

Kingdom Housing Association Limited
Consolidated Report and Financial Statements
for the year ended 31 March 2020

Registration Details

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

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BOARD OF MANAGEMENT, EXECUTIVE, ADVISERS AND REGISTRATION DETAILS

| | | |
|---------------------------------|---|---|
| Board of Management | Freya Lees Laurie Naumann Linda Leslie Gavin Thomson Loretta Mordi Tom Barr Iain Connelly Laura Brotherton Graeme Mackay Charles Oliver David Redpath Stephen Swan Carol Watson | Chairperson Vice Chairperson Vice Chairperson Chair of Audit & Financial Compliance Sub Committee (resigned 5 June 2020) |
| Key Management Personnel | William Banks Nicholas Pollard Ken Tudhope Scott Kirkpatrick Alan Simpson | Chief Executive and Company Secretary Director of Finance and Digital (resigned 30 April 2020) Director of Finance (appointed 1 July 2020) Director of Development Director of Housing and Asset Management |
| Registered Office | Saltire Centre, Pentland Court, Glenrothes, KY6 2DA | |
| Registration Numbers | Co-operative and Community Benefit Societies Act 2014, Reg. No. SP1981R(S) Scottish Housing Regulator Reg. No. HEP 142 Scottish Charity No SC000874 Financial Conduct Authority number SP1981RS | |
| Independent Auditors | RSM UK Audit LLP First Floor, Quay 2 139 Fountainbridge Edinburgh EH3 9QG | |
| Principal Banker | Bank of Scotland | |
| Internal Auditors | MHA Henderson Loggie | |

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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 31 March 2020.

Legal Status

Kingdom Housing Association Limited (KHA) is incorporated in Scotland and registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 as a mutual society (registration number SP1981R(S) and is a Registered Social Landlord HEP 142 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.
- Kingdom Support and Care Community Interest Company (KSC), 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 31 March 2020.

Objectives and Strategy

The mission statement of the Kingdom Group is to provide 'more than a home' and this is reflected in not only the provision of affordable high quality houses, but also the additional activities relating to community initiatives, which incorporate Kingdom Works Employability service and Care and Repair Small Repairs service. KI complements KHA's mission in areas of activity in which KHA may not operate. In addition, through KSC, the Group supports and cares for people in their own homes.

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, 31 March 2020 there were 13 Board members, (2019: 13), of whom none were co-opted, (2019: none), with a wide range of skills, knowledge and experience.

As at the date of the statement of financial position none of the members were tenants and one of the members was a sharing owner.

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

- Audit & Financial Compliance Sub Committee (AFC);
- Senior Management Remuneration & Succession Planning Sub Committee (SMR&SP);
- Policy Sub Committee.

In addition, there is an internal audit function operated by an independent firm of auditors.

The Governing Body of KI is a Board of Directors which at the year end consisted of 6 Directors, one of whom is the appointed Chairperson. Of the Directors one was a member of the KHA Board of Management until 5 June 2020 (Iain Connelly), one is a Director of KSC (Garry Dickson) and one is KHA's Chief Executive (William Banks).

The Governing Body of KSC is a Board of Directors which at the year end consisted of 8 Directors, one of whom is the appointed Chairperson. During the year one Director served as a member of the KHA Board of Management (Linda Leslie), one is a Director of KI (Garry Dickson) and one is KHA's Chief Executive (William Banks).

There are clear reporting arrangements between the members of the Group with minutes of the KI and KSC Board 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 Team. 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. However, the Group has been successful in retaining Board membership as far as possible, with only three retirements.

Principal Activities

KHA

KHA's principal activity is the provision and management of affordable housing using Scottish Secure Tenancies throughout East Central Scotland. 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 and local authorities, supplemented by 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. KHA also has a significant number of shared ownership properties and also provides accommodation for homeless people.

KHA is part of the Fife Housing Association Alliance (FHAA), comprising four Fife-based Registered Social Landlords (RSLs), namely KHA, Fife Housing 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.

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 at mid market rents, where the rent is based upon a percentage of the appropriate Local Housing Allowance and hence higher than social rents.

These relate mainly to properties leased to KI 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 individuals across the Fife and Falkirk local authority areas under contract. The service enables individuals to continue to live independently in their own homes in their communities, despite medical conditions and disabilities.

Review of the Year and Performance for the Group

Our Corporate Plan identifies our strategic objectives across all our areas of activity. During the year we have successfully achieved and contributed towards our objectives, which is demonstrated through our achievements in areas such as the following:

- Completion of 496 new affordable homes, for Kingdom and our partner organisations (2019: 274);
- Providing high quality services to our tenants and other customers, which is evidenced through high satisfaction levels and good performance outputs;
- Our Support & Care activities delivered services to circa 260 service users (2019: 256);
- We have delivered on our financial plans and comfortably comply with all our loan covenants;
- We have demonstrated innovation through the range of products and services we provide, including the further expansion of mobile working arrangements, which improve customer services and provide organisational benefits through the increased use of digital solutions;
- We employ 460 (2019: 430) staff in the Kingdom Group and offer good terms and conditions and 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.

We use 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 term. These indicators are reviewed regularly by KHA's Governing Body and its Audit and Financial Compliance Sub Committee and are reported to the Scottish Housing Regulator (SHR). The key performance indicators confirm high levels of performance that are comparable with or better than many other social landlords in the sector.

We have a track record of collaborative working with partners and we recognise the success that can be delivered through this approach. We are in discussions with Ore Valley Housing Association to develop a closer working relationship, sharing resources and creating efficiencies for each entity. During the year

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discussions took place with Fairfield Housing Cooperative to provide financial and administrative services, which commenced after the year end.

REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

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. The impact of the Coronavirus pandemic has been and continues to be substantial. However for KHA Group the impact will fall into 2020-21 mainly. A higher level of rent arrears is anticipated and our housing team is working with tenants to mitigate the difficulties. In accordance with Government guidance all new construction work was suspended on 24 March 2020 and all building sites were closed. Urgent and essential repair work for tenants is still being carried out with staff teams properly protected and trained to observe enhanced safety measures to minimise the risk of infection. KHA offices have been closed and most staff are working from home accessing systems remotely. Where visits to offices are essential these are strictly controlled with allocated time slots. James Bank, our facility for the homeless, remains in operation with enhanced cleaning and safety procedures to protect clients and staff. KSC continues to provide Support and Care services to individuals, as this work is essential, and procedures are in place to protect both staff and clients from the virus. To support people whose income is adversely affected by the virus a financial assistance fund is available for all Kingdom Group tenants, sharing owners and KSC Service users, and employees can access an interest free loan repayable over 12 months. We continue to closely monitor the situation and the financial impact through the crisis.

In order to provide assurance on the financial future of the Kingdom Group as a consequence of the pandemic, stress testing was performed on the 2020-21 budget and the 30 year Corporate Plan. The budget stress test focused on potential increases in voids and bad debts to determine the likely impact on the budgeted surplus for 2020-21 and to determine the point at which the interest cover covenant would be broken. The outcome was a reduction in budgeted surplus of £0.23m from £3.61m to £3.38m, 6.4% of budget, and a deterioration of interest cover from 248% to 243%. The point at which the interest covenant would be broken would require significant increases in voids of 1,067% (from a budgeted 0.75% to 8%) and bad debts of 800% (from a budgeted 1.25% to 10%). The stress testing on the 30 year Corporate Plan took into account all sites that Kingdom Group was contractually committed to, a 3 month period of no activity and a 1 month mobilisation period. This deferred potential letting income by 4 months, but also deferred expenditure on repairs and maintenance. The net impact was a reduction in net cash of £1.8m over the 30 year period. At 31 March 2020 Kingdom Group had cash reserves of £58m and in April 2020 secured a revolving credit facility of £10m. The conclusion from the stress testing is that KHA remains a going concern for the foreseeable future.

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 Corporate Plan, where an increase in the provision of new affordable housing has been planned over the next five year period, as well as development of our activities to improve customer services.

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 in the Risk Management section below.

REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

The more detailed departmental and subsidiary company reports are set out below.

Human Resources, Health and Safety & Wellbeing, Payroll and Learning & Development

The Human Resources, Health and Safety & Wellbeing, Payroll and Learning & Development services are provided by the HR Services 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 service delivery, 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. As well as ensuring the fundamentals, such as accurate payroll, are provided, it is important that we have mechanisms in place to identify and measure what motivates and excites people to join and stay with our organisation. This information will help ensure that we target our resources in developing or improving these areas and as a result improve both our attraction and retention rates. One of Kingdom's strategic objectives is to be 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 third Gender Pay Gap report for both KHA and KSC in April of 2020. 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 low experience of tribunal claims lodged against us and we actively manage absence, performance and conduct cases. We continue to work on improving Kingdom's employment proposition including:

- Further developing our award-winning trainee programme in ways that both benefit the organisation and provide opportunities for broader groups.
- Implementing innovative ways of using employment to tackle homelessness through the Naumann Initiative and exploring ways of expanding and developing its impact.
- Undertaking a variety of wellbeing initiatives for our people that have resulted in us receiving a Healthy Working Lives Silver Award. We are now working towards achieving a Gold Award.
- Developing and enhancing our approach to employees having flexible working arrangements.
- Conducting a full review of all our people management policies.
- Implementing a new, more robust job evaluation process to better protect Kingdom's interests and to provide more transparency and confidence to our people regarding how their roles are evaluated.
- Developing our HR/Payroll system to make work easier for Kingdom and our people.
- Exploring ways of enhancing the potential value employees can gain from our pension scheme.
- Embedding and further developing our new employee performance management process, underpinned by a behavioural framework that reflects our corporate values, which will also allow us to develop our approaches to succession planning and talent management.
- Developing our approach to learning and development.
- Providing all line managers in the Group with "soft skills" training to help them more effectively support and develop their staff.
- Embedding and developing our Employee Recognition Scheme to recognise and celebrate when our people go the extra mile and/or truly live our values.

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- Continuing to implement our culture change programme, driven by our Chief Executive; this continues to result in significant increases in our employee engagement scores.
- In response to the Covid-19 crisis, we have taken a number of measures including developing additional supports for employees' mental, physical and financial wellbeing; providing focused support and guidance to Kingdom's businesses on the practical implementation and application of the government's measures such as furloughing, shielding, self isolation, etc. and; working to procure PPE that is in high demand for our frontline workers.

Housing Management & Housing Stock

We own properties in Fife, Clackmannanshire, 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 642 properties in the period 1 April 2019 to 31 March 2020 (2019: 479). This comprised 350 (2019: 246) re-let properties and 292 (2019: 233) new build properties.

The average time taken to re-let properties was 29 days (2019: 25 days). This was 4 days more than the average for the previous year (2019: 3 days fewer) due to increasingly complex voids and exhausting housing lists in some areas. Statutorily homeless applicants accounted for 29% of allocations that were made (2019: 32%). Gross tenant rent arrears, including former tenant debt, stood at £981k at the 31 March 2020 (2019: £656k). This represents 5.77% of the annual rental debit (2019: 4.37%), indicating a dip in performance owing to the continued impact of the introduction of Universal Credit and the initial effects of the Coronavirus pandemic.

In our March 2020 customer survey, tenant satisfaction in relation to overall service provided was 89.53% (2019: 83.75%).

In December 2019 we agreed a two year rent increase profile, following a consultation with our tenants, to have effect from 1 April 2020. This indicated that following a 2.25% increase each year our rents were affordable to the majority of our tenants based on earned income, where rent is deemed affordable if monthly rent is less than 25% of monthly total household income.

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

Over the year we investigated 79 complaints of anti-social behaviour (2019: 69). We resolved 74 (93.7%) of these within our 15 day target (2019: 91.3% within 20 day target).

During the year we continued to develop our approach to tenant and customer participation. We have increased the range of opportunities for tenants to participate in decision making and have supported the development of our Tenant Scrutiny Panel through formal qualifications and attending conferences.

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Our Scrutiny Panel were runners up in the annual Tpas (Tenants Participation Advisory Service) awards for best practice in Tenant Scrutiny. We held our third successful summer Tenant Gathering at Craigtoun Park in July, bringing together tenants and staff, and held our first winter Tenant Gathering in December in Dunfermline.

We have continued to provide factoring services to approximately 463 owners and sharing owners (2019: 450). We have continued to promote mid market rent (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 and the Coronavirus pandemic. Our tenancy sustainment worker and money advice/arrears officer help us to maximise our income and the 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.

At the end of the financial year 2019-20 the Group was managing 4,992 properties (2019: 4,670). KHA's social housing stock comprises houses and flats, with around 57% represented by houses and 43% by flats (2019: 56% and 44%). Most of KHA's housing stock has been built after 1982. A breakdown of the stock in management is provided below:

| Description | 2020 | 2019 |
|-----------------------------------|--------------|--------------|
| Social rented | 4,073 | 3,804 |
| Shared ownership | 237 | 244 |
| Leased | 31 | 31 |
| Lead tenancies | 43 | 50 |
| Non self contained leased | 9 | 9 |
| Non self contained | 4 | 2 |
| MMR (managed by KI) | 387 | 364 |
| KI owned properties | 87 | 51 |
| Managed on behalf of Fife Council | 121 | 115 |
| Total | 4,992 | 4,670 |

KHA, following consultation with tenants, agreed an annual rent increase of 2.5% for 2019-20.

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

REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

Capital Investment

Most of our development activity is in Fife, but our operations extend into adjacent Local Authority areas. 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 2019-20 KHA invested £63 million (2019: £53 million) in new development projects for Kingdom and our partners, with £38.7 million (2019: £34.6 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 513 new units (2019: 433 units) and we completed 496 units (2019: 274 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. Our strategy that we put in place to significantly increase our outputs over the five year strategy period has worked well.

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 56 MMR properties as part of the development programme in Fife (2019: 13).

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.

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 Cooperative 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.

REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

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 96% overall satisfaction level with the quality and design of the new homes; the target to be achieved was 94%.

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

Through our development and financial appraisal processes we have managed to improve project viability, through demonstrating the need for enhanced benchmark subsidies and securing additional funding, 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.

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 2019-20 | Target 2019-20 | Actual 2018-19 |
|---------------------------------------|---------------------------|---------------------------|---------------------------|
| Site Starts (new supply units) | 426 | 468 | 433 |
| Site Completions (new supply units) | 440 | 390 | 274 |
| Starts and Completions (units) | 866 | 858 | 707 |

The 2019-20 year was again a marked increase on the previous year outcomes. It was an excellent outcome to achieve and exceed the combined start and completion target for the year.

REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

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 11,988 repairs to our social rented properties (2019: 12,257), of which 3,339 (2019: 3,035) 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:

| Repairs and maintenance service KPIs | Actual | Target | Actual |
|--|---------|---------|---------|
| | 2018-19 | 2019-20 | 2019-20 |
| Emergency repairs (response target % achieved) | 97.88% | 96.00% | 98.69% |
| Routine Repairs (response target % achieved) | 91.50% | 90.00% | 93.36% |
| Valid and current gas safety certificates (% achieved) | 100.00% | 100.00% | 100.00% |
| Number of units meeting EESSH as a percentage of stock | 100.00% | 100.00% | 99.90% |
| Number units meeting SHQS as a percentage of stock | 100.00% | 100.00% | 100.00% |
| Repairs appointments kept (% achieved) | 93.94% | - | 94.41% |
| Satisfaction level | 91.97% | 93.00% | 91.78% |
| Average time to complete an emergency repair (hours) | 2.13 | - | 1.92 |
| Average time to complete routine repairs (days) | 6.55 | - | 6.45 |

Source: 2019-20 Annual Report on Charter (ARC) submission

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. While 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, through use of mobile working technologies and systems.

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Care and Repair

KHA is funded by Fife Council to manage and commission all of the major, permanent disability adaptations in the private housing sector. Funding has been secured up to March 2022 for the services we provide. The adaptations are grant funded on an individual basis, with the clients' requirements firstly assessed by Occupational Therapy to make daily life easier and allow them to continue to live in their own home for as long as possible.

During 2019-20 Care and Repair completed 248 major permanent disability adaptations, (2019: 265), fewer than last year due to an increase in the scale and complexity of projects. Within the major adaptations programme 68 (2019: 74) properties below the Tolerable Standard were upgraded.

The Small Repairs Service completed 248 cases (2019: 809), which helped older homeowners maintain the integrity of their properties. The service was temporarily withdrawn two weeks before the year end due to risks to the vulnerable client group owing to the Coronavirus pandemic. We also provided advice and guidance to homeowners on non-adaptation matters.

Kingdom Works

Kingdom 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. We have a successful track record of securing funding and we have already secured funding to take us to March 2022. We will continue to identify and source funding that will extend the project 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 Kingdom Works assisted 645 people in our communities (2019: 605) and helped 352 people to access employment (2019: 362).

Due to the Coronavirus pandemic Kingdom Works has temporarily changed the delivery model to allow for increased services by telephone, email and video conferencing, with increased use of e-learning for our participants. This will ensure continuity of services and allow contracts to be delivered timeously.

Information Communication Technology

During the year the Digital Team moved from on-premises systems to GCP (Google Cloud Platform) for servers, implemented new access to legacy applications from a secure browser using Awingu and managed to reduce the number of virtual servers by two-thirds. Google G-Suite was implemented, reducing cost and providing increased security and collaboration. A move to full Chrome OS and the purchase in 2019 of Chromebox devices and chromebooks ensured a smooth transition to home working during the pandemic. Digital continues to project manage P2P, a streamlined and automated purchase to pay system, which went live in June 2020 and have also procured a new efficient repairs system; this will go-live in the Autumn of 2020.

Kingdom Support and Care Community Interest Company (KSC)

In 2019-20 KSC continued to support approximately 260 individuals (2019: 256) 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.

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REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

During 2019-20, KSC consolidated its business through full implementation of all planned services. In Falkirk, 1,503 hours per week were delivered at the end of March 2020, against a budget forecast of 1,494. In Fife, 5,660 hours per week were delivered at the end of March 2020 against a budget forecast of 5,428 hours. The hours of support have varied throughout the year due to changing care needs, hospitalisation of some supported individuals for long periods and the loss of some packages due to people moving to other living situations to meet changing needs. Both Local Authority framework contracts have been extended for a further two years until 2022.

Staff turnover for 2019-20 was just under 26% (2019: 26%). Work has continued during 2019-20 to reduce this figure through training and development and this effort will continue in the coming year 2020-21. The reasons for the level of turnover include uncertainty in the sector, low salaries, significant choice of providers, alternative employment opportunities and the level of lone working and challenge encountered in care services. We have continued to invest in training for staff and are well placed to meet the Scottish Social Services Council registration requirements with approximately 81% (2019: 77%) of support workers having achieved or working towards the appropriate qualification. During 2019-20 we identified 12 Support Workers and Senior Support Workers to undertake next level SVQ awards as part of our succession plan. The implementation of this has been delayed due to Covid-19, however, we aim to pick this up as soon as possible.

The Covid-19 pandemic presents an unprecedented risk that KSC management has been carefully considering. The impact in 2019-20 has been minor, with a small increase in staff sickness for a short period of time due to staff self isolating. Mitigating steps have been taken to protect clients and staff and maintain services. Owing to the nature of the business and funding sources there are no going concern issues.

KSC underwent inspections from the Care Inspectorate in January 2020 and grades of 5 (Good) were achieved across the board for the adult services in the two quality themes inspected.

The company generated a surplus for the year of £371k (2019: £59k), which will be reinvested in community interest projects. The surplus generated during the year has increased total reserves to £795k (2019: £424k).

During 2019-20 KSC settled 679 (2019: 547) invoices, of which 89% (2019: 97%) were paid within 30 days of receipt. KSC paid no late payment interest to any supplier.

Kingdom Initiatives Limited (KI)

During 2019-20 KI has continued to manage Mid Market Rent (MMR) housing but also sought to meet its objective of developing its own housing stock. KI managed 615 units (2019: 530) during the year. KI let the tenancies and is responsible for the management and maintenance of the properties in accordance with lease agreements with the landlords.

| | 2020 | 2019 |
|---|-------------|-------------|
| Units Owned | 107 | 51 |
| Units Managed on behalf of KHA | 387 | 364 |
| Units Managed on behalf of Fife Council | 121 | 115 |
| Total Units owned or managed | 615 | 530 |

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REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

During the year, KI completed developments of MMR properties at Kilmany Road, Wormit (11 units), Hawkslaw Road, Leven (21 units) and Meadowlands, Dunfermline (24 units). A further 23 units at Crail and 6 units at Burntisland were leased from KHA and Fife Council respectively.

KI is currently progressing three developments at Pilmuir Street, Dunfermline (66 units), Pickletillum (8 units) and Elm Grove, Alloa (21 units), which is in line with the KI and KHA Group Corporate Development Plan. Following the Coronavirus outbreak in March 2020 the construction activity on the above three sites was suspended and will therefore impact on the completion timescale of these developments. KI management is actively monitoring the situation and management are satisfied that the suspension will not have a material negative financial impact as the sites are at a relatively early stage of construction.

KI has bank loans amounting to £72k, which are all LIBOR linked loans (2019: £82k). The weighted average cost of funds on those loans is 1.33% (2019: 1.30%) and the loans are amortising until 2028. KI also has two inter company loans with KHA. One loan amounts to £2,620k and carries interest at 4.5% fixed (2019: £2,620k), which has a bullet repayment at the end of the 10 year term on 1 March 2026. A second loan of £8.5 million was agreed during the year, of which £2 million was drawn down in June 2019. The loan is amortising over 30 years to 2049 and is subject to fixed interest at 4.5%. While KI shows net current liabilities, owing to the scale and progress of new builds, it has remaining loan facilities of £6.5m to draw down as required.

As at 31 March 2020 KI had cash at bank of £813k (2019: £1,388k).

The turnover for the year was £3,066k (2019: £2,876k). During the year to 31 March 2020 KI made a surplus after finance income and charges of £178k (2019: £281k). There was no tax charge due to the availability of tax losses from KHA. KI made a £32k Gift Aid payment from reserves to KHA. The operating profit margin was 11.87% (2019: 13.91%) and the net profit margin before tax was 5.79% (2019: 9.77%). The company is not subject to traditional interest cover and gearing loan covenants from its private lenders, however the calculation of these demonstrate interest cover of 217% (2019: 236%) and gearing of 39% (2019: 24%). The reduction in profit margin and interest cover is due to timing issues and the taking on of loans to finance developments that generated income for only part of the year.

The Coronavirus pandemic has had little impact on KI in 2019-20, as the lockdown was imposed late in the year. In addition to the KHA Group level stress testing, KI performed detailed sensitivity analysis of rental income levels and arrears based on the latest available data. As a result budget forecasts in the 5 year corporate plan were amended to reflect the likely consequences. KI has sufficient liquidity currently amounting to £6.5m from KHA. The work demonstrated that KI was considered to be a going concern for the foreseeable future.

During 2019-20 KI settled 1,065 invoices (2019: 1,013), of which 88% (2019: 87%) were paid within 30 days of receipt. KI paid no late payment interest to any supplier.

Community Initiatives

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

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REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

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

Charitable Fund and donations

During the 2019-20 year Kingdom supported many organisations donating £16,188 (2019: £6,989) from the Community Initiatives and Charitable Funds. Kingdom helped many community groups over the year including sponsorship of music and sporting events, gala days and horticultural shows.

Financial Report for the Kingdom Group

The Kingdom Group generated total comprehensive income for the period of £9.13 million (2019: £2.77 million), increasing reserves to £60.48 million as at 31 March 2020 (2019: £51.35 million). These outturn figures are positive and demonstrate that the Kingdom Group remains financially strong. The surplus generated in the year and the historic reserves earned to date are required to meet the Group's future commitments and obligations to:

- maintain the homes rented at the Scottish Housing Quality Standard and to deliver the Energy Efficiency Standard in Social Housing by 2020, while continuing to manage the homes and deliver services to our customers; and
- re-invest funds to deliver new affordable rented homes for future tenants throughout East Central Scotland.

Financial reporting has been made using the application of FRS102 and the consequent Statement of Recommended Practice for Registered Social Landlords 2018.

Group turnover for the year was £34.39 million (2019: £29.88 million) offset by operating costs of £25.33 million (2019: £22.0 million). After paying interest of £4.50 million (2019: £3.16 million), including net interest expense of £95k (2019: £101k) in respect of the pension liability, adding net gains on sales of housing and other fixed assets of £278k (2019: £86k) and receiving interest of £487k (2019: £221k) this gives a surplus for the year before taxation of £5.32 million (2019: £5.03 million). There was no tax charge for the year due to available tax losses (2019: tax recovery of £77k). After taking account of the credit in respect of the pension liability of £3.8 million (see below) the net result for the year was a surplus of £9.13 million (2019: £2.77 million). The Group reserves now stand at £60.48 million (2019: £51.35 million).

KHA is a member of the SHAPS defined benefit pension scheme (the DB scheme), which is closed to new members. The DB scheme is accounted for on a defined benefit basis, as the share of DB scheme assets and liabilities per individual employer is available. KHA's share of the DB scheme surplus/deficit was £nil at the year end, reversing a liability of £4.4m in 2019, mainly due to changes in financial assumptions of future pension obligations and gains in underlying DB scheme assets, as well as KHA's contributions to the DB scheme deficit. KHA continues to contribute to the pension deficit in line with the agreed plan to extinguish the deficit and ensure the DB Scheme is fully funded. Further details are set out in note 20 to the accounts.

The Group's majority of activities are undertaken by KHA and the commentary below sets out the key financial results for the year.

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REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

Treasury and loans

A vital element and driver of KHA's activities is treasury management. 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 100% and a minimum of 50% at fixed rates of interest. As at 31 March 2020 KHA had 83% (2019: 82%) 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 may be upwards. KHA has therefore sought 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 3.20% (2019: 3.10%).

KHA's lenders have set minimum levels of interest cover (operating surplus/interest payable) that must be met. The lowest level of interest cover applied to the various lenders' criteria at 31 March 2020 was 205% (2019: 261%), significantly higher than the minimum level required by the lenders' financial covenant test of 110%.

KHA's lenders also require a gearing covenant test (debt/net worth) to be met with no more than 69%, this being the lowest of all lenders and therefore the threshold. KHA's gearing as at the year end was 29.63% (2019: 26.89%), which was significantly below the maximum threshold.

KHA has, as at 31 March 2020, pledged properties to lenders for borrowings as follows;

| Lender | General | Shared Ownership | MMR | Valuation | Valuation Basis |
|----------------------------------|--------------|------------------|------------|------------------|--------------------------------|
| Lloyds Banking Group | 507 | - | - | £26,377k | EUV - SH with Sales |
| Nationwide Dunfermline B Society | 606 | 12 | - | £14,551k | EUV - SH with Sales |
| Santander | 517 | - | - | £28,030k | MV - ST |
| Private Placement | 1,314 | - | 291 | £96,972k | MV - ST EUV - SH with Sales |
| Total | 2,944 | 12 | 291 | £165,930k | |

EUV-SH = Existing Use Value Social Housing

MV-ST = Market Value Subject to Tenancies

As at 31 March 2020 KHA has unencumbered completed properties as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| Completed unencumbered general needs units | 1,342 | 821 |
| Completed unencumbered MMR units | 96 | 67 |
| Completed unencumbered shared ownership units | 236 | 243 |
| Total | 1,674 | 1,131 |

The asset cover in place against borrowings meets or exceeds the minimum asset cover across all existing loans. All covenants with all lenders were therefore met during the year.

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The second tranche of £50 million of the Private Placement of £85 million was drawn down in June 2019 to support the development of new homes in line with the Group's strategy. At the year ended 31 March 2020 the Group had £57.52 million (2019: £27.65 million) in cash at bank and KHA had £55.77 million cash at bank (2019: £25.69 million). KHA sought to invest those surplus funds during the period to maximise interest return while balancing counterparty risk and term to meet projected cash flow forecasting requirements.

Financial Report for the Association (KHA)

KHA's turnover for the period was £26.26 million (2019: £22.73 million) offset by operating costs of £17.91 million (2019: £15.27 million). After paying loan interest and other finance costs totalling £4.50 million (2019: £3.16 million), adding gains on sales of property and fixed assets of £278k (2019: £86k) and receiving interest of £671k (2019: £339k), a surplus for the year before taxation of £4.80 million (2019: £4.73 million) was realised. After taking account of the credit of £3.8 million in respect of the pension liability, the details of which are set out above and in note 20 to the accounts, the net result for the year was a surplus of £8.61million (2019: £2.42 million).

As a charity, KHA is exempt from Corporation Tax in respect of its charitable activities. KHA's non-charitable trading profits and those of the subsidiaries are subject to taxation. The Group is part of a tax group, allowing certain profits and losses to be offset within the Group. Certain interest costs are tax deductible leading to tax losses in KHA. Through the availability of group relief these tax losses are used to offset taxable profits in KHA's subsidiary companies.

Rents were increased for 2019-20 by 2.5% and 298 (2019: 189) new properties came into the letting pool during the year. Void performance remains reasonable at 0.67% of rents receivable (2019: 0.49%).

Management and maintenance administration costs per unit were lower than the prior year at £1,036 per unit (2019: £1,140). The routine and cyclical repair and maintenance cost was significantly lower than the prior year at £481 per unit (2019: £602 per unit). In addition, routine repair and cyclical and planned maintenance costs were lower than originally budgeted and forecast due to underspend in the year, owing to economies of scale and the increased number of newer properties.

The bad debts performance has deteriorated marginally compared to the prior year but continues to remain low accounting for 1.3% of rent receivable (2019: 1.1%). This is despite the impact of Universal Credit.

The fixed asset base of KHA grew with the development of new units, with grant funding, to £410 million (2019: £361 million). KHA holds a small number of properties for sale to FHAA partners amounting to £2,131k (2019: £1,798k) together with Shared Ownership properties amounting to £56k (2019: £117k). The increase in stock of materials at £0.32 million (2019: £0.24 million) is due to increased activity reflecting the increase and age of housing stock and consequential repairs and maintenance.

The high cash holdings of KHA at £55.77 million (2019: £25.69 million) reflect drawdown of £50 million from the private placement and the delays in planned development expenditure, where funds had been drawn down for anticipated expenditure. Future spend is expected to accelerate on re-opening of building sites. Trade and other receivables, including the inter company loan to KI of £4.62 million, reflect the increased activity levels and are therefore higher than the prior year at £8.70 million (2019: £7.77 million).

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Long term borrowings increased as a result of further debt draw downs during the year and amounts to £147.85 million (2019: £98.16 million). Deferred capital grants increased to £259.7 million (2019: £229.8 million) as a result of new stock that has been developed. The defined benefit pension liability decreased to £nil (2019: increased to £4.39m) mainly due to changes in actuarial assumptions and gains in underlying pension assets.

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:

| Description | Actual | Actual | Actual | Target | Actual |
|--|---------|---------|---------|---------|---------|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2019-20 |
| Void loss (%) * | 0.44% | 0.61% | 0.49% | 0.75% | 0.67% |
| Gross arrears - all tenants (%) * | 3.93% | 3.91% | 3.98% | 3.10% | 3.36% |
| Average re-let time (days) * | 23 | 29 | 25 | 25 | 29 |
| Staff costs:Turnover (excluding development for sale)% | 37.51% | 24.32% | 25.26% | 25.11% | 26.08% |
| Sickness absence (days per employee) | 11.2 | 7.84 | 6.23 | <7 | 5.89 |
| Management & Maintenance Administration costs per unit (£) | £980 | £1,005 | £1,140 | £1,186 | £1,036 |
| Routine Maintenance costs per unit (£) | £669 | £767 | £602 | £529 | £481 |
| Properties meeting SHQS requirements (%)* # | 91.32% | 91.88% | 93.24% | 100.00% | 99.90% |

Source: * 2019-20 Annual Report on Charter (ARC) submission

Excluding abeyances and exemptions

Void loss performance deteriorated in 2019-20 mirroring the lengthening of average re-let time, but remained below target. The arrears performance is stable year on year and marginally above target.

Staff costs as a proportion of turnover are marginally above the planned target. Sickness absence levels have improved year on 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.

Risk Management

The Group recognises its moral and statutory duty of care to its customers, employees and to safeguard its 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 independent 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 & Financial

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Compliance sub-Committee.

Kingdom 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. Kingdom also has a number of insurance policies in place mitigating exposure to key risks. Major risks and other mitigating actions are set out below:

| Significant Risks | Main mitigation controls |
|--|--|
| Risk of serious harm to a supported person due to staff action or inaction | Health & Safety manual in place and staff induction carried out for all staff. Health & Safety policies and procedures and staff training in place, including infection control. Risk assessments carried out. |
| Reduced funding for KSC activity leading to loss of income and inability to meet service costs and continue to deliver service | Business plan in place. KSC accepted on to two Local Authority frameworks at rates which cover all costs. Regular cost control and reporting procedures in place. |
| Sustainability legislation and/or regulation leading to increased maintenance and improvement costs | Asset Management Strategy and planning in place. Monitoring of consultations and information published on Scottish Governments proposals. |
| Sustainability legislation and/or regulation leading to increased new supply capital costs | Appropriate viability and design assessments to assess cost vs funding in line with regulations. Robust procurement process and/or partnering approach value engineer costs. |
| Increased legislation in relation to employment, leading to increased employment costs. | Specialist employment advisors retained. Employment policies and procedures in place. Daily monitoring of emerging legislation in relation to employment as a result of COVID-19. |
| Brexit | Recruitment and retention strategy in place. Financial reports to the Board covering potential economic impact. Tenancy Support roles in place to prevent arrears rising. Procurement frameworks in place to mitigate price volatility risk. Review of development programme for viability and monitoring the solvency of our contractors. Funding strategy and long term planning reviewed to ensure sufficient funding for planned developments. |
| CARISTA contract ending by end of 2020 leading to inability to plan rotas, effectively deploy staff, deliver services and evidence outcomes. | Negotiating continued support for system to enable providers to migrate on a timely basis. Work under way to procure a replacement system and plan migration of data. |
| Covering any areas related to the Covid -19 pandemic not covered by other risks | Arrangements in place to address backlog and safe access. Weekly monitoring of tenant accounts and proactive engagement with tenants to provide support and assistance to improve household financial viability. |

REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

Staffing

At 31 March 2020 the full time equivalent number of employees in the Group was 390 (2019: 361) with 183 (2019: 158) employed by KHA, 206 (2019: 203) by KSC and one (2019: nil) by KI.

The Group 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 Kingdom.

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 an Employee Forum comprising management and elected staff representatives.

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 for 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. Using a similar approach to determination of rent affordability developed in previous years, KHA implemented a rise in rents of 2.5% (2019: 2.5%) for the 2019-20 financial year.

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 2019-20 KHA settled 11,839 invoices (2019: 11,886), of which 79% were paid within 30 days of invoice receipt (2019: 85%). KHA paid no late payment interest to any supplier.

Plans for the Future

The Group 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, welfare reforms affecting our tenants and recovery from the effects of the Coronavirus pandemic.

REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

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 2,750 homes being built by the Group for affordable housing letting along with FHAA developments. While significant funding is already in place, KHA will return to the financial markets for further funding in due course.

The Environment & Sustainability

The Scottish Government is committed to sustainable development and reducing the impact of climate change and this aim is shared by the Group. 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 Kingdom 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 improvement programmes. KHA has been recognised through various awards for the environmental and sustainability work it has progressed.

Going Concern

The Board is of the opinion that KHA will be able to continue its operations for the foreseeable future, based upon consideration of the current year's result, short and 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. In addition, as described in detail above, account has been taken of the likely impact of the Coronavirus pandemic. At 1 April 2020 KHA had cash available amounting to £55.77 million and in April 2020 arranged a revolving credit facility of £10m. As such, the going concern basis of accounting has been adopted in preparing these financial statements.

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.

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REPORT OF THE BOARD OF MANAGEMENT (Cont'd)

Auditors

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

Freya Lees Chairperson

Date: 17 August 2020

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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 2019. 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 is 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: 17 August 2020

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.

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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: 17 August 2020

**Kingdom Housing Association Limited
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**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 24 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 Board 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 pages 25 to 26 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
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date:

Kingdom Housing Association Limited
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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 31 March 2020 which comprise the consolidated statement of comprehensive income, Housing Association statement of comprehensive income, consolidated statement of financial position, Housing Association statement of financial position, consolidated statement of changes in reserves, Housing Association statement of changes in reserves, consolidated statement of cash flows, Housing Association 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 31 March 2020 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 – February 2019.

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 31 March 2020

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 24, 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.

Kingdom Housing Association Limited
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INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF KINGDOM HOUSING ASSOCIATION LIMITED
(Cont'd)

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.

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
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date:

Kingdom Housing Association Limited
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for the year ended 31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note s | 2020 £000 | 2019 £000 |
|--|-----------|--------------|--------------|
| Turnover | 3 | 34,389 | 29,880 |
| Less: Operating expenditure | 3 | (25,330) | (21,995) |
| Gain on sale of housing properties | 3, 6 | 270 | 86 |
| Operating surplus | 5 | <u>9,329</u> | <u>7,971</u> |
| | | | |
| Gain on sale of other fixed assets | | 8 | - |
| Interest receivable and similar income | 7 | 487 | 221 |
| Interest payable and financing costs | 8 | (4,502) | (3,163) |
| Surplus on ordinary activities before taxation | | <u>5,322</u> | <u>5,029</u> |
| Taxation | 9 | - | 77 |
| Surplus for the year | | <u>5,322</u> | <u>5,106</u> |
| | | | |
| Other Comprehensive Income | | | |
| Initial recognition of defined benefit pension scheme | | - | (1,605) |
| Actuarial gain/(loss) in respect of defined benefit pension scheme | 20 | 3,809 | (732) |
| | | | |
| Total comprehensive income for the year | | <u>9,131</u> | <u>2,769</u> |

The notes on pages 37 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
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HOUSING ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2020 | 2019 |
|--|--------------|--------------|--------------|
| | | £000 | £000 |
| Turnover | 3 | 26,262 | 22,733 |
| Less: Operating expenditure | 3 | (17,911) | (15,266) |
| Gain on sale of housing properties | 3, 6 | 270 | 86 |
| Operating surplus | 5 | <u>8,621</u> | <u>7,553</u> |
| Gain on sale of other fixed assets | | 8 | - |
| Interest receivable and similar income | 7 | 671 | 339 |
| Interest payable and financing costs | 8 | (4,498) | (3,160) |
| Surplus on ordinary activities before taxation | 5 | <u>4,802</u> | <u>4,732</u> |
| Taxation | 9 | - | 22 |
| Surplus for the year | | <u>4,802</u> | <u>4,754</u> |
| Other Comprehensive Income | | | |
| Initial recognition of defined benefit pension scheme | | - | (1,605) |
| Actuarial gain/(loss) in respect of defined benefit pension scheme | 20 | 3,809 | (732) |
| Total comprehensive income for the year | | <u>8,611</u> | <u>2,417</u> |

The notes on pages 37 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.

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CONSOLIDATED AND HOUSING ASSOCIATION STATEMENT OF FINANCIAL POSITION

| | Notes | 2020 Group £000 | 2020 KHA £000 | 2019 Group £000 | 2019 KHA £000 |
|---|-------|-----------------------|---------------------|-----------------------|---------------------|
| Fixed assets | | | | | |
| Housing properties - depreciated cost | 10 | 425,568 | 410,446 | 368,235 | 360,663 |
| Other tangible fixed assets | 10 | 1,213 | 1,213 | 1,270 | 1,269 |
| Intangible fixed assets | 10 | 95 | 95 | 146 | 140 |
| Fixed asset investment - Subsidiaries | 11 | - | 427 | - | 427 |
| Total fixed assets | | 426,876 | 412,181 | 369,651 | 362,499 |
| Current assets | | | | | |
| Properties held for sale | 12 | 2,210 | 2,187 | 2,390 | 1,915 |
| Stock and work in progress | 13 | 323 | 323 | 240 | 240 |
| Trade & other receivables: | | | | | |
| amounts falling due within one year | 14 | 4,148 | 4,141 | 5,135 | 5,146 |
| amounts falling due after one year | 14 | - | 4,553 | - | 2,620 |
| Cash & cash equivalents | | 57,517 | 55,774 | 27,650 | 25,690 |
| | | 64,198 | 66,978 | 35,415 | 35,611 |
| Payables: amounts falling due within one year | 15 | (19,790) | (18,068) | (21,851) | (20,355) |
| Net current assets/ (liabilities) | | 44,408 | 48,910 | 13,564 | 15,256 |
| Total assets less current liabilities | | 471,284 | 461,091 | 383,215 | 377,755 |
| Payables: amounts falling due after more than one year | 16,17 | (147,909) | (147,848) | (98,235) | (98,163) |
| Deferred capital grants | 18 | (262,898) | (254,918) | (229,247) | (225,491) |
| Defined benefit pension liability | 20 | - | - | (4,387) | (4,387) |
| | | (410,807) | (402,766) | (331,869) | (328,041) |
| Net assets | | 60,477 | 58,325 | 51,346 | 49,714 |
| Capital and reserves | | | | | |
| Share capital | 21 | - | - | - | - |
| Revenue reserves | | 60,477 | 58,325 | 51,346 | 49,714 |
| | | 60,477 | 58,325 | 51,346 | 49,714 |

These Financial Statements were approved and authorised for issue by the Board of Management on 17 August 2020 and signed on its behalf by:

_____ Freya Lees, Chairperson

_____ Laurie Naumann, Board Member

_____ William Banks, Secretary

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STATEMENT OF CHANGES IN RESERVES

| | 2020 | 2019 |
|---|---|---|
| | Income and expenditure reserve | Income and expenditure reserve |
| GROUP | £000 | £000 |
| At 1 April | 51,346 | 48,577 |
| Surplus for the year ended 31 March | 5,322 | 5,106 |
| Other comprehensive income: | | |
| Initial recognition of defined benefit pension scheme | - | (1,605) |
| Actuarial gain/(loss) in respect of pension scheme | 3,809 | (732) |
| At 31 March | 60,477 | 51,346 |

| | 2020 | 2019 |
|---|---|---|
| | Income and expenditure reserve | Income and expenditure reserve |
| KHA | £000 | £000 |
| At 1 April | 49,714 | 47,297 |
| Surplus for the year ended 31 March | 4,802 | 4,754 |
| Other comprehensive income: | | |
| Initial recognition of defined benefit pension scheme | - | (1,605) |
| Actuarial gain/(loss) in respect of pension scheme | 3,809 | (732) |
| At 31 March | 58,325 | 49,714 |

The notes on pages 37 to 71 form part of these financial statements.

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CONSOLIDATED CASH FLOW STATEMENT

| | Notes | 2020 | 2019 |
|--|--------------|-----------------|-----------------|
| | | £000 | £000 |
| Net cash inflow from operating activities | 27 | 9,516 | 8,696 |
| Cashflow from investing activities | | | |
| Purchase of tangible fixed assets | | (66,185) | (53,140) |
| Purchase of other fixed assets | | - | (297) |
| Purchase of intangible assets | | - | (148) |
| Purchase of additions to assets held for sale | | (60) | (2,046) |
| Receipts of housing grants | | 40,732 | 36,568 |
| Receipts from sales of fixed assets | | 8 | - |
| Receipts from sales of assets held for sale | | 510 | 232 |
| Interest received | | 336 | 124 |
| Net cash used in investing activities | | <u>(24,659)</u> | <u>(18,707)</u> |
| Cashflow from financing activities | | | |
| Interest paid | | (4,104) | (2,796) |
| Housing loans received | | 50,000 | 35,000 |
| Housing loans repaid | | (886) | (11,838) |
| Other changes | | - | - |
| | | <u>45,010</u> | <u>20,366</u> |
| Net increase in cash | | 29,867 | 10,355 |
| Cash at beginning of year | | <u>27,650</u> | <u>17,295</u> |
| Cash at end of year | | <u>57,517</u> | <u>27,650</u> |

The notes on pages 37 to 71 form part of these financial statements.

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HOUSING ASSOCIATION CASH FLOW STATEMENT

| | Notes | 2020 | 2019 |
|--|--------------|-------------|-------------|
| | | £000 | £000 |
| Net cash inflow from operating activities | 28 | 7,118 | 7,944 |
| Cashflow from investing activities | | | |
| Purchase of tangible fixed assets | | (58,866) | (51,131) |
| Purchase of other fixed assets | | - | (296) |
| Purchase of intangible assets | | - | (148) |
| Purchase of additions to assets held for sale | | (511) | (1,571) |
| Receipts of housing grants | | 36,279 | 34,625 |
| Receipts from sale of fixed assets | | 8 | - |
| Receipts from sales of assets held for sale | | 510 | 232 |
| Interest received | | 521 | 241 |
| | | <hr/> | <hr/> |
| Net cash used in investing activities | | (22,059) | (18,048) |
| | | <hr/> | <hr/> |
| Cashflow from financing activities | | | |
| Interest paid | | (4,099) | (2,792) |
| Housing loans received | | 50,000 | 35,000 |
| Housing loans repaid | | (876) | (11,827) |
| | | <hr/> | <hr/> |
| | | 45,025 | 20,381 |
| | | <hr/> | <hr/> |
| Net increase in cash | | 30,084 | 10,277 |
| Cash at beginning of year | | 25,690 | 15,413 |
| | | <hr/> | <hr/> |
| Cash at end of year | | 55,774 | 25,690 |
| | | <hr/> | <hr/> |

Kingdom Housing Association Limited
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Kingdom Housing Association Limited
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NOTES TO THE FINANCIAL STATEMENTS

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 accounting policies apply to all member companies. The principal accounting policies 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 2018 “Statement of Recommended Practice for Registered Housing Providers” and they comply with the Determination of Accounting Requirements 2019, and under the historical cost convention. There are no instruments at fair value (Note 19).

These statements are presented in £’000’s Sterling, unless otherwise stated.

b) Basis of Consolidation

The Group financial statements consolidate those of KHA and its wholly owned subsidiary companies, KI and KSC, using acquisition accounting. 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. In addition in the light of the Coronavirus pandemic, stress testing has been performed on the future financial forecasts, as described in detail in the Strategic Report above, the results of which support the conclusion of going concern. Therefore the Board of Management believe that there are no material uncertainties in respect of going concern.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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;
- Management's estimate of the defined benefit pension obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the obligation and the annual defined benefit expenses. The net defined benefit pension liability at 31 March 2020 was £nil (see (h) below and Note 20 for further information and analysis).
- 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, is 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

g) Government Grants: Housing Association Grant and Other Grants

Housing Association Grant (HAG) is payable by Scottish Government 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 the 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).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

h) Employee Benefits

Short term employee benefits and contributions to defined contribution pension 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 (the DB Scheme), which KHA closed to new members. KHA is able to identify its share of the DB Scheme assets and liabilities and therefore has applied defined benefit accounting. The scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

The current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period within the income and expenditure account. Interest is calculated on the net defined benefit liability. Remeasurements and actuarial gains and losses are reported in other comprehensive income (see Note 20).

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. Development costs incurred prior to project commitment are accounted for under current assets.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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. 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.

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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 |
| Hostel | 100 years |
| Shared Ownership | 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 |

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 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

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intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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.

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.

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

| i) By Class of Business - Group | Turnover | Operating costs | Gain on sale of housing properties |
|---|-----------------|------------------------|---|
| | £000 | £000 | £000 |
| Social lettings (Note 4 (i)) | 24,956 | (16,517) | - |
| Other activities (Note 4 (iii)) | 9,433 | (8,813) | - |
| Gain on sale of housing properties (Note 6) | - | - | 270 |
| | <u>34,389</u> | <u>(25,330)</u> | <u>270</u> |
| Total 2019: | <u>29,880</u> | <u>(21,995)</u> | <u>86</u> |

| ii) By Class of Business - KHA | Turnover | Operating costs | Gain on sale of housing properties |
|---|-----------------|------------------------|---|
| | £000 | £000 | £000 |
| Social lettings (Note 4 (ii)) | 21,908 | (15,841) | - |
| Other activities (Note 4 (iv)) | 4,354 | (2,070) | - |
| Gain on sale of housing properties (Note 6) | - | - | 270 |
| | <u>26,262</u> | <u>(17,911)</u> | <u>270</u> |
| Total 2019: | <u>22,733</u> | <u>(15,266)</u> | <u>86</u> |

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

| (i) Social letting activities - Group | General needs housing | Supported housing accommodatio n |
|---|--------------------------|---|
| Turnover | £000 | £000 |
| Rent receivable net of service charges | 20,059 | 775 |
| Service charges | 451 | 185 |
| Gross income from rents & service charges | 20,510 | 960 |
| Less voids | (179) | (64) |
| Net income from rents & service charges | 20,331 | 896 |
| Grant released from deferred income | 3,114 | 11 |
| Total turnover from social letting activities | 23,445 | 907 |
| Operating costs for social letting activities | £000 | £000 |
| Management & maintenance administration costs | 4,873 | 3 |
| Service costs | 600 | 127 |
| Planned and cyclical maintenance including major repairs costs | 829 | - |
| Reactive maintenance costs | 4,321 | 16 |
| Bad debts - rents & service charges | 254 | 23 |
| Depreciation of social housing | 5,033 | 115 |
| Operating costs for social letting activities | 15,910 | 284 |
| Operating surplus for social letting activities | 7,535 | 623 |
| 2019 Operating surplus/ (deficit) for social letting activities | 6,868 | 837 |

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

| (ii) Social letting activities - KHA | General needs housing | Supported housing accommodatio n |
|--|--------------------------|---|
| Turnover | £000 | £000 |
| Rent receivable net of service charges | 17,003 | 775 |
| Service charges | 450 | 185 |
| Gross income from rents & service charges | 17,453 | 960 |
| Less voids | (148) | (64) |
| Net income from rents & service charges | 17,305 | 896 |
| Grant released from deferred income | 3,092 | 10 |
| Total turnover from social letting activities | 20,397 | 906 |

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| | | |
|--|---------------|-------------|
| Operating costs for social letting activities | £000 | £000 |
| Management & maintenance administration costs | 4,670 | 3 |
| Service costs | 523 | 127 |
| Planned and cyclical maintenance including major repairs costs | 803 | - |
| Reactive maintenance costs | 4,041 | 16 |
| Bad debts - rents & service charges | 227 | 23 |
| Depreciation of social housing | 4,971 | 115 |
| Operating costs for social letting activities | 15,235 | 284 |
| Operating surplus for social letting activities | 5,162 | 622 |
| 2019 Operating surplus for social letting activities | 4,792 | 837 |

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

| (iii) Other activities - Group | Other revenue grants | Supporting people income |
|---|-----------------------------|---------------------------------|
| Turnover | £000 | £000 |
| Wider role activities undertaken to support the community | - | - |
| Care & repair of property | 310 | - |
| Kingdom Works | 729 | - |
| Development and construction of property activities | - | - |
| Support activities | - | 7,393 |
| Other agency/management services | - | - |
| Developments for sale to registered social landlords | - | - |
| Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords | - | - |
| Factoring | - | - |
| Renewable energy | - | - |
| Other activities | - | - |
| Total turnover from other activities | 1,039 | 7,393 |

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

| (iii) Other activities - Group (cont'd) | Total turnover | Operating costs - bad debts |
|---|---------------------------|--|
| Operating surplus/deficit - Group | £000 | £000 |
| Wider role activities undertaken to support the community | - | - |
| Care & repair of property | 310 | - |
| Kingdom Works | 729 | - |
| Development and construction of property activities | - | - |
| Support activities | 7,393 | - |
| Other agency/management services | 33 | - |
| Developments for sale to registered social landlords | 734 | - |
| Developments and improvements for sale, (including first tranche shared ownership sales) to non registered social landlords | - | - |
| Factoring | 101 | 16 |
| Renewable energy | 133 | - |
| Inter company service level agreements | - | - |
| Other activities | - | - |
| Operating surplus/(deficit) | 9,433 | 16 |
| 2019 Operating surplus/ (deficit) for other activities | 7,466 | 5 |

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

| (iv) Other activities - KHA | Other revenue grants | Supporting people income |
|---|----------------------------|--------------------------------|
| Turnover | £000 | £000 |
| Wider role activities undertaken to support the community | - | - |
| Care & repair of property | 310 | - |
| Kingdom Works | 729 | - |
| Development and construction of property activities | - | - |
| Support activities | - | - |
| Other agency/management services | - | - |
| Developments for sale to registered social landlords | - | - |
| Properties leased to Kingdom Initiatives Ltd | - | - |
| Factoring | - | - |
| Renewable energy | - | - |
| Inter company service level agreements | - | - |
| Other activities | - | - |
| Total turnover from other activities | <u>1,039</u> | <u>-</u> |

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

| (iv) Other activities - KHA (cont'd) | Total turnover | Operatin g costs - bad debts | Other operatin g costs |
|---|-------------------|---------------------------------------|------------------------------|
| Operating surplus/ deficit - KHA | £000 | £000 | £000 |
| Wider role activities undertaken to support the community | - | - | - |
| Care & repair of property | 310 | - | (303) |
| Kingdom Works | 729 | - | (729) |
| Development and construction of property activities | - | - | (1) |
| Support activities | - | - | - |
| Other agency/management services | 33 | - | - |
| Developments for sale to registered social landlords | 734 | - | (663) |

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| | | | |
|--|--------------|-----------|----------------|
| Properties leased to Kingdom Initiatives Ltd | 1,684 | - | - |
| Factoring | 101 | 16 | (101) |
| Renewable energy | 133 | - | (12) |
| Inter-company service level agreement | 597 | - | (275) |
| Other activities | 33 | - | (2) |
| Operating surplus / (deficit) | <u>4,354</u> | <u>16</u> | <u>(2,086)</u> |
| 2019 Operating surplus/(deficit) for social letting activities | <u>3,170</u> | <u>5</u> | <u>(1,497)</u> |

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5. Operating surplus

| | Group | KHA | Group | KHA |
|--|--------------|-------------|--------------|-------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Operating surplus is stated after charging /crediting: | | | | |
| Grants released from deferred income (Note 18) | 4,387 | 4,366 | 2,855 | 2,834 |
| Depreciation of housing properties (Note 10) | 5,158 | 5,096 | 4,371 | 4,309 |
| Depreciation of other tangible fixed assets (Note 10) | 57 | 56 | 89 | 88 |
| Amortisation of intangible fixed assets (Note 10) | 51 | 5 | 52 | 45 |
| Gain on sale of housing properties | 270 | 270 | 86 | 86 |
| Operating lease rental costs | 169 | 194 | 192 | 217 |
| Internal audit fees | 24 | 24 | 15 | 15 |
| Tax services and advice | 11 | 9 | 33 | 31 |
| External audit fees | 26 | 19 | 33 | 27 |

6. Gain on sale of housing properties and disposal of components

| | Group & | Group & |
|------------------------------------|--------------------|--------------------|
| | KHA | KHA |
| | 2020 | 2019 |
| | £000 | £000 |
| Sale proceeds | 510 | 232 |
| Net book value of properties | (216) | (112) |
| Expenses on disposal of properties | (3) | (1) |
| Gain on sale of housing properties | 291 | 119 |
| Loss on disposal of components | (21) | (33) |
| | <u>270</u> | <u>86</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 2020: 7 (2019: 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 | KHA | Group | KHA |
|--|--------------|-------------|--------------|-------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Interest receivable and similar income | <u>487</u> | <u>671</u> | <u>221</u> | <u>339</u> |

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8. Interest payable and finance costs

| | Grou p 2020 £000 | KHA 2020 £000 | Group 2019 £000 | KHA 2019 £000 |
|---|-------------------------------------|------------------------------|--------------------------------|------------------------------|
| Interest payable in the year has been charged as follows: | | | | |
| Loan interest | 4,407 | 4,403 | 3,062 | 3,059 |
| Net interest expense on defined benefit pension liability (Note 20) | 95 | 95 | 101 | 101 |
| | <u>4,502</u> | <u>4,498</u> | <u>3,163</u> | <u>3,160</u> |

9. Taxation

KHA has charitable status, and therefore it has no liability to corporation tax on its charitable activities. KHA's tax charges relate to non-charitable trading activity. The subsidiaries KI and KSC are liable to pay UK corporation tax and their liabilities are included in the consolidated financial statements.

| | Grou p 2020 £000 | KHA 2020 £000 | Group 2019 £000 | KHA 2019 £000 |
|--|-------------------------------------|------------------------------|--------------------------------|------------------------------|
| Based upon the results for the year to 31 March: | | | | |
| Corporation tax (charge)/receipt on income for the year on surplus on ordinary activities: | - | - | - | - |
| Over provision of tax 2016-17 | - | - | 25 | - |
| Over provision of tax 2017-18 | - | - | 52 | 22 |
| | <u>-</u> | <u>-</u> | <u>77</u> | <u>22</u> |

Corporation tax is calculated at 19%, (2019: 19%). KHA and its subsidiaries are part of the KHA tax group, allowing certain taxable profits and losses to be offset within the Group. Interest on loans incurred by KHA is a tax allowable expense, which is used to offset profits in group companies through group relief.

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10. Fixed assets

(i) Housing properties - Group

| | Shared Ownership properties held for letting £000 | Housing propertie s held for letting £000 | Housing properties in course of constructio n £000 | Hostel propertie s held for letting £000 | Housing properties total £000 |
|------------------------------------|--|---|---|--|--|
| Cost | | | | | |
| At 1 April 2019 | 11,792 | 354,899 | 49,111 | 1,063 | 416,865 |
| Additions during year | - | 6,465 | 56,245 | 4 | 62,714 |
| Disposals in year | (176) | (386) | - | - | (562) |
| Transfers | - | 80,263 | (80,263) | - | - |
| Transfers (to)/from receivables | (31) | - | - | - | (31) |
| At 31 March 2020 | <u>11,585</u> | <u>441,241</u> | <u>25,093</u> | <u>1,067</u> | <u>478,986</u> |
| Depreciation | | | | | |
| At 1 April 2019 | 2,074 | 46,384 | - | 172 | 48,630 |
| Provided during year | 115 | 5,033 | - | 10 | 5,158 |
| Disposals in year | (54) | (316) | - | - | (370) |
| Transfers | - | - | - | - | - |
| At 31 March 2020 | <u>2,135</u> | <u>51,101</u> | <u>-</u> | <u>182</u> | <u>53,418</u> |
| Net book value | | | | | |
| At 31 March 2020 | <u>9,450</u> | <u>390,140</u> | <u>25,093</u> | <u>885</u> | <u>425,568</u> |
| At 31 March 2019 | <u>9,718</u> | <u>308,515</u> | <u>49,111</u> | <u>891</u> | <u>368,235</u> |

| Description | Capitalised - included in housing additions | | Expensed - included in SoCI | | Total | |
|----------------------------------|--|-------|--------------------------------|------|-------|-------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Major repairs costs-KHA | 1,313 | 1,122 | 762 | 596 | 2,075 | 1,718 |
| Major repairs costs-KI | - | 11 | 26 | - | 26 | 11 |
| Maintenance administration costs | - | 8 | - | - | - | 8 |
| Development administration costs | 1,333 | 755 | - | - | 1,333 | 755 |

Included in KHA housing properties held for letting is land of £38,767k, (2019: £33,236k).
KHA's properties have been reviewed for impairment and no provision was considered necessary.
No interest was capitalised during the year (2019: Nil)

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10. Fixed assets (cont'd)

(ii) Housing properties - KHA

| | Shared Ownership properties held for letting £000 | Housing propertie s held for letting £000 | Housing properties in course of constructio n £000 | Hostel propertie s held for letting £000 | Housing properties total £000 |
|---------------------------------|--|---|---|--|--|
| Cost | | | | | |
| At 1 April 2019 | 11,792 | 349,965 | 46,317 | 1,063 | 409,137 |
| Additions during year | - | 6,449 | 48,649 | 4 | 55,102 |
| Disposals in year | (176) | (386) | - | - | (562) |
| Transfers | - | 73,472 | (73,472) | - | - |
| Transfers (to)/from receivables | (31) | - | - | - | (31) |
| At 31 March 2020 | <u>11,585</u> | <u>429,500</u> | <u>21,494</u> | <u>1,067</u> | <u>463,646</u> |
| Depreciation | | | | | |
| At 1 April 2019 | 2,074 | 46,228 | - | 172 | 48,474 |
| Provided during year | 115 | 4,971 | - | 10 | 5,096 |
| Disposals in year | (54) | (316) | - | - | (370) |
| At 31 March 2020 | <u>2,135</u> | <u>50,883</u> | <u>-</u> | <u>182</u> | <u>53,200</u> |
| Net book value | | | | | |
| At 31 March 2020 | <u>9,450</u> | <u>378,617</u> | <u>21,494</u> | <u>885</u> | <u>410,446</u> |
| At 31 March 2019 | <u>9,718</u> | <u>303,737</u> | <u>46,317</u> | <u>891</u> | <u>360,663</u> |

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10. Fixed assets (cont'd)

Stock numbers

| | General housing | Support housing accommodatio n | Shared ownership housing | Total |
|---|----------------------------|---|---|--------------|
| Units owned | | | | |
| As at 1 April 2019 - Owned by Group | 4,287 | 3 | 255 | 4,545 |
| As at 31 March 2020 - Owned by Group | 4,780 | 3 | 248 | 5,031 |
| As at 1 April 2019 - Owned by the KHA | 4,236 | 3 | 255 | 4,494 |
| As at 31 March 2020 - Owned by the KHA | 4,673 | 3 | 248 | 4,924 |
| Units in management | | | | |
| As at 1 April 2019 - managed by Group | 4,423 | 3 | 244 | 4,670 |
| As at 31 March 2020 - managed by Group | 4,752 | 3 | 237 | 4,992 |
| As at 1 April 2019 - managed by the KHA | 3,905 | 3 | 244 | 4,152 |
| As at 31 March 2020 - managed by the KHA | 4,149 | 3 | 237 | 4,389 |
| As at 1 April 2019 - managed by Fairfield | 29 | - | 11 | 40 |
| As at 31 March 2020 - managed by Fairfield | 180 | - | 11 | 191 |

Fairfield Housing Cooperative operates in the Perth area managing KHA properties under a management agreement. The amounts payable in the year to Fairfield were £61,270 (2019: £29,945).

There were no outstanding creditors at the year end for the management of the properties (2019: Nil).

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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 April 2019 | 1,751 | 255 | 268 | 354 | 2,628 |
| Disposals in year | - | (9) | (44) | (33) | (86) |
| At 31 March 2020 | 1,751 | 246 | 224 | 321 | 2,542 |
| Depreciation | | | | | |
| At 1 April 2019 | 514 | 246 | 267 | 331 | 1,358 |
| Provided during year | 33 | 4 | 1 | 17 | 55 |
| Disposals | - | (8) | (44) | (32) | (84) |
| At 31 March 2020 | 547 | 242 | 224 | 316 | 1,329 |
| Net book value | | | | | |
| At 31 March 2020 | 1,204 | 4 | - | 5 | 1,213 |
| At 31 March 2019 | 1,237 | 9 | 1 | 23 | 1,270 |

(iv) Other tangible fixed assets – KHA

| | Heritable office property | Furniture and equipment | Motor vehicles | Computer hardware | Total |
|-----------------------|--|--|---------------------------|------------------------------|--------------|
| Cost | £000 | £000 | £000 | £000 | £000 |
| At 1 April 2019 | 1,750 | 252 | 268 | 353 | 2,623 |
| Disposals in year | - | (9) | (44) | (32) | (85) |
| At 31 March 2020 | 1,750 | 243 | 224 | 321 | 2,538 |
| Depreciation | | | | | |
| At 1 April 2019 | 514 | 243 | 267 | 330 | 1,354 |
| Provided during year | 33 | 5 | 1 | 17 | 56 |
| Disposals | - | (9) | (44) | (32) | (85) |
| At 31 March 2020 | 547 | 239 | 224 | 315 | 1,325 |
| Net book value | | | | | |
| At 31 March 2020 | 1,203 | 5 | - | 5 | 1,213 |
| At 31 March 2019 | 1,236 | 9 | 1 | 23 | 1,269 |

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10. Fixed assets (cont'd)

(v) Intangible fixed assets – Computer software

| | Group | KHA |
|-----------------------|--------------|-------------|
| | £000 | £000 |
| Cost | | |
| At 1 April 2019 | 662 | 640 |
| Disposals in year | (43) | (42) |
| At 31 March 2020 | <u>619</u> | <u>598</u> |
| Amortisation | | |
| At 1 April 2019 | 516 | 500 |
| Provided during year | 51 | 45 |
| Disposals | (43) | (42) |
| At 31 March 2020 | <u>524</u> | <u>503</u> |
| Net book value | | |
| At 31 March 2020 | <u>95</u> | <u>95</u> |
| At 31 March 2019 | <u>146</u> | <u>140</u> |

11. Fixed asset investments

| KHA: | 2020 | 2019 |
|------------------------------------|-------------|-------------|
| | £000 | £000 |
| Investments in subsidiaries | | |
| Kingdom Support and Care CIC | 427 | 427 |
| Kingdom Initiatives Limited | - | - |
| | <u>427</u> | <u>427</u> |

The investments in subsidiary companies comprise 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 and 100 ordinary shares of £1 each in Kingdom Initiatives Limited, a wholly owned subsidiary engaged in the provision of affordable housing and associated services.

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12. Properties held for sale

| | Group | KHA | Group | KHA |
|--|--------------|--------------|--------------|--------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Work in progress for other RSLs at 1 April | 2,273 | 1,798 | 311 | 311 |
| Cost additions during the year | 2,332 | 1,947 | 2,172 | 1,697 |
| | (2,451 | (1,614 | | |
| Net transfers to operating costs on disposals |) |) | - | - |
| Net transfers to housing costs under construction | - | - | (210) | (210) |
| Balance of work in progress for other RSLs at 31 March | <u>2,154</u> | <u>2,131</u> | <u>2,273</u> | <u>1,798</u> |
| Shared ownership properties for sale at 1 April | 117 | 117 | 33 | 33 |
| Transfers & Sales | (61) | (61) | 84 | 84 |
| Shared ownership properties for sale at 31 March | <u>56</u> | <u>56</u> | <u>117</u> | <u>117</u> |
| Total properties held for sale | <u>2,210</u> | <u>2,187</u> | <u>2,390</u> | <u>1,915</u> |

13. Stocks and work in progress

| | Group | KHA | Group | KHA |
|---|--------------|-------------|--------------|-------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Stock of materials held by Maintenance Team | <u>323</u> | <u>323</u> | <u>240</u> | <u>240</u> |

14. Receivables

(i) Amounts falling due within one year

| | Group | KHA | Group | KHA |
|--------------------------------------|--------------|--------------|--------------|--------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Arrears of rent | 1,061 | 981 | 697 | 656 |
| less: Provision for bad debts | (680) | (625) | (433) | (405) |
| | <u>381</u> | <u>356</u> | <u>264</u> | <u>251</u> |
| Sundry receivables | 1,753 | 1,456 | 1,132 | 877 |
| Prepayments | 184 | 184 | 90 | 87 |
| Due from Kingdom Initiatives Limited | - | 430 | - | 610 |
| Interest receivable | 254 | 254 | 103 | 103 |
| Corporation tax (Note 9) | - | - | 77 | 22 |
| Car loans to employees | 120 | 99 | 96 | 86 |
| SHG in arrears | <u>1,456</u> | <u>1,362</u> | <u>3,373</u> | <u>3,110</u> |
| | <u>4,148</u> | <u>4,141</u> | <u>5,135</u> | <u>5,146</u> |

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14. Receivables (cont'd)

(ii) Amounts falling due after more than one year

| | Group | KHA | Group | KHA |
|--------------------------------------|--------------|-------------|--------------|-------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Loans to Kingdom Initiatives Limited | - | 4,553 | - | 2,620 |

KHA has provided two loans to KI. A loan of £2,620k is repayable by regular instalments of interest and a bullet repayment, the last of which falls to be repaid by 2026. A further loan of £8,500k was agreed during the year, of which £2,000k was drawn down. The loan is repayable in regular instalments of principal and interest, the last of which falls to be repaid in 2049. The instalment due within one year is included in current receivables. Both loans bear interest at 4.5% and are secured by a bond and floating charge over the property and undertakings of KI. A loan of £500k to KSC was approved in March 2020; no draw downs have been made.

15. Payables: Amounts falling due within one year

| | Group | KHA | Group | KHA |
|--|---------------|---------------|---------------|---------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Contractors for certified work | 6,477 | 5,339 | 10,171 | 9,327 |
| Trade payables | 1,149 | 1,141 | 784 | 744 |
| Deferred capital grants (Note 18) | 4,858 | 4,796 | 4,289 | 4,265 |
| Sundry payables and accruals | 2,542 | 2,150 | 1,952 | 1,476 |
| Prepaid rent | 337 | 317 | 283 | 270 |
| Other taxation & social security costs | 253 | 144 | 243 | 129 |
| Due to Kingdom Support & Care CIC | - | 18 | - | 25 |
| Interest payable | 806 | 806 | 408 | 408 |
| SHG repayable | 1,241 | 1,241 | 1,034 | 1,034 |
| Housing loans (Note 17) | 2,127 | 2,116 | 2,687 | 2,677 |
| | <u>19,790</u> | <u>18,068</u> | <u>21,851</u> | <u>20,355</u> |

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

| | Group | KHA | Group | KHA |
|-------------------------|----------------|----------------|---------------|---------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Housing loans (note 17) | <u>147,909</u> | <u>147,848</u> | <u>98,235</u> | <u>98,163</u> |

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

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17. Loans

| | Group | KHA | Group | KHA |
|---|----------------|----------------|----------------|----------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Housing loans | | | | |
| Loans secured by a charge on the Group's housing, land and buildings and advanced by private lenders: | <u>150,036</u> | <u>149,964</u> | <u>100,922</u> | <u>100,840</u> |

The loans are repayable in a combination of annual instalments of principal and interest, and interest only with bullet repayments on maturity, up to 2049. The loans bear interest at rates between 0.36% and 5.525% (2019: 0.76% and 4.725%).

Amount falling due:

| | | | | |
|--|----------------|----------------|----------------|----------------|
| Within one year (note 15) | <u>2,127</u> | <u>2,116</u> | <u>2,687</u> | <u>2,677</u> |
| In 1 year or more but less than 2 years | 2,127 | 2,116 | 2,052 | 2,041 |
| In 2 years or more but less than 5 years | 15,115 | 15,083 | 16,157 | 16,125 |
| In more than 5 years | <u>130,667</u> | <u>130,649</u> | <u>80,026</u> | <u>79,997</u> |
| Amounts falling due after more than 1 year (Note 16) | <u>147,909</u> | <u>147,848</u> | <u>98,235</u> | <u>98,163</u> |
| | <u>150,036</u> | <u>149,964</u> | <u>100,922</u> | <u>100,840</u> |

18. Deferred income – Government grants/other income

| | Group | KHA | Group | KHA |
|--|----------------|----------------|----------------|----------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| As at 1 April | 233,536 | 229,756 | 199,022 | 197,425 |
| Receivable in year | 38,742 | 34,459 | 37,538 | 35,334 |
| Repayable | (135) | (135) | (169) | (169) |
| Released to income - social lettings | (3,198) | (3,177) | (2,855) | (2,834) |
| Released to income - other activities | <u>(1,189)</u> | <u>(1,189)</u> | <u>-</u> | <u>-</u> |
| As at 31 March | <u>267,756</u> | <u>259,714</u> | <u>233,536</u> | <u>229,756</u> |
| Amounts to be released within 1 year | 4,858 | 4,796 | 4,289 | 4,265 |
| Amounts to be released in more than 1 year | <u>262,898</u> | <u>254,918</u> | <u>229,247</u> | <u>225,491</u> |
| | <u>267,756</u> | <u>259,714</u> | <u>233,536</u> | <u>229,756</u> |

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19. Financial instruments

| | Group | KHA | Group | KHA |
|---|--------------|-------------|--------------|-------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Financial assets: Debt instruments measured at amortised cost | 3,964 | 8,510 | 4,969 | 7,686 |
| Financial liabilities: Measured at amortised cost | 162,253 | 160,658 | 115,270 | 113,854 |

20. Defined Benefit Pension Scheme Liability (the DB Scheme)

KHA participates in the DB Scheme, a multi-employer scheme which provides benefits to over 150 non-associated employers. The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 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.

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2018, which revealed a deficit of £121m. A recovery plan is in place to eliminate the deficit, which will run to either 30 September 2022 or 31 March 2023, depending on funding levels. KHA's share of additional contributions for the year was £675k (2019: £655k), net of DB Scheme expenses. Effective 1 April 2020 KHA's share of additional contributions was £685k, which will increase by 3% from 1 April 2021 and annually thereafter. DB Scheme expenses were £20k for the year, which will increase to £23k for 2020-21 and remained fixed at this level until 31 March 2023.

Sufficient information is available in respect of the DB Scheme to enable KHA to account for its obligation on a defined benefit basis. For accounting purposes, a valuation of the DB Scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward for accounting year ends 31 March 2019 to 29 February 2020 inclusive. The liabilities were compared at 31 March 2020 with KHA's fair share of the DB Scheme's total assets to calculate KHA's share of the surplus.

Under the defined benefit pension accounting approach, KHA's share of the DB Scheme's net surplus as at 31 March 2020 was £115k (2019: deficit £4,387k). Under FRS 102 the surplus is not recognised as the resulting asset is not considered recoverable at this stage. The details are set out in the tables below.

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20. Defined Benefit Pension Scheme Liability (the DB Scheme) (cont'd)

| Net defined benefit plan asset/liability | Group & KHA 2020 £000 | Group & KHA 2019 £000 |
|---|--|--|
| Fair value of plan assets | 22,975 | 20,686 |
| Present value of defined benefit obligation | (22,860) | (25,073) |
| Unrecognised surplus |) |) |
| | (115) | - |
| Defined benefit asset/(liability), surplus/(deficit) of plan to be recognised | <u>-</u> | <u>(4,387)</u> |

| Defined benefit plan obligations at discounted cost | Group & KHA 2020 £000 | Group & KHA 2019 £000 |
|--|--|--|
| Defined benefit obligation at start of period | 25,073 | 23,943 |
| Expenses | 20 | 20 |
| Interest expense | 581 | 611 |
| Actuarial losses (gains) due to scheme experience | 771 | (424) |
| Actuarial losses (gains) due to changes in demographic assumptions | (146) | 66 |
| Actuarial losses (gains) due to changes in financial assumptions | (2,803) | 1,741 |
| Benefits paid and expenses | (636) | (884) |
| Defined benefit obligation at end of period | <u>22,860</u> | <u>25,073</u> |

| Defined benefit plan assets at fair value | Group & KHA 2020 £000 | Group & KHA 2019 £000 |
|--|--|--|
| Fair value of plan assets at start of period | 20,686 | 19,735 |
| Interest income | 486 | 510 |
| Experience on plan assets (excluding amounts included in interest income) - gain | 1,746 | 651 |
| Contributions by the employer | 693 | 674 |
| Benefits paid and expenses | (636) | (884) |
| Fair value of plan assets at end of period | <u>22,975</u> | <u>20,686</u> |

The actual return on plan assets (including any changes in share of assets) over the period ended 31 March 2020 was £2,232,000 (2019: £1,207,000).

| Plan costs recognised in Statement of Comprehensive Income | Group & KHA 2020 £000 | Group & KHA 2019 £000 |
|---|--|--|
| Expenses | 20 | 21 |
| Net interest expense | 95 | 101 |

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| | | |
|--|-----|-----|
| Defined benefit costs recognised in statement of comprehensive income (SoCI) | 115 | 122 |
|--|-----|-----|

20. Defined Benefit Pension Scheme Liability (the DB Scheme) (cont'd)

| Plan costs recognised in Statement of Other Comprehensive Income | Group & KHA 2020 £000 | Group & KHA 2019 £000 |
|---|--|--|
| Experience on plan assets (excluding amounts included in net interest cost) – gain | 1,746 | 651 |
| Experience gains and losses arising on the plan liabilities - gain (loss) | (771) | 424 |
| Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss) | 146 | (66) |
| Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss) | 2,803 | (3,346) |
| Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss) | 3,924 | (2,337) |
| Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss) | (115) | - |
| Total amount recognised in other comprehensive income - gain (loss) | 3,809 | (2,337) |
| | Group & KHA 2020 £000 | Group & KHA 2019 £000 |
| Analysis of plan assets | | |
| Global Equity | 3,160 | 3,328 |
| Absolute Return | 1,411 | 1,752 |
| Distressed Opportunities | 419 | 353 |
| Credit Relative Value | 553 | 359 |
| Alternative Risk Premia | 1,841 | 1,155 |
| Fund of Hedge Funds | - | 57 |
| Emerging Markets Debt | 817 | 663 |
| Risk Sharing | 728 | 600 |
| Insurance-Linked Securities | 616 | 537 |
| Property | 428 | 411 |
| Infrastructure | 1,355 | 867 |
| Opportunistic Illiquid Credit | 455 | 267 |
| Corporate Bond Fund | 559 | - |
| Corporate Bond Fund | 1,679 | 1,451 |
| Liquid Credit | 602 | - |
| Long Lease Property | 561 | 251 |
| Secured Income | 1,275 | 722 |
| Over 15 Year Gilts | 292 | 531 |
| Liability Driven Investment | 6,050 | 7,361 |
| Net Current Assets | 174 | 21 |
| Total assets | 22,975 | 20,686 |

None of the fair values of the assets shown above include any direct investments in KHA's own financial

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instruments or any property occupied by, or other assets used by KHA.

20. Defined Benefit Pension Scheme Liability (the DB Scheme) (cont'd)

| Key assumptions | Group & KHA | Group & KHA |
|---|--------------------------|--------------------------|
| | 2020 | 2019 |
| | % per annum | % per annum |
| Discount Rate | 2.36% | 2.34% |
| Inflation (RPI) | 2.58% | 3.26% |
| Inflation (CPI) | 1.58% | 2.26% |
| Salary Growth | 2.58% | 3.26% |
| Allowance for commutation of pension for cash at retirement | 75% of maximum allowance | 75% of maximum allowance |

The mortality assumptions adopted at 31 March 2020 imply the following life expectancies:

| | Group & KHA | Group & KHA |
|-------------------------|-----------------------------------|-----------------------------------|
| | 2020 | 2019 |
| | Life expectancy at age 65 (Years) | Life expectancy at age 65 (Years) |
| Male retiring in 2019 | 21.5 | 21.7 |
| Female retiring in 2019 | 23.2 | 23.4 |
| Male retiring in 2039 | 22.8 | 23.1 |
| Female retiring in 2039 | 24.5 | 24.7 |

21. Share Capital

| | 2020 | 2019 | 2020 | 2019 |
|--|-----------|-----------|-----------|-----------|
| | Number | Number | £ | £ |
| Group and KHA | | | | |
| Shares of £1 each issued and fully paid: | | | | |
| At 1 April | 64 | 64 | 64 | 64 |
| Issued during the year | - | 11 | | 11 |
| Cancelled during the year | (3) | (11) | (3) | (11) |
| At 31 March | <u>61</u> | <u>64</u> | <u>61</u> | <u>64</u> |

A £1 share entitles the holder (Member) to attend the Annual General Meeting and any Special or Emergency General Meeting of KHA 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 KHA. These rights may be suspended/lost after missing usually 3 Annual General Meetings without submission of apologies.

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22. Capital commitments

| | Group | KHA | Group | KHA |
|---|--------------|-------------|--------------|-------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Housing properties: | | | | |
| Expenditure contracted but not provided in the financial statements | 57,911 | 49,091 | 45,187 | 41,325 |

The capital commitments will be financed from existing cash balances and further borrowings.

23. Employees

| | Group | KHA | Group | KHA |
|--|---------------|--------------|---------------|--------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| i) Staff costs during year: | | | | |
| Wages and salaries | 11,237 | 5,472 | 10,094 | 4,982 |
| Social security costs | 920 | 496 | 811 | 454 |
| Other pension costs | 562 | 387 | 455 | 303 |
| Expenses of defined benefit pension scheme | 20 | 20 | 20 | 20 |
| | <u>12,739</u> | <u>6,375</u> | <u>11,380</u> | <u>5,759</u> |

There were no redundancy costs incurred during the year included in the staff costs, (2019: no redundancy costs incurred).

| | Group | KHA | Group | KHA |
|---|---------------|---------------|---------------|---------------|
| | 2020 | 2020 | 2019 | 2019 |
| | Number | Number | Number | Number |
| ii) Staff numbers: | | | | |
| Average weekly number of employees (including relief staff working on an "as required" basis) | 482 | 191 | 446 | 178 |

Number of Employees as at 31 March:

| | | | | |
|--------------------------------|------------|------------|------------|------------|
| Support & Care staff | 250 | - | 244 | - |
| Administration staff | 171 | 158 | 144 | 133 |
| Maintenance staff | 39 | 39 | 42 | 42 |
| | <u>460</u> | <u>197</u> | <u>430</u> | <u>175</u> |
| Full time equivalent employees | <u>390</u> | <u>184</u> | <u>361</u> | <u>158</u> |

Agency staff were employed during the year by the Group at a cost of £260,688 (2019: £180,431).

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24. Auditors' remuneration

| | Group | KHA | Group | KHA |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| Fees payable to RSM UK AUDIT LLP: | | | | |
| Audit services | 26 | 19 | 33 | 27 |
| Tax services and advice | 11 | 9 | 33 | 31 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Fees payable to MHA Henderson Loggie: | | | | |
| Internal audit fees | 24 | 24 | 15 | 15 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

25. Payments to Members and Board members

No Member of KHA received any fee or remuneration during the year (2019: Nil). Members of the Board were reimbursed for out of pocket travel expenses amounting to £3,473 (2019: £1,983).

During the year no member of the Board was a tenant of KHA (2019: nil). During the year one member of the Board was a sharing owner (2019: 1). The sharing owner arrangements for this member are on normal terms.

KI employs one member of staff. Recharges are made for time spent by KHA staff on KI business. The amount charged during the period was £77,927 (2019: £72,869).

26. Remuneration of key management personnel

| | Group | KHA | Group | KHA |
|---|--------------|--------------|---------------|--------------|
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |
| The aggregate remuneration of five directors (2019 – 5 directors) including benefits in kind was: | <u>568</u> | <u>462</u> | <u>549</u> | <u>446</u> |
| Pension contributions of directors were: | <u>37</u> | <u>30</u> | <u>36</u> | <u>29</u> |
| | 2020 | 2020 | 2019 | 2019 |
| | Numbe | Numbe | Number | Numbe |
| | r | r | Number | r |
| Emoluments (excluding pension contributions) were paid in the following bandings: | | | | |
| £80,001 to £90,000 | 3 | 2 | 4 | 3 |
| £90,001 to £100,000 | 1 | 1 | - | - |
| £110,001 to £120,000 | - | - | 1 | 1 |
| £120,001 to £130,000 | 1 | 1 | - | - |
| | 2020 | 2020 | 2019 | 2019 |
| | £000 | £000 | £000 | £000 |

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The total emoluments (excluding pension contributions) received by the highest paid director was:

| | | | |
|------------|------------|------------|------------|
| <u>122</u> | <u>122</u> | <u>117</u> | <u>117</u> |
|------------|------------|------------|------------|

26. Remuneration of key management personnel (cont'd)

Key management personnel are defined to include the Chief Executive and other directors. The Chief Executive is an ordinary member of KHA's Pension Scheme. 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% (2019: 8%) and amounted to £9,654 (2019: £9,296).

At the year end two key management personnel had car loans from Kingdom Group. The balances of car loans due to KHA and the Group at 31 March 2020 were £4,376 (2019: £8,394) and £12,206 (2019: £nil), respectively. The maximum balances outstanding during the year were £8,394 (2019: £12,392) and £14,895 (2019: £nil) respectively. Interest is charged on these loans at a rate equivalent to the Bank of England base rate on the day of the inception of the loan and is the same for other eligible employees of Kingdom Group.

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

| | 2020 | 2019 |
|--|--------------|--------------|
| | £000 | £000 |
| Cash generated from operations | | |
| Surplus for the year | 5,322 | 5,106 |
| Remeasurement of defined benefit pension liability | - | (1,605) |
| Actuarial gain/(loss) in respect of defined benefit pension scheme | 3,809 | (732) |
| Depreciation of tangible fixed assets | 5,158 | 4,371 |
| Depreciation of other fixed assets | 57 | 89 |
| Amortisation of intangible assets | 51 | 52 |
| (Decrease)/increase in pension provision/liability | (4,292) | 1,885 |
| Gain or loss on disposal of fixed assets | (8) | - |
| Gain or loss on disposal of assets held for sale | (270) | (86) |
| Amortisation of housing property capital grant | (4,387) | (2,855) |
| Corporation tax (received)/paid | - | (77) |
| Interest received | (487) | (221) |
| Interest paid | 4,407 | 3,062 |
| Operating cashflows before movement in working capital | <u>9,360</u> | <u>8,989</u> |
| (Increase)/decrease in stock | (83) | (52) |
| (Increase)/decrease in receivables | (780) | 47 |
| Increase/(decrease) in payables | 1,019 | (230) |
| Total cash generated from operating activities | <u>9,516</u> | <u>8,754</u> |
| Corporation tax received/(paid) | - | (58) |
| Total cash flows from operating activities | <u>9,516</u> | <u>8,696</u> |

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27. Reconciliation of surplus to net cash generated from/(used in) operations – Group (cont'd)

Analysis of changes in net debt - Group

| | At 1 April 2019 | Cash flows | Other changes | At 31 March 2020 |
|--------------------------------|----------------------------|-----------------------|--------------------------|-----------------------------|
| | £000 | £000 | £000 | £000 |
| Cash and cash equivalents | 27,650 | 29,867 | - | 57,517 |
| Debt due within one year | (2,688) | 886 | (325) | (2,127) |
| Debt due in more than one year | (98,234) | (50,000) | 325 | (147,909) |
| | <u>(73,272)</u> | <u>(19,247)</u> | <u>-</u> | <u>(92,519)</u> |

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

| | 2020 | 2019 |
|--|--------------|--------------|
| | £000 | £000 |
| Cash generated from operations | | |
| Surplus for the year | 4,802 | 4,754 |
| Remeasurement of defined benefit pension liability | - | (1,605) |
| Actuarial gain/(loss) in respect of defined benefit pension scheme | 3,809 | (732) |
| Depreciation of tangible fixed assets | 5,096 | 4,309 |
| Depreciation of other fixed assets | 56 | 88 |
| Amortisation of intangible assets | 45 | 45 |
| (Decrease)/increase in pension provision/liability | (4,292) | 1,885 |
| Gain or loss on disposal of fixed assets | (8) | - |
| Gain or loss on disposal of assets held for sale | (270) | (86) |
| Interest received | (672) | (339) |
| Interest paid | 4,403 | 3,059 |
| Corporation tax (received)/paid | - | (22) |
| Amortisation of housing property capital grant | (4,366) | (2,834) |
| Operating cashflows before movement in working capital | <u>8,603</u> | <u>8,522</u> |
| (Increase)/decrease in stock | (83) | (52) |
| (Increase)/decrease in receivables falling due within one year | (570) | (249) |
| (Increase)/decrease in receivables falling due in more than one year | (1,933) | - |
| Increase/(decrease) in payables | 1,123 | (250) |
| Total cash generated from operating activities | <u>7,140</u> | <u>7,971</u> |
| Corporation tax (received)/paid | <u>(22)</u> | <u>(27)</u> |

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Total cash flows from operating activities

| | |
|--------------|--------------|
| <u>7,118</u> | <u>7,944</u> |
|--------------|--------------|

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28. Reconciliation of surplus to net cash generated from/(used in) operations – KHA (cont'd)

Analysis of changes in net debt – KHA

| | At 1 April 2019 £000 | Cash flows £000 | Other changes £000 | At 31 March 2020 £000 |
|--------------------------------|---|--------------------------------|-----------------------------------|--|
| Cash and cash equivalents | 25,690 | 30,084 | - | 55,774 |
| Debt due within one year | (2,677) | 876 | (315) | (2,116) |
| Debt due in more than one year | <u>(98,163)</u> | <u>(50,000)</u> | <u>315</u> | <u>(147,848)</u> |
| | <u>(75,150)</u> | <u>(19,040)</u> | <u>-</u> | <u>(94,190)</u> |

29. Financial commitments

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

| | Group 2020 £000 | KHA 2020 £000 | Group 2019 £000 | KHA 2019 £000 |
|-----------------------|--------------------------------|------------------------------|--------------------------------|------------------------------|
| Amounts due: | | | | |
| Within one year | 436 | 96 | 470 | 153 |
| Between 1 and 5 years | <u>596</u> | <u>146</u> | <u>875</u> | <u>172</u> |
| | <u>1,032</u> | <u>242</u> | <u>1,345</u> | <u>325</u> |

30. Operating lease income

KHA has future operating lease income receivable as follows:

| | 2020 £000 | 2019 £000 |
|-------------------------|----------------------|----------------------|
| Due within 1 year | 26 | 26 |
| Due between 1 - 2 years | 26 | 26 |
| Due between 3 - 5 years | <u>8</u> | <u>33</u> |
| | <u>60</u> | <u>85</u> |

The operating lease income is due from KSC for office accommodation.

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 £18,749k (2019: £21,597k) as at 30 September 2019, the date of the latest estimation available. 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 31 March 2020 of £300,959k (2019: £262,891k) may be repayable to Scottish Government. The Board does not expect those circumstances to crystallise.

32. Related party transactions

No member of the Board had a tenancy or occupancy agreement with KHA during the period. As at the date of the statement of financial position no member of the Board had outstanding balances due to KHA.

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 charged KI for purchases, expenses and management services provided by KHA amounting to £2,212k (2019: £1,771k). KI charged KHA for purchases and expenses totaling £19k (2019: £26k).

KHA received £32k in gift aid from KI (2019: £44k).

At the date of the statement of financial position the balance due by KI to KHA was £4,983k, (2019: £3,252k), including the balance of loans repayable. KI made interest payments to KHA during the year of £184k (2019: £118k) in accordance with the loan agreements.

KHA charged KSC for purchases, expenses and management services provided by KHA amounting to £574k (2019: £400k). KSC charged KHA for purchases and expenses totaling £31k (2019: £29k).

At the date of the statement of financial position the balance due to KSC by KHA was £18k (2019: £25k).