - Owned by Group | 3,690 | 89 | 264 | 4,043 |
| As at 31st March 2018 - Owned by Group | 4,014 | 3 | 258 | 4,275 |
| Units in Management | | | | |
| As at 1 st April 2017 - managed by the Association | 3,435 | 89 | 253 | 3,777 |
| As at 31st March 2018 - managed by the Association | 3,645 | 3 | 247 | 3,895 |
| As at 1 st April 2017 - managed by Group | 3,756 | 89 | 253 | 4,098 |
| As at 31st March 2018 - managed by Group | 4,150 | 3 | 247 | 4,400 |
| As at 1 st April 2017 - managed by Fairfield | 29 | 0 | 11 | 40 |
| As at 31st March 2018 - managed by Fairfield | 29 | 0 | 11 | 40 |

Fairfield Housing Cooperative operates in the Perth area managing Kingdom Housing Association properties under a management agreement. The amounts payable in the year to Fairfield were £29,122 (2017: £29,122).

There were no outstanding creditors at the year end for the management of properties (2017: Nil).

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

10. Fixed assets (cont'd)

(iii) Other tangible fixed assets - Group

| | Heritable office Property | Furniture and equipment | Motor vehicles | Computer hardware | Total |
|--------------------------------|---------------------------------|-------------------------------|-------------------|----------------------|--------------|
| Cost | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| At 1 st April 2017 | 1,447 | 322 | 326 | 522 | 2,617 |
| Additions during year | 10 | - | - | 13 | 23 |
| Disposals in year | - | (70) | (58) | (181) | (309) |
| At 31 st March 2018 | <u>1,457</u> | <u>252</u> | <u>268</u> | <u>354</u> | <u>2,331</u> |
| Depreciation | | | | | |
| At 1 st April 2017 | 457 | 292 | 283 | 419 | 1,451 |
| Provided during year | 27 | 14 | 31 | 60 | 132 |
| Disposals | - | (69) | (58) | (187) | (314) |
| At 31 st March 2018 | <u>484</u> | <u>237</u> | <u>256</u> | <u>292</u> | <u>1,269</u> |
| Net book value | | | | | |
| At 31 st March 2018 | <u>973</u> | <u>15</u> | <u>12</u> | <u>62</u> | <u>1,062</u> |
| At 31 st March 2017 | <u>990</u> | <u>30</u> | <u>43</u> | <u>103</u> | <u>1,166</u> |

(iv) Other tangible fixed assets - Association

| | Heritable office Property | Furniture and equipment | Motor vehicles | Computer hardware | Total |
|--------------------------------|---------------------------------|-------------------------------|-------------------|----------------------|--------------|
| Cost | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| At 1 st April 2017 | 1,447 | 319 | 326 | 522 | 2,614 |
| Additions during year | 10 | - | - | 12 | 22 |
| Disposals in year | - | (70) | (58) | (181) | (309) |
| At 31 st March 2018 | <u>1,457</u> | <u>249</u> | <u>268</u> | <u>353</u> | <u>2,327</u> |
| Depreciation | | | | | |
| At 1 st April 2017 | 457 | 290 | 283 | 419 | 1,449 |
| Provided during year | 27 | 14 | 31 | 60 | 132 |
| Disposals | - | (69) | (58) | (188) | (315) |
| At 31 st March 2018 | <u>484</u> | <u>235</u> | <u>256</u> | <u>291</u> | <u>1,266</u> |
| Net book value | | | | | |
| At 31 st March 2018 | <u>973</u> | <u>14</u> | <u>12</u> | <u>62</u> | <u>1,061</u> |
| At 31 st March 2017 | <u>990</u> | <u>29</u> | <u>43</u> | <u>103</u> | <u>1,165</u> |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

10. Fixed assets (cont'd)

(v) Intangible fixed assets - Computer Software

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|--------------------------------|------------------------|------------------------------|------------------------|------------------------------|
| Cost | | | | |
| At 1 st April 2017 | 585 | 585 | 536 | 536 |
| Additions during year | 45 | 23 | 49 | 49 |
| Disposals in year | (116) | (116) | - | - |
| At 31 st March 2018 | <u>514</u> | <u>492</u> | <u>585</u> | <u>585</u> |
| Depreciation | | | | |
| At 1 st April 2017 | 503 | 503 | 438 | 438 |
| Provided during year | 48 | 39 | 65 | 65 |
| Disposals | (87) | (87) | - | - |
| At 31 st March 2018 | <u>464</u> | <u>455</u> | <u>503</u> | <u>503</u> |
| Net book value | | | | |
| At 31 st March 2018 | <u>50</u> | <u>37</u> | <u>82</u> | <u>82</u> |
| At 31 st March 2017 | <u>82</u> | <u>82</u> | | |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

11. Fixed Asset Investments

| Group: | 2018 | 2017 |
|--|-------|-------|
| Investment in Our Power | Group | Group |
| | £ 000 | £ 000 |
| During the year an investment was made with Our Power which was then impaired during the year. | | |
| As at 1st April | - | - |
| Investment in Our Power | 15 | - |
| Impairment | (15) | - |
| As at 31st March | - | - |

| Association: | 2018 | 2017 |
|--|-------------|-------------|
| Investment in Subsidiary | Association | Association |
| | £ 000 | £ 000 |
| The fixed assets investment comprises 100 ordinary share 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. | | |
| | 427 | 427 |
| | 427 | 427 |

| | Group | Association | Group | Association |
|--|---------|-------------|-------|-------------|
| | 2018 | 2018 | 2017 | 2017 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| 12. Properties Held for Sale | | | | |
| Work in Progress for other RSLs at 1 st April | 2,358 | 2,358 | 1 | 1 |
| Net additions during the year - cost less applicable SHG | 663 | 663 | 2,580 | 2,580 |
| Net transfers to operating costs on disposals (note 4 (ii)) | (2,677) | (2,677) | (223) | (223) |
| Balance of Work In Progress for other RSLs at 31 st March | 344 | 344 | 2,358 | 2,358 |

13. Stocks and Work In Progress

| | Group | Association | Group | Association |
|---|-------|-------------|-------|-------------|
| | 2018 | 2018 | 2017 | 2017 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| 13(i) Stock of materials | | | | |
| Stock of materials held by Maintenance Team | 188 | 188 | 192 | 192 |

13(ii) Work In Progress for KI Partnership Support for Regeneration sales

| | Group | Association | Group | Association |
|---|---------|-------------|-------|-------------|
| | 2018 | 2018 | 2017 | 2017 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Held at 1st April | 1,245 | - | - | - |
| Cost of properties, completed, unsold during the year | - | - | 1,245 | - |
| Additions during the year | 765 | - | - | - |
| Properties sold during the year | (2,010) | - | - | - |
| Held at 31st March | - | - | 1,245 | - |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

14 (i). Receivables: amounts falling due within one year

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|--------------------------------------|------------------------|------------------------------|------------------------|------------------------------|
| Arrears of rent | 559 | 514 | 516 | 502 |
| less: Provision for bad debts | (374) | (336) | (271) | (266) |
| | 185 | 178 | 245 | 236 |
| Sundry receivables | 1,224 | 825 | 1,215 | 1,066 |
| Prepayments | 119 | 119 | 117 | 117 |
| Due from Kingdom Initiatives Limited | - | 459 | - | 342 |
| Due from Kingdom Support & Care CIC | - | 7 | - | - |
| Interest Receivable | 5 | 5 | 9 | 9 |
| Car loans to employees | 101 | 74 | 65 | 65 |
| SHG in arrears | 2,403 | 2,403 | 842 | 842 |
| | <u>4,037</u> | <u>4,070</u> | <u>2,493</u> | <u>2,677</u> |

14 (ii) Receivables: amounts falling due after more than one year

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|---|------------------------|------------------------------|------------------------|------------------------------|
| 10 year loan to Kingdom Initiatives Limited | - | 2,620 | - | 2,620 |

15. Payables: amounts falling due within one year

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|--|------------------------|------------------------------|------------------------|------------------------------|
| Contractors for certified work | 3,931 | 3,931 | 3,950 | 3,504 |
| Trade payables | 619 | 586 | 702 | 702 |
| Deferred capital grants (note 18) | 3,362 | 3,341 | 4,713 | 4,348 |
| Sundry payables and accruals | 2,395 | 1,948 | 1,654 | 1,363 |
| Prepaid rent | 254 | 248 | 229 | 218 |
| Other Taxation & Social Security costs | 224 | 112 | 209 | 209 |
| Due to Kingdom Support & Care CIC | - | - | - | 426 |
| Interest Payable | 40 | 40 | 41 | 41 |
| Corporation Tax (note 9) | 57 | 27 | 30 | - |
| SHG Repayable | 866 | 866 | 706 | 706 |
| Housing loans (note 17) | 16,703 | 16,692 | 11,837 | 11,827 |
| | <u>28,451</u> | <u>27,791</u> | <u>24,071</u> | <u>23,344</u> |

16. Payables: amounts falling due after more than one year

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|-------------------------|------------------------|------------------------------|------------------------|------------------------------|
| Housing loans (note 17) | <u>61,057</u> | <u>60,975</u> | <u>57,349</u> | <u>57,257</u> |

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

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

17. Loans

| | Group | Association | Group | Association |
|---|---------------|--------------------|---------------|--------------------|
| | 2018 | 2018 | 2017 | 2017 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Housing loans | | | | |
| Loans secured by a charge on the Group's Housing, Land and Buildings and advanced by private lenders: | | | | |
| 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 between 0.51% to 4.725% (2016 - 0.76% to 4.75%) | | | | |
| | 77,760 | 77,667 | 69,186 | 69,084 |
| | <u>77,760</u> | <u>77,667</u> | <u>69,186</u> | <u>69,084</u> |
| Amount falling due: | | | | |
| Within one year (note 15) | 16,703 | 16,692 | 11,837 | 11,827 |
| Between one & two years | 1,703 | 1,692 | 6,838 | 6,827 |
| Between two & five years | 14,664 | 14,632 | 5,256 | 5,225 |
| After more than five years | 44,690 | 44,651 | 45,255 | 45,205 |
| Amounts falling due after more than one year (Note 16) | 61,057 | 60,975 | 57,349 | 57,257 |
| | <u>77,760</u> | <u>77,667</u> | <u>69,186</u> | <u>69,084</u> |

18. Deferred Income - Government Grants / Other Income

| | Group | Association | Group | Association |
|--|----------------|--------------------|----------------|--------------------|
| | 2018 | 2018 | 2017 | 2017 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| As at 1 st April 2017 | 181,660 | 179,694 | 169,294 | 168,998 |
| Received in year | 22,228 | 22,230 | 16,919 | 15,249 |
| Homestake grant released to income | - | - | (1,935) | (1,935) |
| Repayable | (160) | (160) | (181) | (181) |
| Released to income - social lettings | (2,585) | (2,577) | (2,437) | (2,437) |
| Released to income - other activities | (2,121) | (1,762) | - | - |
| As at 31 st March 2018 | <u>199,022</u> | <u>197,425</u> | <u>181,660</u> | <u>179,694</u> |
| Amounts to be released within 1 year | 3,362 | 3,341 | 4,713 | 4,348 |
| Amounts to be released in more than 1 year | 195,660 | 194,084 | 176,947 | 175,346 |
| | <u>199,022</u> | <u>197,425</u> | <u>181,660</u> | <u>179,694</u> |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

| 19. Financial Instruments | Group | Association | Group | Association |
|--|---------------|--------------------|---------------|--------------------|
| | 2018 | 2018 | 2017 | 2017 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Financial assets: Debt instruments measured at amortised cost: | | | | |
| Arrears of rent | 185 | 178 | 245 | 236 |
| Sundry receivables | 1,224 | 825 | 1,215 | 1,066 |
| Due from Kingdom Initiatives Limited | - | 459 | - | 342 |
| 10 year loan to Kingdom Initiatives Limited | - | 2,620 | - | 2,620 |
| Due from Kingdom Support & Care CIC | - | 7 | - | - |
| Interest receivable | 5 | 5 | 9 | 9 |
| Car Loans to Employees | 101 | 74 | 65 | 65 |
| SHG in arrears | 2,403 | 2,403 | 842 | 842 |
| | <u>3,918</u> | <u>6,571</u> | <u>2,376</u> | <u>5,180</u> |
| Financial liabilities: Measured at amortised cost: | | | | |
| Housing loans | 77,760 | 77,667 | 69,186 | 69,084 |
| Contractors for certified work | 3,931 | 3,931 | 3,950 | 3,504 |
| Trade payables | 619 | 586 | 702 | 702 |
| Sundry receivables and accruals | 2,395 | 1,950 | 1,654 | 1,363 |
| Due to Kingdom Initiatives Limited | - | - | - | - |
| Due to Kingdom Support & Care CIC | - | - | - | 426 |
| Interest Payable accrual | 40 | 40 | 41 | 41 |
| SHG Repayable | 866 | 866 | 706 | 706 |
| | <u>85,611</u> | <u>85,040</u> | <u>76,239</u> | <u>75,826</u> |

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). In 2018 there was no additional provision required.

| | Group & Association | Group & Association |
|-----------------------------------|------------------------------------|------------------------------------|
| | 2018 | 2017 |
| | £ 000 | £ 000 |
| As at 1 st April 2017 | 3,231 | 7,406 |
| Utilised in the year | (636) | (621) |
| Additional provision in year | - | (3,735) |
| Unwinding of discount | 30 | 161 |
| Reversed in year | - | - |
| Change in discount rate | (22) | 20 |
| As at 31 st March 2018 | <u>2,603</u> | <u>3,231</u> |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

| 21. Share Capital | 2018 Number | 2017 Number | 2018 £ | 2017 £ |
|--|----------------|----------------|-----------|-----------|
| Group and Association | | | | |
| Shares of £1 each issued and fully paid: | | | | |
| At 1 st April 2017 | 56 | 53 | 56 | 53 |
| Issued during the year | 8 | 7 | 8 | 7 |
| Cancelled during the year | - | (4) | - | (4) |
| At 31 st March 2018 | <u>64</u> | <u>56</u> | <u>64</u> | <u>56</u> |

A £1 share entitles the holder (Member) to attend the Annual General Meeting and any Special or Emergency General Meeting of the Association and to cast their vote. In addition it entitles a Member at those meetings to nominate others for the Board and/or to stand for the Board subject to the Board membership policy. Shares cannot be traded, the liability of the Member is limited to the £1 share and a share does not entitle a Member to a distribution of any surplus of the Association. These rights may be suspended /lost after missing usually 3 Annual General Meetings without submission of apologies.

22. Capital Commitments

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|---|------------------------|------------------------------|------------------------|------------------------------|
| Housing Properties: | | | | |
| Expenditure contracted but not provided in the financial statements | 39,395 | 39,395 | 34,757 | 32,299 |

The capital commitments will be financed from the proceeds of the private placement of £85 million.

23. Employees

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|---|------------------------|------------------------------|------------------------|------------------------------|
| i) Staff costs during year: | | | | |
| Wages and salaries | 9,469 | 4,389 | 8,243 | 8,243 |
| Social security costs | 761 | 402 | 676 | 676 |
| Other pension costs | 409 | 272 | 360 | 360 |
| Change in assumptions regarding pension provision | (22) | (22) | 20 | 20 |
| | <u>10,617</u> | <u>5,041</u> | <u>9,299</u> | <u>9,299</u> |

There were no redundancy costs incurred during the year included in the staff costs, (2017: no redundancy costs incurred).

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

| 23. Employees (cont'd) | Group 2018 No. | Association 2018 No. | Group 2017 No. | Association 2017 No. |
|---|----------------------|----------------------------|----------------------|----------------------------|
| ii) Staff numbers: | | | | |
| Average weekly number of employees (including relief staff working on an "as required" basis) | 440 | 162 | 395 | 395 |
| <u>Number of Employees as at 31st March:</u> | | | | |
| Support & Care staff | 235 | - | 228 | 228 |
| Administration staff | 132 | 121 | 127 | 127 |
| Maintenance staff | 37 | 37 | 35 | 35 |
| | 404 | 158 | 390 | 390 |
| Full time equivalent employees | 345 | 147 | 331 | 331 |

Agency Staff were employed during the year by the Group at a cost of £256,368, (2017: £128,701)

24. Auditors' remuneration

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

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|-----------------------------------|------------------------|------------------------------|------------------------|------------------------------|
| External Audit services | 31 | 22 | 25 | 20 |
| Accounting, Tax Services & Advice | 12 | 9 | 6 | 2 |
| Internal Audit services | 10 | 10 | 11 | 11 |
| | 53 | 41 | 42 | 33 |

25. Payments to members and committee members

No Member of Group received any fee or remuneration during the year, (2017: Nil). Members of the Board were reimbursed for out of pocket travel expenses amounting to £2,526, (2017: £2,493).

During the year no Member of the Board was a tenant of KHA, (2017: 1).

During the year one Member of the Board was a sharing owner, (2017: 1). The sharing owner arrangements for this Member are on normal terms.

KI does not employ any staff. Recharges are made for time spent by KHA staff on company business. The amount charged during the period was £68,509 (2017: £50,370).

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

26. Remuneration of Key Management Personnel

| | Group 2018 £ 000 | Association 2018 £ 000 | Group 2017 £ 000 | Association 2017 £ 000 |
|---|------------------------|------------------------------|------------------------|------------------------------|
| The aggregate remuneration of five directors (2017 – 4 directors, 2 acting directors) including benefits in kind was: | <u>464</u> | <u>370</u> | <u>468</u> | <u>468</u> |
| Pension contributions of directors were: | <u>34</u> | <u>27</u> | <u>34</u> | <u>34</u> |
| | 2018 Number | 2018 Number | 2017 Number | 2017 Number |
| Emoluments (excluding pension contributions) were paid in the following bandings: | | | | |
| £10,001 to £60,000 | - | - | 1 | 1 |
| £60,001 to £70,000 | - | - | 1 | 1 |
| £70,001 to £80,000 | 2 | 2 | 1 | 1 |
| £80,001 to £90,000 | 2 | 1 | 2 | 2 |
| £90,001 to £100,000 | - | - | - | - |
| £100,001 to £110,000 | 1 | 1 | 1 | 1 |
| | 2018 £ 000 | 2018 £ 000 | 2017 £ 000 | 2017 £ 000 |
| The total emoluments (excluding pension contributions) received by the highest paid director was: | <u>108</u> | <u>108</u> | <u>107</u> | <u>107</u> |

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%, (2017: 8%) and amounted to £8,499, (2017: £8,332).

At the year end one director had a car loan from Kingdom Group. The total balance of car loan due by the director at 31st March 2018 was £12,392, (2017: £19,517). The maximum balance outstanding during the year was £16,371, (2017: £29,354). 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 Kingdom Group.

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

27. Reconciliation of surplus to net cash generated from/(used in) operations - Group

| | 2018 | 2017 |
|--|---------------------|---------------------|
| | £ 000 | £ 000 |
| <i>Cash generated from operations</i> | | |
| Surplus for the year | 5,551 | 8,501 |
| Depreciation of tangible fixed assets | 4,010 | 3,724 |
| Depreciation of other fixed assets | 132 | 125 |
| Amortisation of intangible assets | 48 | 66 |
| (Decrease) in provisions | (658) | (4,336) |
| Investment impaired | 15 | - |
| Gain or loss on disposal of fixed assets | (50) | (109) |
| Gain or loss on disposal of assets held for sale | (99) | - |
| Gain or loss on disposal of WIP | (170) | (217) |
| Gain or loss on disposal of intangible assets | 29 | - |
| Gain or loss on disposal of other fixed assets | 14 | 10 |
| Amortisation of housing property capital grant | (2,585) | (2,437) |
| Corporation Tax | 170 | 30 |
| Issue/(write off) of share capital | - | - |
| Interest received | (8) | (35) |
| Interest paid | 1,783 | 1,758 |
| Operating cashflows before movement in working capital | <u>8,182</u> | <u>7,080</u> |
| (Increase)/decrease in stock | 4 | (40) |
| (Increase)/decrease in receivables | 13 | (49) |
| (Decrease) in payables | 680 | 2,057 |
| Total cash generated from operating activities | <u>8,879</u> | <u>9,048</u> |
| Corporation Tax paid | (144) | (31) |
| Total cash flows from operating activities | <u><u>8,735</u></u> | <u><u>9,017</u></u> |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

28. Reconciliation of surplus to net cash generated from/(used in) operations - Association

| | 2018 | 2017 |
|--|--------------|--------------|
| | £ 000 | £ 000 |
| <i>Cash generated from operations</i> | | |
| Surplus for the year | 5,433 | 8,395 |
| Depreciation of tangible fixed assets | 3,980 | 3,714 |
| Depreciation of other fixed assets | 132 | 125 |
| Amortisation of intangible assets | 39 | 66 |
| (Decrease) in provisions | (658) | (4,336) |
| Issue/(write off) of share capital | - | - |
| Gain or loss on disposal of fixed assets | (50) | (109) |
| Gain or loss on disposal of assets held for sale | (99) | - |
| Gain or loss on disposal of intangible assets | 29 | - |
| Gain or loss on disposal of other fixed assets | 15 | 10 |
| Interest received | (8) | (35) |
| Interest paid | 1,780 | 1,756 |
| Corporation Tax paid | 146 | - |
| Amortisation of housing property capital grant | (2,577) | (2,437) |
| Operating cashflows before movement in working capital | <u>8,162</u> | <u>7,149</u> |
| (Increase)/decrease in stock | 4 | (40) |
| (Increase)/decrease in receivables | 164 | (2,931) |
| (Decrease) in payables | 403 | 2,144 |
| Total cash generated from operating activities | <u>8,733</u> | <u>6,322</u> |
| Corporation Tax paid | (119) | - |
| Total cash flows from operating activities | <u>8,614</u> | <u>6,322</u> |

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
for the year ended 31st March 2018

29. Pension Obligations

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.

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

Deficit contributions

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

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
for the year ended 31st March 2018

29. Pension Obligations (cont'd)

PRESENT VALUES OF PROVISION

RECONCILIATION OF OPENING AND CLOSING PROVISIONS

| | Period Ending 31 March 2018 (£000s) | Period Ending 31 March 2017 (£000s) |
|--|---|---|
| Provision at start of period | 3,231 | 7,332 |
| Unwinding of the discount factor (interest expense) | 30 | 161 |
| Deficit contribution paid | (636) | (621) |
| Remeasurements - impact of any change in assumptions | (22) | 94 |
| Remeasurements - amendments to the contribution schedule | - | (3,735) |
| Provision at end of period | 2,603 | 3,231 |

INCOME AND EXPENDITURE IMPACT

| | Period Ending 31 March 2018 (£000s) | Period Ending 31 March 2017 (£000s) |
|--|---|---|
| Interest expense | 30 | 161 |
| Remeasurements – impact of any change in assumptions | (22) | 94 |
| Remeasurements – amendments to the contribution schedule | - | (3,735) |
| Contributions paid in respect of future service* | - | - |
| Costs recognised in income and expenditure account | 409 | 360 |

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

ASSUMPTIONS

| | 31 March 2018 % per annum | 31 March 2017 % per annum | 31 March 2016 % per annum |
|------------------|------------------------------|------------------------------|------------------------------|
| Rate of discount | 1.51 | 1.06 | 2.29 |

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

Kingdom Housing Association Limited
Notes to the Consolidated Financial Statements (cont'd)
For the year ended 31st March 2018

30. Financial Commitments

The Group has annual commitments under non-cancellable operating leases as follows:

| | 2018 | 2017 |
|------------------------------|--------------|--------------|
| | £ 000 | £ 000 |
| Amounts Due: | | |
| Within one year | 170 | 146 |
| Between 1 and 5 years | 288 | 401 |
| Due within more than 5 years | 1 | - |
| | <u>459</u> | <u>547</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 £21,597,205 (2017: £28,608,114) as at 30th September 2017. 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 2018 of £226,322,931 (2017: £203,725,143) which may be repayable to Scottish Ministers. The Board does not expect those circumstances to crystallize.

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 one Board member serves on the Board of KSC.

KHA issued invoices to KI for purchases, re-invoiced charges and management services provided by KHA amounting to £1,715,753, (2017: £1,276,144). KI issued invoices to KHA for purchases and re-invoiced charges totalling £331,640, (2017: £24,180).

At the date of the statement of financial position the balance due by KI to KHA as at 31st March 2018 was £3,079,019 (2017: £2,961,990), both years include the long term loan from KHA of £2,620,000 with the remainder being short term.

Kingdom Housing Association Limited
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32. Related Party Transactions (cont'd)

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.

KHA issued invoices to KSC for purchases, re-invoiced charges and management services provided by KHA amounting to £2,035,337, (2017: £Nil). KSC issued invoices to KHA for purchases and re-invoiced charges totalling £34,232, (2017: £Nil).

At the date of the statement of financial position the balance due to KHA from KSC as at 31st March 2018 was £7,456. At 31st March 2017 the balance due to KSC by KHA was £426,000.