



Scott-Moncrieff
business advisers and accountants

**KEY HOUSING ASSOCIATION LIMITED
CONSOLIDATED ACCOUNTS
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

KEY HOUSING ASSOCIATION LIMITED

LEGAL AND ADMINISTRATIVE DETAILS

Scottish Charity registration number	SC006652
Financial Conduct Authority registration number	1938R (S)
Scottish Housing Regulator registration number	HEP141
Registered office	70 Renton Street Glasgow G4 OHT

Members of the Board

John Paterson (Chairperson)
Joanna Pearson (Vice Chairperson)
Sheenagh Simpson (Vice Chairperson)
Angus Turner (Vice Chairperson - Appeals)
William Mooney
Duncan Sim
David Meechan
David Le Sage
Gillian Anderson
Laura Finnan-Cowan
Paul Cannop
Bob Parry
Jack Crombie
Anne McGuigan
Rebecca O'Donnell (appointed 5 December 2018)
Karen Jamieson (appointed 19 June 2019)
Anne Finnegan (resigned 18 September 2018)
Agnes Kelly (resigned 2 May 2018)

Executive Officers

Andrea Wood, Chief Executive
Alison Wood, Head of Finance
Gordon Anderson, Head of Housing
Jean Ramsay, Head of Support
Grace Semple, Head of HR

Secretary

James Kearns

Bankers

Clydesdale Bank plc
120 Bath Street
Glasgow
G2 2EN

Bank of Scotland plc
55 Bath Street
Glasgow
G2 5HS

Solicitors

BTO Solicitors
48 St Vincent Street
Glasgow
G2 5HS

Naftalin Duncan & Co
534 Sauchiehall Street
Glasgow
G2 3LX

External Auditor

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

Internal Auditor

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

KEY HOUSING ASSOCIATION LIMITED

CONTENTS PAGE

	Page
Report of the Members of the Board (incorporating the Strategic Report)	1-10
Report of the Auditor on the Financial Statements	11-13
Report of the Auditor to the Board on Internal Financial Control	14
Consolidated Statement of Comprehensive Income	15
Association Statement of Comprehensive Income	16
Consolidated Statement of Changes in Capital and Reserves	17
Association Statement of Changes in Capital and Reserves	18
Consolidated Statement of Financial Position	19
Association Statement of Financial Position	20
Consolidated Statement of Cash Flows	21
Association Statement of Cash Flows	22
Notes to the Financial Statements	23-54

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

The Board has pleasure in presenting its report together with the audited consolidated financial statements for the year ended 31 March 2019.

Structure, Governance and Management

Background

Key Housing Association Limited (hereafter referred to as “the Association”) is a Registered Social Landlord incorporated under the Co-operative and Community Benefit Societies Act 2014, which provides housing and support to people with disabilities. The group refers to Key Housing Association Limited (KEY), Community Lifestyles Limited (Community Lifestyles) and KHA Developments Limited (KHA).

Community Lifestyles provides individualised home and community support services to people with disabilities mainly in housing not provided by the Association. Support services provided by KEY and Community Lifestyles are funded through contracts with local authorities. Community Lifestyles is a registered charity and is limited by guarantee. It remains under control of Key Housing Association Limited.

The principal activity of KHA is the redevelopment of housing which is used for the support of adults with disabilities. KHA is a limited company. It remains under control of Key Housing Association Limited, which holds 100% of the share capital of KHA.

Membership

The Board members at 31 March 2019 were John Paterson (Chairperson), Joanna Pearson (Vice Chairperson) Sheenagh Simpson (Vice Chairperson), Angus Turner (Vice Chairperson – appeals), William Mooney, Duncan Sim, David Meechan, David Le Sage, Gillian Anderson, Laura Finnan-Cowan, Paul Cannop, Bob Parry, Jack Crombie, Anne McGuigan and Rebecca O’Donnell.

Employee issues

The Group has an equal opportunities policy which seeks to ensure that, in its role as employer, landlord and service provider, it does not discriminate against people on the grounds of sex, marital status, religion, sexual orientation, age, disability, colour, race, nationality or ethnic or national origins.

In respect of health and safety and welfare at work, the Group has a health and safety policy and a training programme covering a comprehensive range of relevant health and safety issues, including emergency aid and moving and handling. The Group has a full-time health and safety officer as well as a health and safety committee for all office based health and safety issues.

In employee relations, the Group recognises Trade Union representation for support service based and office based employees and senior management meet regularly with Union representatives to discuss, and where appropriate negotiate, relevant matters relating to the activities of the Group.

Objectives and activities

The Group’s Board agrees objectives and strategies for the Group normally within a 3 year strategic plan timescale. The strategic plan incorporates the long term funding of the Group. The current plan ends in 2020 and work is underway for the new plan involving extensive consultation with The Board as well as internal and external stakeholders.

The Group operates a policy manual which is reviewed and updated on an annual basis. Areas of policy include committee control and responsibility, housing management, maintenance, development, finance and HR. These include the following specific policies:

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

Objectives and activities (continued)

Governance - Committee Control and Accountability - Standing Orders and Code of Conduct, Policy on Gifts and Hospitality, Policy on Payments, Benefits and Corporate Accountability, Policy on Disclosure of Interest, Policy for Payment of Committee Member Expenses, Delegation of Authority from the Board, Complaints Procedure, Membership Policy, Risk Management Strategy, Equal Opportunities Policy, Participation Policy, Health and Safety Policy, Whistleblowing, Openness & Confidentiality, Sustainability, Information and Communication Technologies, IT Strategy, Data Protection, Insurances, Anti-fraud and Corruption, Media Guidelines, Performance Measurements and Business Continuity Planning.

Housing Management - Allocations Policies, Rent Policy, Arrears Policy, Estate Management Policy, Harassment Policy, Voids Management Policy, Recovery of Charges, Sub-letting, Lodgers, Assignment, Charging for Services, Legal Action, Abandonment, Furnished Lets and Anti-Social behaviour.

Maintenance - Maintenance Standards, Tenant Feedback on Repairs and Maintenance, Monitoring of Emergency Repairs and Pre and Post inspections.

Development - Development Procurement, CDM Regulations and Building Defects.

Finance - Treasury Management Policy, Internal Audit, Charging for Services, Reserves and Purchasing and Procurement.

Human Resources - Training, Staff Retirals, Criminal Convictions, Salaries, Support Through Illness, Staff Welfare, No Smoking, Redundancy and Grievance Policy.

The treasury management policy aims to ensure that the Group's funds are safeguarded and wisely invested, and that loan finance is negotiated within parameters agreed by the Board.

The rent policy aims to achieve a committed rental income that enables the Association to offer a high quality management and maintenance service to all tenants. The policy ensures that rents are viable, affordable and sustainable in the local housing context.

The long-term stock maintenance and repair policy aims to maintain a cost effective, responsive and reactive repair service to all tenants within the parameters of a 10 year strategic and 3 year implementation programme for planned and major repairs. This is within a longer term 60 year major repair profile.

Achievements and performance

During the year to 31 March 2019, additional funding was made available to Social Care providers from local authorities to ensure that all social care staff were being paid at least the Scottish Living Wage per hour. This resulted in increases to funding across all local authority areas which in turn allowed a salary increase for all staff backdated to 1 April 2018.

Despite the targeted funding increases linked to the Scottish Living Wage, the funding of public services, including social care, continues to be seriously affected by ongoing constraints within the public finances in the UK, and in particular the restrictions on local authority spending at a time of increasing need for social care services.

Local authorities continue to base their activities on planning assumptions for the period to, at least, 2019, projecting an increasing gap between available resources (which will reduce) and need (which will increase).

Achievements and performance (continued)

In the light of the introduction of the Self Directed Support Act in 2014, local authorities brought a variety of processes into place to meet their obligations under the Act. In most areas this has affected new people receiving social care for the first time, and apart from the two authorities (Glasgow and North Lanarkshire) that had already implemented new arrangements on a whole systems basis, the effect on KEY and the people we support continued to be limited in the course of the year to 31 March 2019. KEY's Strategic Plan has for some years anticipated the move to greater personalisation of social care, and preparations have been underway to ensure that our support and our back up systems are congruent with people having greater control over their support and its funding.

Our Strategic Plan recognises that the challenge for KEY is to tap into the non-financial resources and assets that exist throughout our communities and to focus directly on the quality of life outcomes for the people we support. KEY has had many years of experience in doing this, and in connecting with local communities to enhance the opportunities for those we support to have enriched lives beyond formal social care.

We have continued to work closely with a number of local authorities on increasingly individualised approaches to support, and see this as a very positive commitment to ensuring people who need support can have as much control and choice as possible. We will continue to focus on making sure that our support helps people to have a good life, regardless of whether the person we support is funding this directly or whether the funding is through a local authority.

The overall position across KEY for the year to 31 March 2019 was a small increase in support hours provided of 2% (240 hours per week), compared to a small net reduction in the previous year and reflects some planned support reductions as well as variations in individual arrangements and people supported.

At 31 March 2019, KEY supported 1,556 people in 15 local authority areas. In the course of the year, new support arrangements were established for 178 people. This compared to 189 new arrangements in the previous financial year. The overall level of support provided (hours per week) at 31 March 2019 was 50,668, a 2.4% increase from the March 2018 level of 49,476 hours.

In the course of the year, a focus on staff training was maintained. KEY continued to develop its work as an accredited SVQ centre, to progress accreditation in accordance with the requirements of the Scottish Social Services Council. At 31 March 2019, the Association employed 1,818 contracted staff (309 full time and 1,509 part-time) and on average a further 504 on a relief basis. This compares to 1,766 contracted staff (295 full-time and 1,471 part-time) and on average a further 533 on a relief basis as at 31 March 2018. Details regarding the average number of staff employed during the year is included in note 9 of the financial statements.

KEY has completed an ambitious programme of sub-division of shared housing, and accessing alternative housing for people when required, which has been ongoing for several years and has provided individualised housing options and greater choice for people in relation to their housing.

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

Financial review

Key Housing Association Limited generated a surplus of £1,708,377 (2018 - £1,981,553) and had reserves of £11,342,000 (2018 - £11,283,516). Changes to the accounting for the final salary pension scheme resulted in net other comprehensive expenditure of £1,649,884 (2018 - £nil) resulting in total comprehensive income of £58,493. This has been a relatively successful financial year for KEY and the surplus allows repayments to the Scottish Housing Association Pension Scheme (SHAPS) final salary pension scheme deficit in line with the agreed repayment plan.

In order to mitigate the risk in relation to SHAPS, the Association closed the defined benefit scheme on 1 April 2014 with all members transferring to the defined contribution scheme. Up until the end of the 31 March 2018 year end, the Scheme was accounted for as a defined contribution scheme. From 1 April 2018, information became available in order to separate out the assets and liabilities between scheme members and thus SHAPS is accounted for as a defined benefit pension scheme from 1 April 2018 onwards. Further details regarding SHAPS can be found in note 23 of the financial statements. The risks associated with the pension scheme, and how these are managed, are included within principal risks and uncertainties detailed below.

KEY continued to meet obligations to support staff in terms of Scottish Living Wage requirements and were able to secure additional funding during the year to enable salary increases to all staff.

Community Lifestyles has continued to focus its work in Glasgow, providing highly individualised support to people with often very complex needs. The net income for the year to 31 March 2019 for Community Lifestyles Limited was £374,016 (2018 - £333,390). Included in other comprehensive income was (£91,174) (2018 - £nil) in respect of SHAPS to give total comprehensive income of £282,842 (2018 - £333,390). Community Lifestyles Limited has reserves of £5,820,025 as at 31 March 2019 (2018 - £5,537,183). As at 31 March 2019, Community Lifestyles supported 482 people with total direct support of 16,217 hours per week. New support arrangements were developed for 63 people, compared with the previous year's figure of 115 people.

This was the sixth full year of operation of KHA Developments Limited which saw the completion of the planned remodelling of the shared flat at Fort William. Total turnover for the year was £28,975 (2018 - £107,657) with operating costs of £27,803 (2018 - £104,509), to give a profit before tax of £1,172 (2018 - £3,148).

The Group's surplus for the year was £2,080,417 (2018 - £2,315,365) with reserves of £17,164,089 (2018 - £16,824,739). Changes to the accounting for the final salary pension scheme resulted in net other comprehensive expenditure of £1,741,058 (2018 - £nil) resulting in total comprehensive income of £339,359.

Value for money

Over the past 3 years, we have taken forward a number of initiatives to improve value for money from services and goods purchased, and in our support service activity. The context has been the downward pressure on our funding from local authorities for support services, both in the form of funding standstills or cuts and also reductions in the level of support for individuals, and we have been reviewing our central costs and service management costs in the light of these funding changes.

The main elements of these initiatives are described below:

Central services and costs

We undertake regular reviews of our main cost centres, such as telecommunications, insurance, cleaning services, printing and stationary and are updating our procurement strategy to ensure that maximum savings are achieved.

Head office costs

Both KEY and Community Lifestyles continue to benefit from ongoing expenditure reductions following the move to The Square and Kerr Street in 2013 and 2016 respectively. KEY have been able to reduce expenditure related to externally leased office accommodation for Glasgow based local managers by utilising space in Kerr Street. This has also allowed the sharing of administrative support and other office costs across the organisations resulting in efficiencies and cost savings.

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

Value for money (continued)

Support service activity

The integrated management system (Evolve) has been rolled out across a number of KEY local services as well as Community Lifestyles. This assists greatly with the monitoring of staffing costs, direct support delivery and increased efficiency with direct links to payroll.

We have continued to reduce staff replacement costs related to training by developing more localised training facilities, and by developing e-learning for a number of core courses.

We continue to monitor and review our central and local service management structures and make efficiencies where possible. In Glasgow we continue to operate a consortium arrangement between the Association and Community Lifestyles, with co-location of management teams at Kerr Street. This enables a more strategic and efficient approach to service management and development, and underpins our continued success on the Glasgow Framework. Glasgow City Council announced details of a new framework agreement and a submission was made in July. The Consortium would hope to retain a high ranking place on this framework. KEY has also been successful in a number of other framework agreements throughout the year which cover both local authorities with existing services as well as new areas.

Statement on internal financial control

The Board is responsible for keeping proper books of account with respect to the Association's and Group's transactions and its assets and liabilities, and for maintaining a satisfactory system of control over the Association's and Group's books of account and transactions. The Board is also responsible for safeguarding the assets of the Association and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

- i) the reliability of financial information used within Association or Group or for publication;
- ii) the maintenance of proper accounting records; and
- iii) the safeguarding of assets against unauthorised use or disposition.

It is the Board's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements of such systems are:

- i) Formal policies and procedures to restrict the unauthorised use of the Association's or Group's assets;
- ii) Experienced and suitably qualified staff take responsibility for important business functions;
- iii) Forecasts and budgets are prepared which allow the Members of the Board to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term. Managements accounts are prepared and significant variances from budget are investigated as appropriate;

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

Statement on internal financial control (continued)

- iv) Major business risks and the financial implications are identified and monitored;
- v) All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures by the Board;
- vi) The appointment by the Board of an internal auditor to carry out a programme of internal audit of the Association's and Group's policies and control systems;
- vii) The Board reviews reports from management, the internal auditor and external auditor to provide reasonable assurance that the control procedures in place are being followed; and
- (viii) Formal practices have been established for instituting appropriate action to correct weaknesses identified from the reports of the external auditor and internal auditor.

The Members of the Board have reviewed the effectiveness of the system of internal control in existence in the Association and Group for the year ended 31 March 2019. In the opinion of the Members of the Board, no weaknesses were found in the internal controls which would result in material loss, contingencies, or uncertainties requiring disclosure in the financial statements or the auditor's report.

Going concern

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. The Board receive regular cash flow and financial reports during the year to enable an informed assessment to be made. For this reason, it continues to adopt the going concern basis in the financial statements.

Plans for future periods

In the course of the year, the Board monitored progress with the Strategic Plans for the period to 2019 for Housing and Support activities and agreed revised plans for the period to 2020. The plans included an assessment of the current operating environment and associated risks and opportunities, with Risk Registers included for Housing and Support activities which detail the main risks and actions being taken to mitigate these risks.

The main objectives within the Strategic Plan for support activity for KEY are as follows:

Objective 1

Flexible individual support services that meets people's desired outcomes and gives people as much control as possible over their life.

Objective 2

Support services that promote inclusion, participation and build both personal and community capacity.

Objective 3

Support services that are cost effective, fully funded and delivered in response to a variety of procurement arrangements.

Objective 4

A skilled, committed, creative and qualified workforce focused on delivering outcome focused support.

Objective 5

Central services that are responsive to requirements of personalised and self-directed individual services.

Objective 6

Stability, vision and commitment in the governance of KEY.

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

Plans for future periods (continued)

For each objective there is a range of strategies and targets detailing how the objectives are to be achieved, with timescales. One of the most important drivers of the strategies is the public policy direction of increasing personalisation of social care, embodied in the Self Directed Support Act. All of KEY's strategies are aligned to this, while recognising that it is a 10 year programme of public policy change and that competence and effectiveness in the existing social care procurement, funding and quality control environment must be maintained and developed as well as competence in the development of increasingly personalised services.

For KEY's Housing activity, the Housing Strategic Plan reflects the following objectives:

Objective 1

To achieve a housing service that meets individual needs and enables housing choice.

Objective 2

To achieve a housing service that provides housing that is well managed and maintained, and is desirable accommodation in the short and long term.

Objective 3

To achieve a housing service that is adequately funded.

Principal risks and uncertainties

The Group is committed to ensuring that it responds to, and manages, any challenges that may impact on the organisation, and recognises that a certain amount of risk is inevitable if the organisation is to achieve its priorities. A risk management framework is in place to assist with taking informed decisions regarding the risks that impact on the Association's priorities, whether Strategic or Operational.

Principal risks identified through the Association's strategic risk register which have the potential to seriously affect the performance, future prospects or reputation of the Association are detailed below along with mitigating actions being taken by the Association.

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

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

KEY HOUSING ASSOCIATION LIMITED

**REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 31 MARCH 2019**

Principal risks and uncertainties (continued)

For Support activity:

Risks	Actions to Mitigate
<p>Costs driven to below acceptable level. Overstretched services/ insufficient resources to support managers</p>	<p>Review during 2016 of management resources (including admin support) in local services.</p> <p>Regular operational reviews.</p> <p>Comprehensive policies, procedures and training.</p> <p>Serious incident reporting system and follow up.</p> <p>Access to independent counselling</p>
<p>Recruitment difficulties and potential implications of Brexit</p>	<p>Rigorous recruitment process.</p> <p>Competitive terms and conditions.</p> <p>Local approaches to recruitment where appropriate.</p>
<p>Losing financial viability</p>	<p>Regular deployment analysis, budget review and operational reviews.</p> <p>Quarterly reports on service funding and development to Board.</p> <p>Positive attitude to controlled growth.</p> <p>Intensive Housing Management funding to be further explored.</p>
<p>Losing services/not winning/missing tenders</p>	<p>Ensuring sufficient staff resources to progress tender processes and a co-ordinated approach to tender submissions.</p> <p>Regular review of service costs/profile and planning to adjust costs where required (including management structures and time).</p> <p>Registered with Public Contracts Scotland tender notification service.</p>

Other areas of inherent risk that are being given particular focus in our strategic priorities are:

- 1) Ensuring our cost base is affordable to purchasers;
- 2) Ensuring our policies and practices for health and safety, and guarding against abuse, are adequate; and
- 3) Ensuring our IT systems are adequate to our current and future needs.

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

Principal risks and uncertainties (continued)

For Housing activity:

In our Housing activity, the main risk areas relate to compliance with the Social Housing Charter, and related reporting requirements from the Scottish Housing Regulator, with which we must ensure compliance, and the introduction of welfare reform.

The main risks and actions to mitigate these are as follows:

Risks	Actions to mitigate
Poor satisfaction rating from tenants on quality of service received	Regular tenant satisfaction surveys are in place to ensure KEY is gaining feedback from tenants and responding to issues which arise. Overall focus on tenant satisfaction in all activity.
Failure to meet requirements of Social Housing Charter and associated reporting requirements	Reporting requirements now captured.
Income eroded due to impact of impending welfare reform changes	Future uncertainty remains over the funding of additional landlord costs of supported housing following the introduction of the local housing allowance cap.
Failure to consider rental affordability	Work underway to consider affordability in context of KEY's housing provision.
The impact of servicing the SHAPS defined benefit pension liability on the group's cash flow.	Managed by being kept informed of the current developments through membership of the SHAPS Employer Support Group run by Employers In Voluntary Housing.

Statement of the Board's Responsibilities

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

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

In preparing these financial statements the Board is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Association and Group will continue in business.

The Board is responsible for keeping and maintaining a satisfactory system of control over proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and Group and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014. The Board is also responsible for safeguarding the assets of the Association and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KEY HOUSING ASSOCIATION LIMITED

**REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 31 MARCH 2019**

Disclosure of information to the auditor

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

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

Auditor

A resolution to re-appoint Scott-Moncrieff, Chartered Accountants, as auditor will be put to the members at the Annual General Meeting.

By order of the Board



James Kearns
Secretary

Date: 28 August 2019

KEY HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY HOUSING ASSOCIATION LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Opinion

We have audited the financial statements of Key Housing Association Limited (the "parent association") and its subsidiaries (the "group") for the year ended 31 March 2019 which comprise the Consolidated and Association Statements of Comprehensive Income, the Consolidated and Association Statements of Changes in Capital and Reserves, the Consolidated and Association Statements of Financial Position, the Consolidated and Association Statements of Cash Flows and the 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 Financial Reporting Standard 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 parent association's affairs as at 31 March 2019 and of the group's and parent association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefits Societies (Group Accounts) Regulations 1969, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator.

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 parent association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our 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 audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in 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 group or the parent 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.

KEY HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY HOUSING ASSOCIATION LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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 require us to report to you if, in our opinion:

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

Responsibilities of the Board

As explained more fully in the Statement of the Board's Responsibilities set out on page 9, 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 determine 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 are responsible for assessing the group's and the parent 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 intend to liquidate the group or the parent association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

KEY HOUSING ASSOCIATION LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY HOUSING ASSOCIATION LIMITED ON
THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Use of our report

This report is made solely to the parent association's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the parent association's members, as a body, 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 parent association and the parent association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Scott - Moncrieff

Scott-Moncrieff, Statutory Auditor
Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006
Chartered Accountants
25 Bothwell Street
Glasgow
G2 6NL

Date: 28 August 2019

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE AUDITOR TO THE BOARD OF KEY HOUSING ASSOCIATION LIMITED ON INTERNAL FINANCIAL CONTROL FOR THE YEAR ENDED 31 MARCH 2019

In addition to our audit of the Financial Statements, we have reviewed your statements on pages 5 and 6 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial control contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

We carried out our review having regard to the requirements on corporate governance matters within Bulletin 2009/4 issued by the Financial Reporting Council. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

Opinion

In our opinion the Statement on internal financial control on pages 5 and 6 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial control and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through enquiry of certain members of the Members of the Board and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Board's Statement on internal financial control appropriately reflects the Association's compliance with the information required by the relevant Regulatory Standards in respect of internal financial control contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial control.

Scott - Moncrieff

Scott-Moncrieff, Statutory Auditor

Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006

Chartered Accountants
25 Bothwell Street
Glasgow
G2 6NL

Date: 28 August 2019

KEY HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £	2018 £
Turnover	4	67,303,491	63,685,803
Operating expenditure	4	(64,971,863)	(61,189,732)
Operating surplus	4, 8	2,331,628	2,496,071
Interest receivable and other income	11	67,246	24,216
Interest payable and similar charges	11	(326,348)	(204,922)
Movement in market value of investments	16	7,891	-
Surplus before tax		2,080,417	2,315,365
Taxation	12	-	-
Surplus for the year		2,080,417	2,315,365
Other comprehensive income			
Initial recognition of multi-employer defined benefit scheme	23	768,942	-
Actuarial loss in respect of pension scheme	23	(2,510,000)	-
Total comprehensive income for the year		339,359	2,315,365

The results for the year relate wholly to continuing activities.

The notes form part of these financial statements.

Included in operating expenditure is a remeasurement of £nil (2018 - a gain of £225,802) in respect of the remeasurement of the SHAPS past service liability as detailed in note 23.

KEY HOUSING ASSOCIATION LIMITED

ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £	2018 £
Turnover	5	52,499,028	50,688,505
Operating expenditure	5	(50,529,147)	(48,522,430)
Operating surplus	5, 8	1,969,881	2,166,075
Interest receivable and other income	11	52,953	19,309
Interest payable and similar charges	11	(322,348)	(203,831)
Movement in market value of investments	16	7,891	-
Surplus before tax		1,708,377	1,981,553
Taxation	12	-	-
Surplus for the year		1,708,377	1,981,553
Other comprehensive income			
Initial recognition of multi-employer defined benefit scheme	23	827,116	-
Actuarial loss in respect of pension scheme	23	(2,477,000)	-
Total comprehensive income for the year		58,493	1,981,553

The results for the year relate wholly to continuing activities.

The notes form part of these financial statements.

Included in operating expenditure is a remeasurement of £nil (2018 - a gain of £225,000) in respect of the remeasurement of the SHAPS past service liability as detailed in note 23.

KEY HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2019

	Note	Share Capital £	Revenue Reserve £	Total Reserves £
Balance at 1 April 2018		309	16,824,430	16,824,739
Total comprehensive income for the year		-	339,359	339,359
Shares cancelled during the year	25a	(9)	-	(9)
Shares issued in the year	25a	-	-	-
Balance at 31 March 2019		<u>300</u>	<u>17,163,789</u>	<u>17,164,089</u>

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2018

	Note	Share Capital £	Revenue Reserve £	Total Reserves £
Balance at 1 April 2017		318	14,509,065	14,509,383
Total comprehensive income for the year		-	2,315,365	2,315,365
Shares cancelled during the year	25a	(11)	-	(11)
Shares issued in the year	25a	2	-	2
Balance at 31 March 2018		<u>309</u>	<u>16,824,430</u>	<u>16,824,739</u>

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

ASSOCIATION STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2019

	Note	Share Capital £	Revenue Reserve £	Total Reserves £
Balance at 1 April 2018		309	11,283,207	11,283,516
Total comprehensive income for the year			58,493	58,493
Shares cancelled during the year	25a	(9)	-	(9)
Shares issued during the year	25a	-	-	-
Balance at 31 March 2019		<u>300</u>	<u>11,341,700</u>	<u>11,342,000</u>

ASSOCIATION STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2018

	Note	Share Capital £	Revenue Reserve £	Total Reserves £
Balance at 1 April 2017		318	9,301,654	9,301,972
Total comprehensive income for the year			1,981,553	1,981,553
Shares cancelled during the year	25a	(11)	-	(11)
Shares issued during the year	25a	2	-	2
Balance at 31 March 2018		<u>309</u>	<u>11,283,207</u>	<u>11,283,516</u>

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Notes	2019 £	2018 £
Tangible fixed assets			
Housing properties	13	15,862,744	16,108,111
Other fixed assets	14	4,405,850	4,595,782
		<u>20,268,594</u>	<u>20,703,893</u>
Current assets			
Debtors	15	6,178,863	7,084,458
Investments	16	1,608,835	1,084,665
Cash and cash equivalents	17	8,542,857	6,043,167
		<u>16,330,555</u>	<u>14,212,290</u>
Creditors: amounts falling due within one year	18	<u>(5,991,224)</u>	<u>(6,368,591)</u>
Net current assets		<u>10,339,331</u>	<u>7,843,699</u>
Total assets less current liabilities		30,607,925	28,547,592
Creditors: amounts falling due after more than one year	19	(1,343,836)	(11,722,853)
Pension – defined benefit liability	23	(12,100,000)	-
Net assets		<u>17,164,089</u>	<u>16,824,739</u>
Capital and reserves			
Share capital	25a	300	309
Revenue reserve	25b	17,163,789	16,824,430
		<u>17,164,089</u>	<u>16,824,739</u>

The financial statements were authorised for issue by the Members of the Board on 28 August 2019 and were signed on its behalf by:



James Kearns
Secretary



John Paterson
Chairperson



Joanna Pearson
Vice Chairperson

Regulated number: 1938R(S)

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

ASSOCIATION STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Notes	2019 £	2018 £
Tangible fixed assets			
Housing properties	13	15,862,744	16,108,111
Other fixed assets	14	2,417,502	2,580,051
		<u>18,280,246</u>	<u>18,688,162</u>
Current assets			
Debtors	15	5,227,664	5,325,351
Investments	16	502,942	495,051
Cash and cash equivalents	17	4,910,174	3,617,120
		<u>10,640,780</u>	<u>9,437,522</u>
Creditors: amounts falling due within one year	18	<u>(4,300,190)</u>	<u>(5,188,779)</u>
Net current assets		<u>6,340,590</u>	<u>4,248,743</u>
Total assets less current liabilities		24,620,836	22,936,905
Creditors: amounts falling due after more than one year	19	(1,343,836)	(11,653,389)
Pension – defined benefit liability	23	(11,935,000)	-
Net assets		<u>11,342,000</u>	<u>11,283,516</u>
Capital and reserves			
Share capital	25a	300	309
Revenue reserve	25b	11,341,700	11,283,207
		<u>11,342,000</u>	<u>11,283,516</u>

The financial statements were authorised for issue by the Members of the Board on 28 August 2019 and were signed on its behalf by:



James Kearns
Secretary



John Paterson
Chairperson



Joanna Pearson
Vice Chairperson

Regulated number: 1938RCS

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £	2018 £
Net cash generated from operating activities	26a	3,537,800	1,661,790
Cash flow from investing activities			
Payments to acquire and improve housing stock		(265,279)	(503,530)
Purchase of other property, plant and equipment		(88,239)	(136,767)
Proceeds from sale of property, plant and equipment		3,000	2,400
Interest received		67,246	24,216
Grants received		-	-
		<u>(283,272)</u>	<u>(613,681)</u>
Cash flow from financing activities			
Issue of share capital		-	2
Interest paid		(66,885)	(74,831)
Repayment of borrowings		(171,674)	(163,102)
(Deposit to) / Withdrawal from current asset investments		(516,279)	227,000
		<u>(754,838)</u>	<u>(10,931)</u>
Net change in cash and cash equivalents		2,499,690	1,037,178
Cash and cash equivalents at beginning of year		6,043,167	5,005,989
Cash and cash equivalents at end of the year		8,542,857	6,043,167

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

ASSOCIATION STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £	2018 £
Net cash generated from operating activities	26b	1,775,063	1,351,973
Cash flow from investing activities			
Payments to acquire and improve housing stock		(265,279)	(503,530)
Purchase of other property, plant and equipment		(34,124)	(122,253)
Proceeds from sale of property, plant and equipment		3,000	2,400
Interest received		52,953	19,309
Grants received		-	-
		(243,450)	(604,074)
Cash flow from financing activities			
Issue of share capital		-	2
Interest paid		(66,885)	(74,831)
Repayment of borrowings		(171,674)	(163,102)
Withdrawal from current asset investments		-	227,000
		(238,559)	(10,931)
Net change in cash and cash equivalents		1,293,054	736,968
Cash and cash equivalents at beginning of year		3,617,120	2,880,152
Cash and cash equivalents at end of the year		4,910,174	3,617,120

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. General information

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

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

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

The Association is a Co-operative and Community Benefit Society limited by shares and is incorporated in the United Kingdom. The Association is a registered social landlord in Scotland and its registered number is HEP141. The registered address is available on the first page of the financial statements.

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

2. Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, subject to the revaluation of certain fixed assets, and in accordance with applicable accounting standards. However, please note that on transition to FRS 102, an existing use value was used as deemed cost for housing properties. The group has taken advantage of the provisions made available through Financial Reporting Exposure Draft (FRED) 71, "Draft amendments to FRS 102 on Multi-employer defined benefit plans". These provisions will become effective as part of FRS 102 for accounting periods commencing on or after 1 January 2020, however the Group has chosen to early adopt these provisions for the current accounting period. Therefore for the year ended 31 March 2018, SHAPS was accounted for as a defined contribution scheme although the past service deficit liability was recognised as a liability. For the year ended 31 March 2019, SHAPS is accounted for as a defined benefit pension liability with the adjustment to reflect the movement between the past service deficit liability at 1 April 2018 and the SHAPS defined benefit liability at 1 April 2018 and the SHAPS defined benefit liability at 1 April 2018 being recognised within Other Comprehensive Income in the Statement of Comprehensive Income as outlined in FRED 71. Further details in respect of this can be found in Note 23 to these financial statements.

The effect of events relating to the year ended 31 March 2019, which occurred before the date of approval of the financial statements by the Board have been included in the statements to the extent required to show a true and fair view of the state of affairs as at 31 March 2019 and of the results for the year ended on that date.

Basis of consolidation

These financial statements consolidate those of Key Housing Association Limited and its subsidiary undertakings, Community Lifestyle Limited and KHA Developments Limited, drawn up to 31 March 2019 as obliged by statute. Surpluses or deficits on intra-group transactions are eliminated in full.

2. Principal accounting policies (continued)

Turnover

Association

Turnover represents rental income earned in the period and grants of a revenue nature from local authorities and the Scottish Government for the provision of support services in the period which are recognised in line with the provision of the service.

Income from rental and service charges is recognised when the Association is entitled to it, it is probable it will be received and it can be measured reliably.

Community Lifestyles Limited

All incoming resources are included in the Statement of Financial Activities when the charitable company is entitled to the income and the amount can be quantified with reasonable accuracy. The following specific policies are applied to particular categories of income:

- All income is included in the Statement of Financial Activities when the charitable company is entitled to the income after any performance conditions have been met, it is probable that the income will be received and the amount can be measured reliably.
- Investment income is included when receivable.

KHA Developments Limited

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the entity will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably;
- and
- the costs incurred and the costs to complete the contract can be measured reliably.

Going concern

The Board expect the Association and Group to generate a surplus in 2019/20 and 2020/21 and the Board is satisfied that the Association and Group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason the financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business.

Government Capital Grants

Government Capital Grants, at amounts approved by The Scottish Government or local authorities, are paid directly to the Group as required to meet its liabilities during the development process. This is treated as a deferred Government capital grant and is released to income in accordance with the accrual model over the useful life of the asset it relates to on completion of the development phase. The accrual model requires the Group to recognise income on a systematic basis over the period in which the Group recognises the related costs for which the grant is intended to compensate.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. Principal accounting policies (continued)

Government Revenue Grants

Government revenue grants are recognised using the accrual model which means the Group recognises the grant in income on a systematic basis over the period in which the Group recognises the related costs for which the grant is intended to compensate.

Non-government capital and revenue grants

Non-government capital and revenue grants are recognised using the performance model. If there are no performance conditions attached the grants are recognised as revenue when the grants are received or receivable.

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

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

Interest receivable

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Interest payable

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Operating leases

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Fixed assets and depreciation

Housing properties are stated at deemed cost based on an Existing Use Value at 1 April 2014. From this date, housing properties have been accounted for under historical cost. The cost of properties includes land cost, all construction costs, professional fees and development administration costs.

The Group separately identifies the major components which comprise its housing properties, and charges depreciation, so as to write off the cost of each component to its estimated residual value, on a straight line basis, over its estimated useful economic life.

The Association depreciates the major components of its housing properties over the following years with the corresponding annual rates:

Land	Not depreciated
Buildings	50 years (2%)
Kitchens	18 years (5.56%)
Bathrooms	20 years (5%)
Heating systems	15 years (6.67%)
Roof structure and coverings	50 years (2%)
Windows	25 years (4%)

No depreciation is charged on assets during the course of construction.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. Principal accounting policies (continued)

Fixed assets and depreciation (continued)

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on the following basis:

Motor vehicles	-	20% - 33% per annum straight line method
Office Accommodation	-	2.5% per annum straight line method
Office Equipment		
- Equipment and Furniture	-	10% per annum reducing balance method
- Computer Equipment	-	25% per annum reducing balance method
- Photocopier	-	20% per annum reducing balance method
Wemyss Bay Lodge	-	3.33% per annum straight line method

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

Investments

Quoted investments are included in the financial statements at market value which is defined as mid-price.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Rental arrears

Rental arrears represent amounts due by tenants for rental of social housing properties at the year end. Rental arrears are reviewed regularly by management and written down to the amount deemed recoverable. Any provision deemed necessary is shown alongside gross rental arrears in Note 15.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Financial instruments

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans from banks.

2. Principal accounting policies (continued)

Financial instruments (continued)

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a rental arrear deferred beyond normal Group terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets are derecognised when contractual rights to the cash flows from the assets expire, or when the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

Loans

Mortgage loans are advanced by private institutions and local authorities under the terms of individual mortgage deeds in respect of each property or housing development. Advances are only available in respect of those developments which have been given approval for by the Scottish Government.

Investments in subsidiary

The investment in the subsidiary, KHA Developments Limited, is stated at cost, less any provisions required where there has been a permanent diminution in their value.

Retirement benefits (note 23)

The Group and Association participates in The Scottish Housing Associations' Defined Benefits Pension Scheme (SHAPS) and retirement benefits to employees of the Group and Association are funded by the contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating entities taken as a whole.

Up until 31 March 2018, it was not possible to identify the share of underlying assets and liabilities belonging to individual participating employers. Thus, up until the end of the 31 March 2018 year end, the Scheme was accounted for as a defined contribution scheme. However the Group and Association entered into a past service deficit repayment agreement with TPT and per FRS 102, this discounted past service deficit liability was recognised in the Statement of Financial Position.

From 1 April 2018, information became available in order to separate out the assets and liabilities between scheme members and thus the SHAPS will be accounted for as a defined benefit pension scheme from 1 April 2018 onwards. In accordance with FRS 102 section 28, the operating and financing costs of pension and post retirement schemes (determined by TPT) are recognised separately in the Statement of Comprehensive Income. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in Other Comprehensive Income.

The defined benefit scheme was closed to future accrual on 1 April 2014.

2. Principal accounting policies (continued)

Defined Contribution Scheme

The Group and Association also participates in defined contribution schemes with SHAPS and with Standard Life. The pension costs charged against operating profits are contributions payable to the respective scheme in respect of the financial year.

Reserves

In line with recommended practice, the reserves which had been previously designated for specific purposes are no longer disclosed separately within the financial statements. These included reserves for major repairs and future trading commitments as well as other smaller reserves. The Group and the Association continue to internally monitor these sums.

3. Judgements in applying policies and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

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

Estimate

Basis of estimation

Valuation of Housing Properties

Housing Properties are held at deemed cost which is based on an existing use valuation at the date of transition of 1 April 2014. The assumptions used in the existing use value were reviewed and are considered reasonable.

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are based on the knowledge of senior management at the Association, with reference to expected asset life cycles.

The main components of housing properties and their useful lives

The cost of housing properties is split into separately identifiable components. These components were identified by knowledgeable and experienced staff members and based on costing models.

Recoverable amount of rental and other trade receivables

Rental arrears and other trade receivables are reviewed by appropriately experienced senior management team members on a case by case basis with the balance outstanding together with the payment history of the individual tenant being taken into account.

The obligations under the SHAPs pension scheme

This has relied on the actuarial assumptions of a qualified actuary which have been reviewed and are considered reasonable and appropriate. Additionally, the impact of Guaranteed Minimum Pension (GMP) equalisation has been included in the SHAPS defined benefit liability.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

3. Judgements in applying policies and key sources of estimation uncertainty (continued)

<u>Estimate</u>	<u>Basis of estimation</u>
Investments at market value	This has relied on the valuation prepared by investment managers as at the year end.

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

	Turnover 2019 £	Operating expenditure 2019 £	Operating surplus/ (deficit) 2019 £	Operating surplus/ (deficit) 2018 £
Social lettings (note 6)	5,138,870	4,455,723	683,147	581,859
Other activities (note 7a)	62,164,621	60,516,140	1,648,481	1,914,212
Total 2019	67,303,491	64,971,863	2,331,628	
<i>Total 2018</i>	<i>63,685,803</i>	<i>61,189,732</i>		<i>2,496,071</i>

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

	Turnover 2019 £	Operating expenditure 2019 £	Operating surplus/ (deficit) 2019 £	Operating surplus/ (deficit) 2018 £
Social lettings (note 6)	5,138,870	4,455,723	683,147	581,859
Other activities (note 7b)	47,360,158	46,073,424	1,286,734	1,584,216
Total 2019	52,499,028	50,529,147	1,969,881	
<i>Total 2018</i>	<i>50,688,505</i>	<i>48,522,430</i>		<i>2,166,075</i>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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

	General Needs Housing £	Supported Housing £	2019 Total £	2018 Total £
Rent receivable net of service charges	500,442	4,139,646	4,640,088	4,443,050
Service charges	20,950	512,025	532,975	507,402
Gross income from rents and service charges	521,392	4,651,671	5,173,063	4,950,452
Less voids	(6,755)	(34,063)	(40,818)	(48,170)
Net income from rents and services	514,637	4,617,608	5,132,245	4,902,282
Amortisation of deferred government capital grants	-	6,625	6,625	6,625
Total turnover from social letting activities	514,637	4,624,233	5,138,870	4,908,907
Management and maintenance administration costs	(147,274)	(742,610)	(889,884)	(780,068)
Service costs	(39,561)	(2,047,398)	(2,086,959)	(1,886,053)
Planned and cyclical maintenance costs including major repairs	(101,478)	(511,693)	(613,171)	(785,646)
Reactive maintenance costs	(58,762)	(296,301)	(355,063)	(316,275)
Depreciation of social housing	(84,511)	(426,135)	(510,646)	(559,006)
Operating expenditure for social letting activities	(431,586)	(4,024,137)	(4,455,723)	(4,327,048)
Operating Surplus on letting activities, 2019	83,051	600,096	683,147	
<i>Operating Surplus on letting activities, 2018</i>	<i>68,784</i>	<i>513,075</i>		<i>581,859</i>

Included in depreciation of social housing is £56,074 (2018 - £125,753) in respect of the loss on disposal of components.

KEY HOUSING ASSOCIATION LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 MARCH 2019

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

	Grants from Scottish Ministers 2019 £	Support funding 2019 £	Total turnover 2019 £	Operating expenditure 2019 £	Operating surplus / (deficit) 2019 £	Operating surplus 2018 £
Development activities	130,296	-	130,296	104,472	25,824	(17,189)
Care activities	-	62,034,325	62,034,325	60,411,668	1,622,657	1,931,401
Total from other activities 2019	130,296	62,034,325	62,164,621	60,516,140	1,648,481	
<i>Total from other activities 2018</i>	<i>147,641</i>	<i>58,629,255</i>	<i>58,776,896</i>	<i>56,862,684</i>		<i>1,914,212</i>

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

	Grants from Scottish Ministers 2019 £	Support funding 2019 £	Management Services 2019 £	Other Agency / Services 2019 £	Total turnover 2019 £	Operating expenditure 2019 £	Operating surplus / (deficit) 2019 £	Operating surplus/(deficit) 2018 £
Development activities	130,296	-	-	-	130,296	104,472	25,824	(17,189)
Care activities	-	46,439,104	790,758	790,758	47,229,862	45,968,952	1,260,910	1,601,405
Total from other activities 2019	130,296	46,439,104	790,758	790,758	47,360,158	46,073,424	1,286,734	
<i>Total from other activities 2018</i>	<i>147,641</i>	<i>44,839,536</i>	<i>792,421</i>	<i>792,421</i>	<i>45,779,598</i>	<i>44,195,382</i>		<i>1,584,216</i>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

8. Operating Surplus

	Consolidated		Association	
	2019	2018	2019	2018
	£	£	£	£
Operating surplus is stated after:				
Depreciation:				
- property	454,572	433,253	454,572	433,253
- other fixed assets	262,694	268,027	196,673	193,681
- loss on disposal of components	56,074	125,753	56,074	125,753
(Gain)/loss on disposal of fixed assets	12,477	6,078	(3,000)	6,078
External auditor's remuneration exc VAT:				
- external audit services	25,745	25,000	16,400	15,925
Internal auditor's remuneration:				
- internal audit services	13,966	14,175	13,966	14,175
Operating lease costs:				
- motor vehicles	49,940	50,414	49,940	50,414
- land and buildings	752,492	530,599	748,620	530,599

9. Remuneration

Board members are not remunerated.

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

	2019	2018
More than £60,000 but not more than £70,000	-	1
More than £70,000 but not more than £80,000	2	2
More than £80,000 but not more than £90,000	1	-
More than £90,000 but not more than £100,000	-	1
More than £100,000 but not more than £110,000	1	-

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

Emoluments of those earning > £60,000	Consolidated		Association	
	2019	2018	2019	2018
	£	£	£	£
Salary	331,922	317,926	331,922	317,926
Pension contributions	26,735	26,071	26,735	26,071
	<u>358,657</u>	<u>343,997</u>	<u>358,657</u>	<u>343,997</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

9. Remuneration (continued)

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

Key management emoluments	Consolidated		Association	
	2019	2018	2019	2018
	£	£	£	£
Salary	391,224	371,185	391,224	371,185
Employers' national insurance	39,758	38,359	39,758	38,359
Pension contributions	31,726	30,850	31,726	30,850
	<u>462,708</u>	<u>440,394</u>	<u>462,708</u>	<u>440,394</u>

The emoluments excluding pension contributions of the highest paid director who is the Chief Executive were £100,138 (2018 - £94,867).

The Chief Executive is an ordinary member of the Scottish Housing Association Pension Scheme (SHAPS) as described in note 23. No enhanced or special terms apply to membership. The Chief Executive had no personal pension arrangements. Pension contributions (including an estimate of the past service deficit payment) in respect of the Chief Executive amounted to £8,022 (2018 - £7,741).

	Consolidated		Association	
	2019	2018	2019	2018
	£	£	£	£
Expenses paid to members of the Board	<u>2,380</u>	<u>2,869</u>	<u>2,380</u>	<u>2,869</u>

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

Wages and salaries	53,262,926	50,014,519	41,163,905	39,220,996
Social security costs	4,444,367	4,125,175	3,355,003	3,169,746
Pension costs	794,455	462,655	639,731	396,668
Pension costs – Past service scheme expenses	62,862	62,500	61,777	61,777
Pension costs – Past service deficit measurement	-	(225,802)	-	(225,000)
	<u>58,564,610</u>	<u>54,439,047</u>	<u>45,220,416</u>	<u>42,624,187</u>

In addition to expenditure on direct salaries, the group incurred £810,391 (2018 - £1,405,423) expenditure on the use of agency staff. For KEY this was £541,336 (2018 - £907,611).

Year ended 31 March 2019

During the year past service deficit contributions of £1,455,325 (2018: £1,438,212) were paid for the Group and £1,431,241 (2018: £1,414,809) for KEY. Of this payment £1,392,464 (2018: £1,375,712) for the Group and £1,369,464 (2018: £1,353,032) for KEY was a payment in respect of the SHAPS past service deficit liability. The remainder of £62,861 (2018: £62,500) for the Group and £61,777 (2018: £61,777) for KEY was pension management costs which have been included in the pension contributions total included in staff costs above.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

9. Remuneration (continued)

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

	Consolidated			
	2019 average weekly Nos	<i>2018</i> average weekly Nos	2019 FTE Nos	<i>2018</i> FTE Nos
Head Office	97	100	91	92
Services	2,807	2,790	2,193	2,175
	<u>2,904</u>	<u>2,890</u>	<u>2,284</u>	<u>2,267</u>
	Association			
	2019 average weekly Nos	<i>2018</i> average weekly Nos	2019 FTE Nos	<i>2018</i> FTE Nos
Head Office	97	100	91	92
Services	2,225	2,234	1,667	1,674
	<u>2,322</u>	<u>2,334</u>	<u>1,758</u>	<u>1,766</u>

10. Creditor payments

The group policy is to pay purchase invoices at the end of the month following receipt. On average, invoices are paid within 45 days (2018 - 45 days) of receipt.

11. Interest receivable and payable

	Consolidated		Association	
	2019 £	<i>2018</i> £	2019 £	<i>2018</i> £
Interest receivable and similar income				
Bank deposit interest	65,064	21,895	50,771	16,988
Union commission	2,182	2,321	2,182	2,321
	<u>67,246</u>	<u>24,216</u>	<u>52,953</u>	<u>19,309</u>
Interest payable and similar charges:				
Bank loans and other loan	(66,885)	(74,831)	(66,885)	(74,831)
Unwinding of the discount rate – pension deficit (note 23)	-	(130,091)	-	(129,000)
Defined benefit pension liability – interest charge (Note 23)	(259,463)	-	(255,463)	-
	<u>(326,348)</u>	<u>(204,922)</u>	<u>(322,348)</u>	<u>(203,831)</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

12. Taxation

Group

The Association and Community Lifestyles Limited has charitable status and thus no corporation tax is due from their charitable activities (2018: £nil).

KHA Developments Limited made a taxable profit of £1,172 (2018: £3,148) but no tax is due as a result of a proposed distribution of £1,172 (2018: £3,148) that is to be paid to the Association within 9 months of the year end.

Association

The Association has charitable status and thus no corporation tax is due from its charitable activities (2018 £nil).

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

	2019 £	2018 £
Cost		
At 1 April 2018	17,699,199	17,336,818
Additions	265,279	503,530
Disposals	(70,851)	(141,149)
	<u>17,893,627</u>	<u>17,699,199</u>
At 31 March 2019	<u>17,893,627</u>	<u>17,699,199</u>
Property Depreciation		
At 1 April 2018	1,591,088	1,173,231
Charge for the year	454,572	433,253
Disposals	(14,777)	(15,396)
	<u>2,030,883</u>	<u>1,591,088</u>
At 31 March 2019	<u>2,030,883</u>	<u>1,591,088</u>
Net Book Value at 31 March 2019	<u>15,862,744</u>	<u>16,108,111</u>

Total cost of components capitalised for the year amounted to £265,279 (2018 - £503,530). The amount spent on maintenance of housing properties held for letting can be seen in Note 6.

Additions to Housing Properties during the year includes £nil capitalised interest (2018 - £nil) and £nil capitalised administration costs (2018 - £nil). All housing properties are freehold. Properties with a cost of £nil (2018 - £nil) and accumulated depreciation of £nil (2018 - £nil) have been disposed in the year. Components with a cost of £70,851 (2018 - £141,149) and accumulated depreciation of £14,777 (2018 - £15,396) have been disposed of for £nil (2018 - £nil) net proceeds.

The housing properties were revalued as at 1 April 2014 by Graham & Sibbald Limited and this value was used as the deemed cost from that date in accordance with FRS 102.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

14. Fixed Assets – Other - Consolidated

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge £	Office Accomm- odation £	Total £
Cost					
At 1 April 2018	269,959	677,089	132,227	4,492,381	5,571,656
Additions	18,180	19,649	-	50,410	88,239
Disposals	(28,501)	(72,853)	-	-	(101,354)
At 31 March 2019	<u>259,638</u>	<u>623,885</u>	<u>132,227</u>	<u>4,542,791</u>	<u>5,558,541</u>
Depreciation					
At 1 April 2018	193,102	358,132	13,224	411,416	975,874
Charge for year	35,773	108,913	4,408	113,600	262,694
Disposals	(28,501)	(57,376)	-	-	(85,877)
At 31 March 2019	<u>200,374</u>	<u>409,669</u>	<u>17,632</u>	<u>525,016</u>	<u>1,152,691</u>
Net Book Value					
At 31 March 2019	<u>59,264</u>	<u>214,216</u>	<u>114,595</u>	<u>4,017,775</u>	<u>4,405,850</u>
At 31 March 2018	<u>76,857</u>	<u>318,957</u>	<u>119,003</u>	<u>4,080,965</u>	<u>4,595,782</u>

Fixed Assets – Other - Association

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge £	Office Accomm- odation £	Total £
Cost					
At 1 April 2018	269,959	472,861	132,227	2,488,646	3,363,693
Additions	18,180	15,944	-	-	34,124
Disposals	(28,501)	-	-	-	(28,501)
At 31 March 2019	<u>259,638</u>	<u>488,805</u>	<u>132,227</u>	<u>2,488,646</u>	<u>3,369,316</u>
Depreciation					
At 1 April 2018	193,102	266,086	13,224	311,230	783,642
Charge for year	35,773	94,246	4,408	62,246	196,673
Disposals	(28,501)	-	-	-	(28,501)
At 31 March 2019	<u>200,374</u>	<u>360,332</u>	<u>17,632</u>	<u>373,476</u>	<u>951,814</u>
Net Book Value					
At 31 March 2019	<u>59,264</u>	<u>128,473</u>	<u>114,595</u>	<u>2,115,170</u>	<u>2,417,502</u>
At 31 March 2018	<u>76,857</u>	<u>206,775</u>	<u>119,003</u>	<u>2,177,416</u>	<u>2,580,051</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

15. Debtors: falling due within one year

	Consolidated		Association	
	2019 £	2018 £	2019 £	2018 £
Rent arrears	122,515	88,915	122,515	95,437
Less: provision for bad debts	(39,927)	(27,537)	(39,927)	(34,059)
Arrears for rent and service charge	82,588	61,378	82,588	61,378
Other debtors and prepayments	530,921	552,462	328,241	376,430
Local authority revenue grant receivable	5,565,354	6,470,618	4,595,186	4,589,121
Amounts owed by subsidiary undertakings	-	-	221,649	298,422
	<u>6,178,863</u>	<u>7,084,458</u>	<u>5,227,664</u>	<u>5,325,351</u>

16. Investments

Consolidated	2019 £	2018 £
Quoted investments (see below)	502,941	495,050
Balances held in deposit accounts (> 3 months)	1,105,894	589,615
	<u>1,608,835</u>	<u>1,084,665</u>
Association	2019 £	2018 £
Investment in subsidiary undertaking:		
- KHA Developments Limited	1	1
Quoted investments (see below)	502,941	495,050
	<u>502,942</u>	<u>495,051</u>

Key Housing Association Limited owns 1 ordinary £1 share in KHA Developments Limited (SC341478). The investment is held at cost. This represents a 100% shareholding in KHA Developments Limited, a company registered in Scotland, whose principal activity is that of acting as the design and build subsidiary of Key Housing Association Limited. KHA Developments Limited made a profit of £1,172 (2018 - £3,148) for the year ended 31 March 2019 and had net assets of £2,064 (2018 - £4,040).

Key Housing Association Limited has 100% control over its subsidiary undertaking Community Lifestyles Limited, a company limited by guarantee whose principal activity is the support of adults with learning disabilities. KEY is the only member of Community Lifestyles Limited and approves the appointment of the directors of Community Lifestyles Limited. Community Lifestyles Limited made a surplus of £374,016 (2018 - £333,390) for the year ended 31 March 2019. Included in other comprehensive income was (£91,174) (2018 - £nil) in respect of SHAPS to give total comprehensive income of £282,842 (2018 - £333,390). Community Lifestyles Limited had net assets of £5,820,025 (2018 - £5,537,183).

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

16. Investments (continued)

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

	Consolidated		Association	
	2019	2018	2019	2018
	£	£	£	£
Quoted investments				
Market value at 1 April 2018	495,050	722,050	495,050	722,050
Movement in market value	7,891	-	7,891	-
Divested in current year	-	(227,000)	-	(227,000)
	<u>502,941</u>	<u>495,050</u>	<u>502,941</u>	<u>495,050</u>
Market value at 31 March 2019	<u><u>502,941</u></u>	<u><u>495,050</u></u>	<u><u>502,941</u></u>	<u><u>495,050</u></u>

The following investments represent over 5% of the portfolio

	Value at 31 March 2019	% holding
	£	
Legal and General UK Index C Inc.	68,146	14%
Legal and General US Index Trust C Inc.	65,504	13%
Legal and General European Index Trust C Inc.	59,075	12%
M&G UK Inflation Linked Corporate Bond I Inc.	45,236	9%
M&G Strategic Corporate Bond I Inc.	44,707	9%
Legal and General All Stocks Gilt Index Trust I Inc.	31,317	6%

17. Cash and cash equivalents

	Consolidated		Association	
	2019	2018	2019	2018
	£	£	£	£
Current account	6,631,016	3,663,583	3,521,290	2,266,864
Deposit accounts (< 3 months)	1,911,841	2,379,584	1,388,884	1,350,256
	<u>8,542,857</u>	<u>6,043,167</u>	<u>4,910,174</u>	<u>3,617,120</u>
	<u><u>8,542,857</u></u>	<u><u>6,043,167</u></u>	<u><u>4,910,174</u></u>	<u><u>3,617,120</u></u>

18. Creditors: falling due within one year

	Consolidated		Association	
	2019	2018	2019	2018
	£	£	£	£
Bank loans (note 21)	180,015	171,674	180,015	171,674
Trade creditors	186,568	227,806	186,568	227,806
Pension creditor	298,512	343,894	251,897	301,620
Other creditors	1,639,248	919,766	728,611	425,527
Social security and other taxes	1,013,295	967,857	772,005	733,336
Accruals and deferred grant income	2,576,327	2,336,592	1,976,849	1,762,176
Prepayments of rent and service charge	90,634	94,811	90,634	94,811
Amounts due to subsidiary undertakings	-	-	106,986	189,000
SHAPS past service pension liability (Note 23)	-	1,299,566	-	1,276,204
Deferred Government capital grant (note 22)	6,625	6,625	6,625	6,625
	<u>5,991,224</u>	<u>6,368,591</u>	<u>4,300,190</u>	<u>5,188,779</u>
	<u><u>5,991,224</u></u>	<u><u>6,368,591</u></u>	<u><u>4,300,190</u></u>	<u><u>5,188,779</u></u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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

	Consolidated		Association	
	2019 £	2018 £	2019 £	2018 £
Bank loans (note 21)	1,039,211	1,219,226	1,039,211	1,219,226
SHAPS past service pension liability (Note 23)	-	10,192,377	-	10,122,913
Deferred Government capital grant (note 22)	304,625	311,250	304,625	311,250
	<u>1,343,836</u>	<u>11,722,853</u>	<u>1,343,836</u>	<u>11,653,389</u>

20. **Financial Instruments**

	Consolidated		Association	
	2019 £	2018 £	2019 £	2018 £
Financial assets				
Investments	1,608,875	1,084,665	502,942	495,051
Cash and cash equivalents	8,542,857	6,043,167	4,910,174	3,617,120
Financial assets measured at amortised cost	<u>6,003,006</u>	<u>6,945,870</u>	<u>5,091,697</u>	<u>5,210,793</u>
Financial liabilities				
Financial liabilities measured at amortised cost	<u>5,902,676</u>	<u>17,281,417</u>	<u>4,476,931</u>	<u>16,030,262</u>

Financial assets measured at amortised cost comprise rent arrears, other debtors, local authority revenue grant receivable and amounts owed by subsidiary undertakings.

Financial liabilities measured at amortised cost comprise bank loans, trade creditors, pension creditor, other creditors, accruals, amounts due to subsidiary undertakings and the SHAPS past service deficit liability.

21. **Loans: Consolidated and Association**

	2019 £	2018 £
Total bank loans outstanding:		
Payable in one year or less	180,015	171,674
Payable within one to two years	189,527	180,015
Payable within two to five years	555,096	591,980
Payable over five years	294,588	447,231
	<u>1,219,226</u>	<u>1,390,900</u>
Less: payable within one year	(180,015)	(171,674)
Total bank loans due after one year	<u>1,039,211</u>	<u>1,219,226</u>

Bank loans are secured by a fixed charge over certain properties of the Association.

The loans are repayable in equal monthly instalments and are secured over 25 or 30 years.

The highest rate of interest payable during the year was 5.76% and the lowest 1.4%.

The net book value of housing properties secured at the year end was £9,341,615 (2018 - £9,478,229).

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

22. Deferred capital grants: Consolidated and Association	2019 £	2018 £
Gross grant		
At 1 April 2018	331,246	331,246
Grants received in year	-	-
At 31 March 2019	<u>331,246</u>	<u>331,246</u>
Amortisation of grant		
At 1 April 2018	13,371	6,746
Amortisation	6,625	6,625
At 31 March 2019	<u>19,996</u>	<u>13,371</u>
Net grant at 31 March 2019	<u>311,250</u>	<u>317,875</u>
Payable in one year or less	6,625	6,625
Payable within one to two years	6,625	6,625
Payable within two to five years	19,875	19,875
Payable over five years	278,125	284,750
Total	<u>311,250</u>	<u>317,875</u>

23. Retirement benefits

Defined benefit scheme

Key Housing Association Limited and Community Lifestyles Limited participate in the Scottish Housing Associations' Pension Scheme (the "Scheme"). The Scheme is a multi-employer defined benefit scheme which provides benefits to some 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 offers six benefit structures to employers, namely:

- Final salary with a 1/60th accrual rate;
- Career average revalued earnings with a 1/60th accrual rate;
- Career average revalued earnings with a 1/70th accrual rate;
- Career average revalued earnings with a 1/80th accrual rate;
- Career average revalued earnings with a 1/120th accrual rate contracted in; and
- Defined Contribution.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. The DC option can be introduced by the employer on the first day of any month after giving a minimum of three months' prior notice.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**23. Retirement benefits (continued)****Defined benefit scheme (continued)**

Key Housing Association Limited and Community Lifestyle Limited have elected to operate the Defined Contributions Option for existing and new entrants. The defined benefit scheme was closed to future accrual on 1 April 2014. However, the Association and Community Lifestyles Limited are still required to fund the past service deficit liability in respect of the defined benefit scheme.

There was an additional annual employer past service deficit contribution of £1,392,464 (net of administration costs) made in the year ended 31 March 2019 (2018 - £1,375,712) for the Group and £1,369,464 (2018 - £1,353,032) for the Association.

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

Year ended 31 March 2018

Up until 31 March 2018, it was not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Thus, up until the end of the 31 March 2018 year end, the scheme was accounted for as a defined contribution scheme. However the Association and Community Lifestyles Limited entered into a past service deficit repayment agreement with The Pensions Trust (TPT) and per FRS 102, this discounted past service deficit liability was recognised in the Statement of Financial Position.

The last triennial valuation of the Scheme for funding purposes was carried out as at 30 September 2015. This valuation revealed a deficit of £198m. A Recovery Plan has been put in place to eliminate the deficit which runs to 28 February 2022 for the majority of employers, although certain employers have different arrangements.

The key valuation assumptions used to determine the assets and liabilities of the Scheme as at 30 September 2015 are detailed below:

Investment return pre retirement		5.30% per annum
Investment return post retirement	- Non-pensioners	3.40% per annum
Investment return post retirement	- Pensioners	3.40% per annum
Rate of salary increases		4.10% per annum
Rate of pension increases	- pension accrued pre 6 April 2005	2.00% per annum
	- pension accrued from 6 April 2005	1.70% per annum
	- (for leavers before 1 October '93 pension increases are 5%)	
Rate of price inflation		2.60% per annum

30 September 2017 funding update

The Employer Committee received the 30 September 2017 Actuarial Report, the annual funding update which shows the Scheme's ongoing funding position in between each three-yearly valuation.

A summary is shown below:

30 September	Assets	Liabilities	Deficit	Funding
2015	£616m	£814m	£198m	76%
2016	£810m	£1,020m	£210m	79%
2017	£852m	£981m	£129m	87%

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

The Trustee's view is that the recovery plan remains appropriate and there is no need to take any action ahead of the next actuarial valuation which was due at 30 September 2018. The information regarding this 30 September 2018 valuation, including the annual funding update, is not yet available from TPT.

Past service deficit liability

	Consolidated 2018 £	Association 2018 £
Provision at start of period	12,963,366	12,848,149
Unwinding of the discount factor (interest expense)	130,091	129,000
Deficit contribution paid	(1,375,712)	(1,353,032)
Re-measurements – impact of changes in assumptions	(225,802)	(225,000)
Provision at end of period	<u>11,491,943</u>	<u>11,399,117</u>
	2018 £	2018 £
Split: < 1 year	1,299,566	1,276,204
1-2 years	1,309,626	1,286,083
2-5 years	3,911,486	3,865,528
> 5 years	4,971,265	4,971,302
Total	<u>11,491,943</u>	<u>11,399,117</u>
	2018 £	2018 £
Impact on Statement of Comprehensive Income		
Interest expense	130,091	129,000
Re-measurements – impact of changes in assumptions	(225,802)	(225,000)
	<u>(95,711)</u>	<u>(96,000)</u>
	2018	2018
Assumptions		
Rate of discount	1.51%	1.51%

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

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

Year ended 31 March 2019

Accounting treatment from 1 April 2018

From 1 April 2018, information became available in order to separate out the assets and liabilities between scheme members and thus the SHAPS defined benefit pension liability is accounted for as a defined benefit pension scheme from 1 April 2018 onwards. In accordance with FRS 102 section 28, the operating and financing costs of pension and post retirement schemes (determined by TPT) are recognised separately in the Statement of Comprehensive Income. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in Other Comprehensive Income.

At 31 March 2018, in respect of the SHAPS deficit repayment plan, amounts included within creditors due less than one year were £1,299,566 for the Group and £1,276,204 for the Association and amounts included within creditors due greater than one year were £10,192,377 for the Group and £10,122,913 for the Association. At 1 April 2018, on initial recognition of the multi-employer defined benefit scheme, the opening adjustment to reduce the liability was £768,942 for the Group and £827,116 for the Association to recognise a liability of £10,723,001 for the Group and £10,572,001 for the Association as at 1 April 2018.

Group

Present values of defined benefit obligation, fair value of assets and defined benefit liability

	31 March 2019 £'000
Fair value of plan assets	58,238
Present value of defined benefit obligation	(70,338)
Defined benefit liability to be recognised	(12,100)

Reconciliation of opening and closing balances of the defined benefit obligation

	Year ended 31 March 2019 £'000
Defined benefit obligation at start of period	66,737
Current service cost	-
Expenses	63
Interest expense	1,682
Actuarial (losses)/gains due to scheme experience	(669)
Actuarial (losses)/gains due to changes in demographic assumptions	196
Actuarial (losses)/gains due to changes in financial assumptions	3,943
Benefits paid and expenses	(1,614)
Defined benefit liability at the end of the period	70,338

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

Reconciliation of opening and closing balances of the fair value of plan assets

	Year ended 31 March 2019 £'000
Fair value of plan assets at start of the period	56,014
Interest income	1,426
Experience on plan assets (excluding amounts included in interest income) - gain	960
Contributions by the employer	1,452
Benefits paid and expenses	(1,614)
Fair value of plan assets at end of period	58,238

Defined benefit costs recognised in the Statement of Comprehensive Income

	Period from 31 March 2018 to 31 March 2019 £'000
Current service cost	-
Admin expenses	63
Net interest expense	256
Defined benefit costs recognised in Statement of Comprehensive Income	319

Defined benefit costs recognised in Other Comprehensive Income

	Period ended 31 March 2019 £'000
Experience on plan assets (excluding amounts included in net interest cost - gain)	960
Experience gains and losses arising on the plan liabilities – gain	669
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – (loss)	(196)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – (loss)	(3,943)
Total amount recognised in other comprehensive income – (loss)	(2,510)

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

Fund allocation for employer's calculated share of assets

	31 March 2019 £'000
Global Equity	9,369
Absolute Return	4,932
Distressed Opportunities	994
Credit Relative Value	1,011
Alternative Risk Premia	3,253
Fund of Hedge Funds	162
Emerging Markets Debt	1,867
Risk Sharing	1,688
Insurance-Linked Securities	1,511
Property	1,156
Infrastructure	2,441
Private Debt	752
Corporate Bond Fund	4,084
Long Lease Property	706
Secured Income	2,032
Over 15 Year Gilts	1,496
Liability Driven Investment	20,723
Net Current Assets	61
Total Assets	58,238

The main financial assumptions used by the Scheme Actuary, TPT, in their FRS 102 calculations are as follows:

Assumptions as at	31 March 2019	31 March 2019
	% per annum	% per annum
	Key Housing Association	Community Lifestyles
Discount rate	2.29	2.33
Inflation (RPI)	3.30	3.38
Inflation (CPI)	2.30	2.28
Salary growth	3.30	3.28
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (years)
Male retiring in 2019	21.7
Female retiring in 2019	23.4
Male retiring in 2039	23.1
Female retiring in 2039	24.7

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2017 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a. for males and 1% p.a. for females.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

Member data summary

Active members

	Number	Total earnings (£'000s p.a.)	Average age (unweighted)
Males	39	1,224	53
Females	77	2,193	58
Total	116	3,417	53

Deferred members

	Number	Deferred pensions (£'000s p.a.)	Average age (unweighted)
Males	54	145	54
Females	137	330	53
Total	191	475	53

Pensioners

	Number	Pensions (£'000s p.a.)	Average age (unweighted)
Males	72	434	65
Females	182	759	65
Total	254	1,193	65

Association

Present values of defined benefit obligation, fair value of assets and defined benefit liability

	31 March 2019 £'000
Fair value of plan assets	57,469
Present value of defined benefit obligation	(69,404)
Defined benefit liability to be recognised	(11,935)

Reconciliation of opening and closing balances of the defined benefit obligation

	Year ended 31 March 2019 £'000
Defined benefit obligation at start of period	65,861
Current service cost	-
Expenses	62
Interest expense	1,659
Actuarial (losses)/gains due to scheme experience	(643)
Actuarial (losses)/gains due to changes in demographic assumptions	194
Actuarial (losses)/gains due to changes in financial assumptions	3,878
Benefits paid and expenses	(1,607)
Defined benefit liability at the end of the period	69,404

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

Reconciliation of opening and closing balances of the fair value of plan assets

	Year ended 31 March 2019 £'000
Fair value of plan assets at start of the period	55,289
Interest income	1,407
Experience on plan assets (excluding amounts included in interest income) - gain	952
Contributions by the employer	1,428
Benefits paid and expenses	(1,607)
Fair value of plan assets at end of period	57,469

Defined benefit costs recognised in the Statement of Comprehensive Income

	Period from 31 March 2018 to 31 March 2019 £'000
Current service cost	-
Admin expenses	62
Net interest expense	252
Defined benefit costs recognised in Statement of Comprehensive Income	314

Defined benefit costs recognised in Other Comprehensive Income

	Period ended 31 March 2019 £'000
Experience on plan assets (excluding amounts included in net interest cost - gain)	952
Experience gains and losses arising on the plan liabilities – gain	643
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – (loss)	(194)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – (loss)	(3,878)
Total amount recognised in other comprehensive income – (loss)	(2,477)

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

Fund allocation for employer's calculated share of assets	31 March 2019 £'000
Global Equity	9,245
Absolute Return	4,867
Distressed Opportunities	981
Credit Relative Value	998
Alternative Risk Premia	3,210
Fund of Hedge Funds	160
Emerging Markets Debt	1,842
Risk Sharing	1,666
Insurance-Linked Securities	1,491
Property	1,141
Infrastructure	2,409
Private Debt	742
Corporate Bond Fund	4,030
Long Lease Property	697
Secured Income	2,005
Over 15 Year Gilts	1,476
Liability Driven Investment	20,449
Net Current Assets	60
Total Assets	57,469

The main financial assumptions used by the Scheme Actuary, TPT, in their FRS 102 calculations are as follows:

Assumptions as at	31 March 2019 % per annum
Discount rate	2.29
Inflation (RPI)	3.30
Inflation (CPI)	2.30
Salary growth	3.30
Allowance for commutation of pension for cash at retirement	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (years)
Male retiring in 2019	21.7
Female retiring in 2019	23.4
Male retiring in 2039	23.1
Female retiring in 2039	24.7

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2017 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a. for males and 1% p.a. for females.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Retirement benefits (continued)

Member data summary

Active members

	Number	Total earnings (£'000s p.a.)	Average age (unweighted)
Males	34	1,068	54
Females	76	2,173	53
Total	110	3,241	53

Deferred members

	Number	Deferred pensions (£'000s p.a.)	Average age (unweighted)
Males	53	142	55
Females	132	326	53
Total	185	468	54

Pensioners

	Number	Pensions (£'000s p.a.)	Average age (unweighted)
Males	71	432	65
Females	181	757	66
Total	252	1,189	66

Pension contributions by Scheme – Group and Association

Defined contribution - SHAPS

There are 141 active members of the SHAPS DC scheme as at 31 March 2019 for the Group and 131 for KEY only. The Group and KEY contribute 5.1% as an employer contribution. Total employer contributions for the year were £228,535 (2018 - £224,338) for the Group and £214,391 (2018 - £211,164) for Key only. Included in the year end creditors balance is £41,902 (2018 - £37,671) for the Group and £39,604 (2018 - £34,643) for KEY only in respect of pension contributions payable. This represents one month's contributions.

Defined contribution - Other

The Group also offers a defined contribution pension scheme under SHAPS. Employer contributions for the year were £20,881 (2018 - £21,094) for the Group and £19,513 (2018 - £19,773) for Key Housing Association Limited only. Included in creditors as at 31 March 2019 is £2,950 (2018 - £3,071) in respect of the defined contribution scheme for the group and £2,744 (2018 - £2,870) for Key Housing Association Limited only. This represents one month's contribution. As at 31 March 2019 there were 34 (2018 - 38) active members of the scheme employed by the Group and 32 (2018 - 36) by Key Housing Association Limited.

Auto Enrolment

From 1 November 2013, eligible employees in KEY who were not active members of the SHAPS scheme were automatically enrolled into the Flexible Retirement Plan with contribution levels meeting minimum statutory requirements. From 1 April 2014, eligible employees in Community Lifestyles were similarly enrolled. Employer contributions for the year were £545,039 (2018 - £217,223) for the Group and £405,827 (2018 - £165,731) for KEY. As at the year end there were £140,154 (2018 - £192,861) pension contributions outstanding for the Group and £98,050 (2018 - £155,706) for KEY. There were 2,079 (2018 - 1,870) active members for the Group as at 31 March 2019 and 1,636 (2018 - 1,497) for KEY only.

At the year end £113,506 (2018: £110,291) was included in the pension creditor in respect of the past service deficit payment and pension management costs due to be paid at the year end for the Group and £111,499 (2018 -£108,401) for KEY only.

23. Retirement benefits (continued)

Employer debt on withdrawal

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any "orphan" liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Association has been notified by TPT of the estimated employer debt on withdrawal from the Scheme based on the financial position of the scheme as at 30 September 2017. As of this date the estimated employer debt for the Association was £54,328,274 and for Community Lifestyles Limited was £756,499. The employer debt on withdrawal based on the valuation as at 30 September 2018 is not yet available from TPT.

GMP equalisation

Guaranteed Minimum Pension (GMP) is the minimum pension which an occupational pension scheme in the UK has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS). Both pension scheme members and sponsoring employers paid lower National Insurance contributions at the time of accrual given the lower benefits being accrued for the member by the state. Women can currently receive their GMP benefits at age 60 compared to age 65 for men. GMP also accrued at a faster rate for women than men.

Historically some defined benefit schemes had different retirement ages for men and women. Therefore schemes are required to "equalise" pension ages and overall benefit scales between males and females. The Scheme actuary is therefore required to estimate the impact of GMP and include an allowance for the increase in calculated liabilities.

The impact of GMP equalisation for Key Housing Association Limited is 0.17% of liabilities, which is expected to be approximately £110,000. This is included within the closing defined benefit liability as detailed above.

The impact of GMP equalisation for Community Lifestyles Limited is expected to be approximately £nil.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

24. Operating lease commitments – Consolidated

	Land & Buildings 2019 £	Other 2019 £	Land & Buildings 2018 £	Other 2018 £
Annual commitments expiring within the following periods post year end:				
One year or less	263,293	43,693	244,919	48,378
Between two and five years	236,860	33,572	263,966	71,944
In five years or more	10,003	-	21,714	-
	<u>510,156</u>	<u>77,265</u>	<u>530,599</u>	<u>120,322</u>

Operating lease commitments – Association

	Land & Buildings 2019 £	Other 2019 £	Land & Buildings 2018 £	Other 2018 £
Annual commitments expiring within the following periods post year end:				
One year or less	263,293	43,693	244,919	48,378
Between two and five years	232,988	33,572	263,966	71,944
In five years or more	10,003	-	21,714	-
	<u>506,284</u>	<u>77,265</u>	<u>530,599</u>	<u>120,322</u>

25a. Share capital – Consolidated and Association

	2019 £	2018 £
Shares of £1 each fully paid and issued at:		
Brought forward at 1 April	309	318
Shares issued during the year	-	2
Shares cancelled during the year	(9)	(11)
	<u>300</u>	<u>309</u>

The Association issued no (2018 - 2) shares in the year. The shares have limited rights with no rights to dividends, redemptions or winding up. Each shareholder has the right to vote at the General Meetings.

25b. Revenue reserves

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

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

26a. Net cash inflow from operating activities: Consolidated	2019 £	2018 £
Surplus for the year	2,080,417	2,315,365
<u>Adjustments for non cash items</u>		
Depreciation of tangible fixed assets including loss on disposal of components	773,340	827,033
Carrying amount of tangible fixed asset disposals	15,477	8,478
Increase in creditors	913,858	519,911
Decrease/(increase) in debtors	905,595	(579,153)
Interest charge in respect of the defined benefit pension liability	259,463	130,091
Staff service costs in respect of the defined benefit pension liability	-	(225,802)
<u>Adjustments for investing or financing activities</u>		
Net proceeds from sale of tangible fixed assets	(3,000)	(2,400)
Interest payable	66,885	74,831
Interest receivable	(67,246)	(24,216)
SHAPS past service deficit payment	(1,392,464)	(1,375,712)
Shares cancelled	(9)	(11)
Release of deferred Government Capital grants	(6,625)	(6,625)
Movement in market value of investments	(7,891)	-
Net cash inflow from operating activities	<u>3,537,800</u>	<u>1,661,790</u>
26b. Net cash inflow from operating activities: Association	2019 £	2018 £
Surplus for the year	1,708,377	1,981,553
<u>Adjustments for non cash items</u>		
Depreciation of tangible fixed assets including loss on disposal of components	707,319	752,687
Carrying amount of tangible fixed asset disposals	-	8,478
Increase in creditors	379,274	617,898
Decrease/(increase) in debtors	97,687	(606,097)
Interest charge in respect of the defined benefit pension liability	255,463	129,000
Staff service costs in respect of the defined benefit pension liability	-	(225,000)
<u>Adjustments for investing or financing activities</u>		
Net proceeds from sale of tangible fixed assets	(3,000)	(2,400)
Interest payable	66,885	74,831
Interest receivable	(52,953)	(19,309)
SHAPS past service deficit payment	(1,369,464)	(1,353,032)
Shares cancelled	(9)	(11)
Release of deferred Government Capital Grant	(6,625)	(6,625)
Movement in market value of investments	(7,891)	-
Net cash inflow from operating activities	<u>1,775,063</u>	<u>1,351,973</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

27. Capital commitments – Consolidated and Association

	2019 £	2018 £
Contracted for but not provided for in the financial statements	-	-
Authorised by the Management Committee but not contracted for	-	-

28. Housing stock – Consolidated and Association

	Units under Management Mainstream 2019 £	Units under Management Mainstream 2018 £	Units under Management Supported 2019 £	Units under Management Supported 2018 £
Housing accommodation for letting:				
New build	125	125	565	565
Rehabilitation	-	-	22	22
	<u>125</u>	<u>125</u>	<u>587</u>	<u>587</u>
Registered accommodation:				
Number of bed spaces	-	-	-	-

There are no new units under development for either year.

29. Legislative provisions

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014 and registered with the Financial Conduct Authority.

30. Related parties

Subsidiary undertakings

In August 1995, Key Housing Association set up a subsidiary company, Community Lifestyles Limited. This company provides individualised home and community support services to adults with learning difficulties, mainly in housing not provided by the Association. This is provided under contracts with local authorities, mainly Glasgow City Council.

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

The transactions between the two entities during the year have consisted of net recharges totalling £790,758 (2018 - £792,421) by Key Housing Association to Community Lifestyles Limited for staff costs and other overheads. There were also a total of £173,934 (2018 - £166,366) of recharges from Community Lifestyles Limited to Key Housing Association Limited for staff costs and other overheads. At 31 March 2019, Community Lifestyles Limited owed Key Housing Association Limited £221,610 (2018 - £276,304) in respect of sundry items. Included in the year end creditors is £106,986 (2018 - £158,865) in respect of sundry items payable to Community Lifestyles Limited.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

30. Related parties (continued)

In January 2012, KEY set up a design and build subsidiary company called KHA Developments Limited. KHA Developments Limited had turnover of £28,975 (2018 - £107,657) for the year ended 31 March 2019 and operating costs of £27,803 (2018 - £104,509). All turnover was received from Key Housing Association Limited, £22,092 (2018 - £22,092) of operating costs represent rent and management charges payable to KEY. A gift aid distribution of £3,148 (2018 - £nil) was paid to Key Housing Association Limited. A gift aid distribution of £1,172 will be paid to the Association within 9 months of the year end. £39 (2018 - £22,118) remains due to the Association at the year end and this is included in debtors. Included in the year end creditors is £nil (2018 - £30,135) in respect of amounts payable to KHA Developments Limited.

Members of the Board

During the year the Association had one (2018 - one) member of the Board who was also a tenant. The tenancies of these members of the Board are on normal terms and the members cannot use their position to their advantage. The total rent charged in the year relating to Board members who are tenants is £394 (2018 - £4,638). The total prepaid rent relating to Board members who are tenants included within creditors at the year end is £nil (2018 - £42).