RED KITE COMMUNITY HOUSING LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDING 31 MARCH 2019

REGISTERED WITH THE HOMES & COMMUNITIES AGENCY No. 4682

REGISTERED WITH THE FINANCIAL CONDUCT AUTHORITY No.31322R

Index to the Financial Statements

Group and Association information

Registered Society registration number	31322R
Regulator of Social Housing registration number	4682
Registered office	Red Kite Community Housing Limited Windsor Court Kingsmead Business Park Frederick Place High Wycombe Buckinghamshire HP11 1JU
Board	Mike Gahagan, Chairman Patricia Brion Wendy Byrne Malcolm Campbell (*appointed 13 September 2018 & resigned on 3 July 2019)* Charles Leigh-Dugmore Ian McEnnis James Moorcroft Steven McIntosh Patrick Smith James Threapleton (*resigned 13 September 2018*) Paul Turner

Group and Association information (continued)

Chief Executive	Trevor Morrow
Company Secretary	Ray Prior
Executive Directors	Alan Keers, Deputy Chief Executive Ray Prior, Group Director of Resources
Funders	The Royal Bank of Scotland plc 250 Bishopsgate London EC2M 4AA Pension Insurance Corporation 14 Cornhill London EC3V 3ND
Solicitors	Anthony Collins Solicitors LLP 134 Edmund Street Birmingham B3 2ES
External Auditor	BDO LLP 2 City Place Gatwick West Sussex RH6 0PA
Internal Auditor	Mazars LLP Tower Bridge House St Katharine’s Way London E1W 1DD

Chairman's Statement

This is my second Chairman's statement. As I reflected on my first full twelve months as Chair, building on the considerable legacy of my predecessor, Jennie Ferrigno, I noted that it also marks the mid-point of our 5-year corporate plan "Our Corporate Journey."

During my first year we were concerned within Red Kite to establish the new group structure. Board members, tenants and staff worked extremely hard through a number of task and finish groups to set up Twenty11, our non-regulated housing charitable purpose company. We also created Pennvale and Edenmead. Pennvale enables us to provide non-charitable services, whilst Edenmead looks after our sales on the open market. The reason for such sales is to use the profits to subsidise our homes, which we let at below market rents.

Following on that period of intense activity, work during my second year has been devoted to establishing the new bodies whilst also paying attention to maintaining and improving our service to our Red Kite tenants and leaseholders. You may well have noted, amongst other things, that a number of changes have been made to our contractors in consultation with our residents group.

I am very pleased that we have been able to work closely across our programme with our leading tenants and leaseholders' representative group (previously CCIG now re-branded as the Residents Representative Team) under their new Chair, Roni Mc Gowan. They have engaged actively with the Board during the year and continue to influence our direction and ensure the customers' voice is heard. We are greatly indebted to all those who volunteer to help us: Red Kite would not be the same without you!

A word about Twenty11. A couple of years ago we consulted our residents as to what they regarded as important in a Housing Association. We took the results and created this new body. At its heart is the ability to set rents in accordance with a family's ability to pay. That is complemented by assistance to the family to reach their potential alongside signing up to positive behaviour via our tenancy sustainability licence approach. Twenty11 is a pilot and, as such, we are carefully monitoring it via the services of Sheffield Hallam University. Lessons learnt in its introduction may, after consultation, be applied to Red Kite tenants where there is a benefit and where regulation allows. We transferred the first homes to Twenty11 in September 2018. After six months activity the Board confirmed the success of the initial pilot and approved the continuation to a full trial over the next two years.

We reviewed as a Board our progress against our 5-year corporate journey at our Away Day in April this year. Much has been achieved. Our continuing financial strength, due to careful management over the years, has ensured that we have the capacity to deliver our ambitions. As the major Housing Association in High Wycombe we are conscious of the fact that we have a duty, in this area of acute housing shortage, not only to provide a high quality of service to our existing tenants but also to build as many new homes as possible. Whilst we have suffered some frustrations in obtaining planning permissions, at last we have homes under construction. Moreover, because the Board intends to move beyond our current target of 375 new homes, our Development team is putting together plans to exceed that target which should be reflected in our business plan next year.

Finally, we continue to have a strong, independently minded Board and an excellent executive team. We were sorry to say goodbye to James Threapleton as a Board member at our AGM last year. We are conscious of the need to recruit effectively to replace others whose term of office will expire next year and to consider ways to increase tenant representation on the Board. Most importantly, we will all continue to strive to ensure that the Red Kite Community Housing Group continues as a tenant led organisation which provides high quality homes and services for our community.

Mike Gahagan CB

Strategic Report

Principal activities

Red Kite Community Housing is a charitable registered society that was registered with the Financial Conduct Authority on 26 July 2011 and commenced trading on 13 December 2011 when it purchased the entire housing stock of Wycombe District Council. Red Kite's primary purposes are:

- the provision of affordable housing to our local community, and
- to realise the potential in our communities.

The Group owns and manages over 6,500 properties across the Wycombe District, including approximately 650 leasehold flats.

In December 2018 the structure changed from a single entity into a Group one, and this would underpin the delivery of the Corporate Journey.

Business and financial review

The financial statements cover the twelve-month period to the 31 March 2019 and are presented on a full Group basis for the first time. The Group is in its infancy and this is reflected by the significant influence that Red Kite Community Housing Ltd has on its financial performance. The Board reports an operating surplus for the year (excluding gains on disposal of property) of £9,399,000 (2018: £10,005,000). The decrease in the operating surplus for the year is influenced by the third year of the rent reductions, the planned investment in the subsidiary Twenty11, and the increase in the routine maintenance expenditure. The investment in our existing homes and garages charged to the statement of comprehensive income this year was £8,437,000 (2018: £9,109,000). In addition, we invested a further £5,578,000 (2018: £4,019,000) that was added to the value of our homes as reflected in the statement of financial position. This resulted in a total investment of £14,015,000 (2018: £13,128,000 in our existing homes. The recurring rental income for our homes in the Group reduced by £434,000 during the year, with the main drivers being the 1% annual rent reduction (that will continue to March until 2020) and the number of Right to Buy sales. However, the level of service charge income continues to increase following the previous decision in 2014 to de-pool these from the rents.

The surplus for the financial year of £8,932,000 (2018: £5,846,000) was influenced by the one off cost of £2,513,000 in relation to refinancing in 2018, a decrease in the operating surplus, and the reduced gains of £403,000 on the disposal of properties (2018: £1,196,000). However this was partial off set by the gain of £1,699,000 in the value of the three investment assets that are now being used for the development of new homes for the local community.

During the year we commenced our first development scheme, and by the end of the year this had increased to 5 with a total of 52 new homes in development. During the year we invested a total of £3,693,000 in these 5 schemes and in the feasibility and preparation works for some of the remaining 323 homes that we are looking to deliver by March 2022.

During the year our Group structure, which is still in its infancy was able to deliver the pilot of Twenty11 and to commence the journey of Pennvale and Edenmead.

Strategic Report (continued)

Business and financial review (continued)

The reported total comprehensive income for the year of £9,471,000 (2018: £6,890,000 includes an actuarial gain (relating to Buckinghamshire County Council Pension Fund) of £539,000 (2018: £1,044,000). This gain of £1,583,000 over the last two financial years offsets the loss of in 2017 of £1,664,000.

Red Kite is a tenant-led business. This means that we provide the means for tenants and leaseholders to influence our direction and determine what type of organisation we are and will be. We have 889 tenants and leaseholders as shareholders (2018: 939), two positions are available for tenants and leaseholders to sit on our Board; and it is tenants and leaseholders who make the key procurement decisions and monitor performance of our various repairs and maintenance contractors.

During the year the Board approved a revised Development Strategy that seeks to increase the total of new homes developed from 375 by March 2022 to 1,100 by March 2028. This enhanced investment in the local community is underpinned by the Groups strong financial position, the refinancing that was completed in July 2017, and the strong pool of unsecured good quality homes that can used as security. As previously the strategy is for a mixed portfolio with social, affordable and discounted homes subsidised by homes developed for market rental or sale.

In addition to the above funding in new homes the Board approved a Business Plan in March 2019 that has a fully funded programme of investment in our existing homes, ensuring that our tenants continue to be proud of their homes and their wider community.

The Board has set a clear vision of how it will realise the potential in our communities, and a fundamental part of this will be delivered by the new subsidiaries that were formed when the Board approved its Group Structure in December 2017. In the year we incurred £678,000 of expenditure that relates to turning the aspirations of the Board into real outcomes for our community. One of these new subsidiaries, Twenty11, has been created as an unregulated housing charity, following the regulatory changes that were introduced in April 2017. This has allowed homes to be transferred to it that will enable Twenty11 to charge rents that are aligned to our tenant's ability to pay and support its tenants to enhance their individual circumstances and assist them to improve their financial well-being. At 31 March 2019 41 homes had been transferred to Twenty11, and at its meeting in March the Group Board agreed to progress from the initial pilot to a full one of up to 500 homes by March 2021.

We continue to operate in an environment where the focus of Government is on Brexit, creating uncertainty for the sector and the wider economy. In addition it is distracting the Government focus away from issues that need addressing, and affect the social housing sector, such as the issues raised in the green paper published in 2018 in response to the Grenfell tragedy. As a Board we take into consideration both the potential economic impact of Brexit and any measures that eventually might arise as a result of the green paper.

Strategic Report (continued)

Business and financial review (continued)

Summary statements of comprehensive income and financial position are shown below:

For the year ended 31 March	2019	2018*	2017*	2016	2015
	£'000	£'000	£'000	£'000	£'000
Statement of Comprehensive Income					
Total turnover	34,853	35,295	35,672	36,343	35,530
Operating surplus (excluding gains on property sales)	9,399	10,005	8,041	9,681	9,478
Total comprehensive income for the year	9,471	6,890	5,659	7,017	1,113
Statement of Financial Position					
Negative goodwill	(51,924)	(54,379)	(56,813)	(38,187)	(40,206)
Housing properties, net of depreciation	178,418	173,099	171,935	166,306	158,006
Investment properties	5,492	4,551	4,260	4,085	3,987
Other fixed assets	524	634	692	890	1,074
Fixed assets	132,510	123,905	120,074	133,094	172,861
Net current assets	23,314	6,062	6,626	5,028	9,405
Debtors due after one year	140,924	146,849	154,945	-	-
Total assets less current liabilities	296,748	276,816	281,645	138,122	132,266
Creditors due in more than one year	(87,732)	(71,118)	(74,146)	(94,453)	(94,522
Net pension liability	(6,858)	(7,076)	(7,740)	(5,793)	(6,883
Provisions for liabilities	(140,989)	(146,924)	(154,951)	(28)	(28)
Total net assets	61,169	51,698	44,808	37,848	30,833
Reserves	(61,169)	(51,698)	(44,808)	(37,848)	(30,833)

*restated

Strategic Report (continued)

Business and financial review (continued)

	2019	2018*	2017	2016	2015
Social housing properties owned at the year-end:	5,775	5,831	5,833	5,911	5,944
Statistics:					
Operating surplus as % of turnover	27.0%	28.3%	21.2%	26.6%	26.7%
EBITDA interest cover (including sales)	356%	390.0%	290.8%	265.8%	282.9%
EBITDA MRI interest cover (including sales)	172%	254.0%	77.9%	-10.4%	-53.1%
Surplus for year as % of income from social housing lettings	27.0%	17.5%	20.1%	17.1%	7.6%
Rent losses (*voids and bad debts as % of rent and service charges receivable)*	1.3%	1.6%	1.4%	1.5%	2.4%
Rent arrears *(gross current tenant arrears as % of operating turnover)*	3.7%	3.6%	3.6%	3.5%	3.6%
Liquidity *(current assets divided by current liabilities)*	224.5%	131.9%	146.1%	148.3%	186.6%

*restated

Strategic Report (continued)

Business and financial review (continued)

Complying with our covenants

We monitor all Group debt financial covenants regularly and we fully complied with them during the year, and at 31 March 2019. In addition to the covenants contained within our loan agreements, the Group has a number of internal measures that it monitors and uses to manage the business. We also run regular multi variant scenario and stress tests of our financial position and forecasts to ensure that even in the most unlikely combinations of adverse market conditions or shocks our business, factoring in our development plans, is not put at risk and adequate covenant headroom is maintained.

Objectives and strategy

The Board adopted the National Housing Federation 2015 Code of Governance in March 2015. As part of adopting the Code, the Board undertook a review of the Rules of the Group, reducing the size of the Board and revising its structure. The significant changes were to reduce the size of the Board to 11, whilst increasing the opportunity for tenants and leaseholders to be on the Board. The Board is aware of the risks inherent in its operating environment and the new risks that are created by its new corporate strategy, especially with regards to development. During the year the Board has recruited new members to ensure that the Board has the necessary skills, individually and collectively, to manage these risks and to effect strong governance.

The Group's purpose remains as stated in Our Corporate Journey, the Corporate Strategy adopted by the Board in 2016:

"To realise the potential in our communities".

The Board recognises that it is not only what we do, but how we do it, that is important. The culture that will reflect this is based upon:

Partnership:
We cannot achieve our purpose alone or as individuals acting alone. We want to work with others who share our purpose and values. Our customers, volunteers and staff work together to achieve success.

Respect:
We value everyone and seek to enable every individual to realise their potential.

Pride:
We strive always to be the best we can, learning from our mistakes and celebrating our successes

Strategic Report (continued)

Business and financial review (continued)

The Corporate Strategy objectives are:

PROVIDING GREAT HOMES	We will provide homes in our local communities that our customers need, aspire to and can afford, in neighbourhoods where they want to live and are proud of We will provide new homes in our local communities, with choices that make the best use of the properties and land available to us We will provide a greater range of options for our customers to rent, lease or own a home
KNOWING OUR CUSTOMERS	We will get the basics right by knowing our current and future customers; what they need, aspire to, can afford and what's important to them We will use feedback to respond to their changing needs, to increase choice and to drive innovation and improvement We will deliver personalised services in a way that is efficient and modern We will provide services in a way that reflects our culture and values and meets our customers' needs and aspirations at an affordable price
INSPIRING PEOPLE	We will have really amazing talented staff and volunteers working for us and others wanting to join us
BUILDING THRIVING COMMUNITIES	We will work together to develop safe, connected, sustainable communities that grow and flourish We will build strong partnerships to create opportunities that benefit the whole community and create positive life chances
INCREASING OUR INVESTMENT	We will generate surpluses to reinvest within our communities We will constantly review the services we deliver and how we deliver them to ensure we reduce costs and offer value to customers We will seek opportunities that generate a positive financial return, whether these are in providing new homes, new services or social enterprises

Strategic Report (continued)

Value for Money Report

Overview

This, our second Value for Money report prepared according to the Value for Money Standard April 2018, relates to the period 1 April 2018 to 31 March 2019. It has been prepared in light of our VfM strategy, "Our Strategic Approach to Value for Money" updated and approved by the Board this year.

The Value for Money standard requires us to report against seven metrics defined by the Regulator at group level (although some require measurement against social housing assets) and against additional measures selected by the Board which are appropriate to the business priorities. The measures will include the performance of Red Kite and its subsidiaries including its unregistered housing charity, Twenty11 Homes Limited. In reporting we are required to consider actual performance, previous year's performance, future forecasts and targets against forecasts in relation to strategic objectives. This year the Board has approved targets/ guide rails for both the metrics defined by the Regulator and those defined by Red Kite. We will report against these going forward. Red Kite's approach to measurement (for VfM and for our performance framework) is to set guide rails within which achievement is regarded as appropriate and outside which a comment would be made. In some cases, an absolute target with guide rails as a percentage of this is appropriate (e.g. where a measure corresponds to a budget figure). The Board have, this year, made some adjustments to Red Kite metrics going forward and these are set out in that section of the report.

Standard Metrics

The seven standard metrics required by the Regulator can be drawn from audited accounts and benchmarked against the Global Accounts of the Sector Scorecard report for comparative purposes. They are therefore of necessity in the main financial metrics. We report on them below here the Standard refers to "Housing Properties" we use "Homes" as the preferred Red Kite terminology. Where changes in accounting policies have altered comparative figures in the accounts, in this report we have used the previously reported metrics for 2018, consistent with those in Global Accounts.

Forecasts and Benchmarking Where the metrics relate to measurable items within the business plan, the forecast figures are drawn from the 30-year business plan approved by the Board in March 2019. We have also included, from that plan, the forecast figures for the years ending 31st March 2020 to 2024.

For benchmarking we have used Global Accounts 2018 – published by the Regulator based on sector wide accounts where available or Sector Scorecard 2018 where not. Note that where the benchmark is extrapolated forward it might not represent where the quartiles sit in future years, so it compares a future forecast figure for Red Kite against most recent benchmark information.

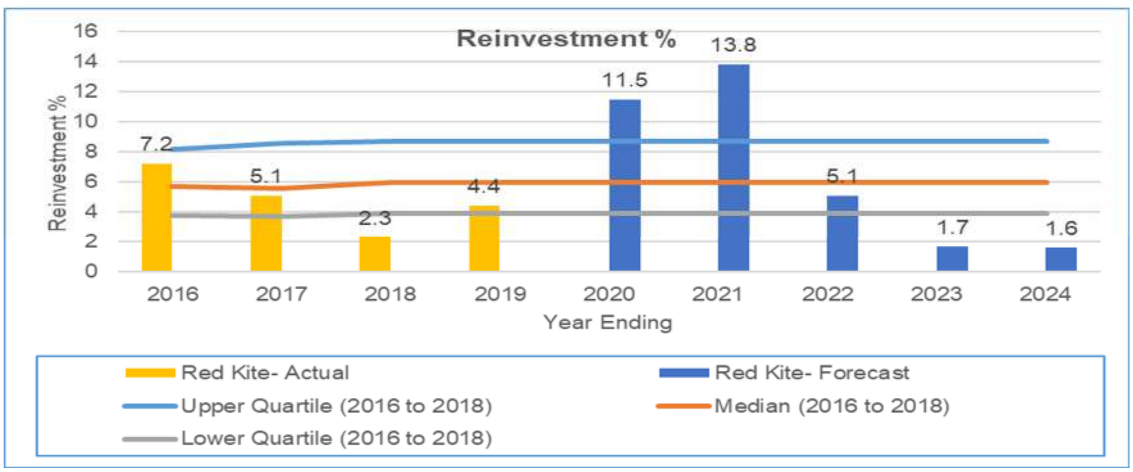
Targets have been set for the standard metrics based on budget with guide rails either side. The principle of using guide rails is that where metrics (either VfM or corporate performance) are outside the guide rails, this triggers a mitigating action and a review by Board or a designated board committee.

Strategic Report (continued)

Value for Money Report (continued)

	Required VfM measures			
KPI No.	**Description**	**Lower Guiderail**	**Upper Guiderail**	**Comment**
1	Reinvestment percentage	90%	105%	Based on 2019 budgeted figure
2 (i)	New supply (social)	80%	97%	Based on 2019 budgeted figure
2 (ii)	New supply (non-social)	80%	97%	
3	Gearing	95%	115%	Based on 2019 budgeted figure
4	EBITDA (MRI)	95%	115%	Based on 2019 budgeted figure
5	Cost per home	90%	105%	Based on 2019 budgeted figure
6 (i)	Operating margin (social)	95%	115%	Based on 2019 budgeted figure
6 (ii)	Operating margin (overall)	95%	115%	Based on 2019 budgeted figure
7	Return on Capital Employed	95%	115%	Based on 2019 budgeted figure

Metric 1: Reinvestment percentage



(Investment in existing and new Homes/Value of Homes at period end)

Target for y.e. 31 Mar 2020 is 11.5%, Lower guide rail 10.3%, Upper guide rail 12.1%

The benchmark quartile figures are taken from the sector scorecard figures for the year to March 2018 (the latest figures available) with actual comparatives for the years 2016 to 2018.

The metric, which is on a group basis, reflects delays in our development programme which have been due to difficulties in obtaining planning permission; the impact of which is to push the plan out to March 2022. It takes into account both capital investment in our existing homes and investment in new homes.

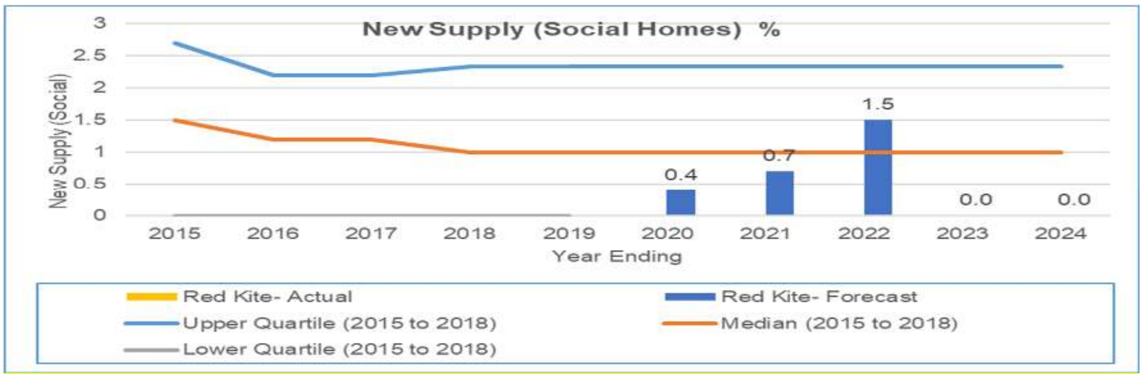
The historic figures (to March 2018) largely reflect the investment in existing homes whereas the figures from 2020 to 2022 in the main reflect the development programme which, subject to planning, is expected to take place in those years. 2019 is somewhat of a transition year as we have begun to develop new homes.

Strategic Report (continued)

Value for Money Report (continued)

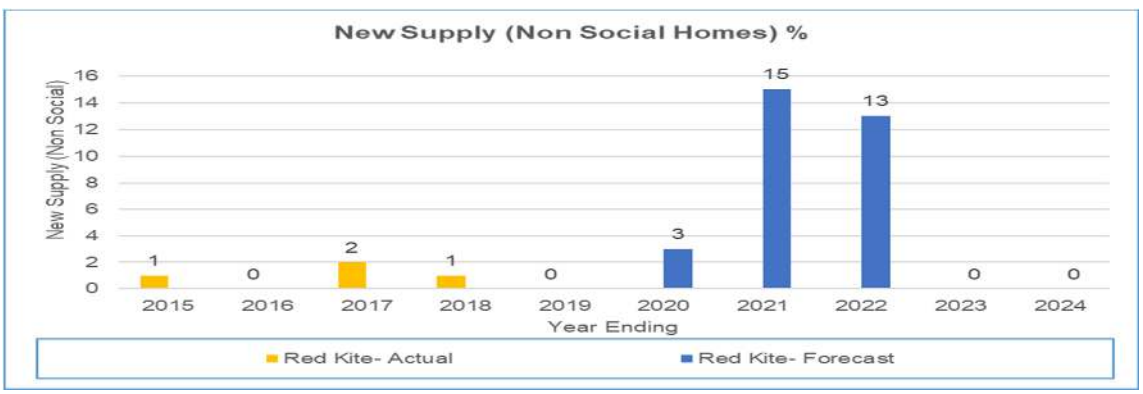
Although the current plan reflects the current business plan intention to develop 375 homes the Board have approved a development strategy to increase that up to a maximum of 500 and thereafter a further 120 homes per year for the following 5 years. The Development team together with the Finance team are working on definite plans to support this and we expect this to be reflected within next year's Business plan. The numbers for the outyears will change once the mix of homes to be developed is determined and this will be reflected in next year's report.

Metric 2: New supply delivered



(Total homes acquired or developed in the period/Total homes held at the end of the Period)

Target for y.e. 31 Mar 2020 is 0.4%, Lower guide rail 0.32%, Upper guide rail 0.39%



(Total homes acquired or developed in the period/Total homes held at the end of the Period)

Target for year ending 31 Mar 2020 is 3%, Lower guide rail 2.4%, Upper guide rail 2.91%

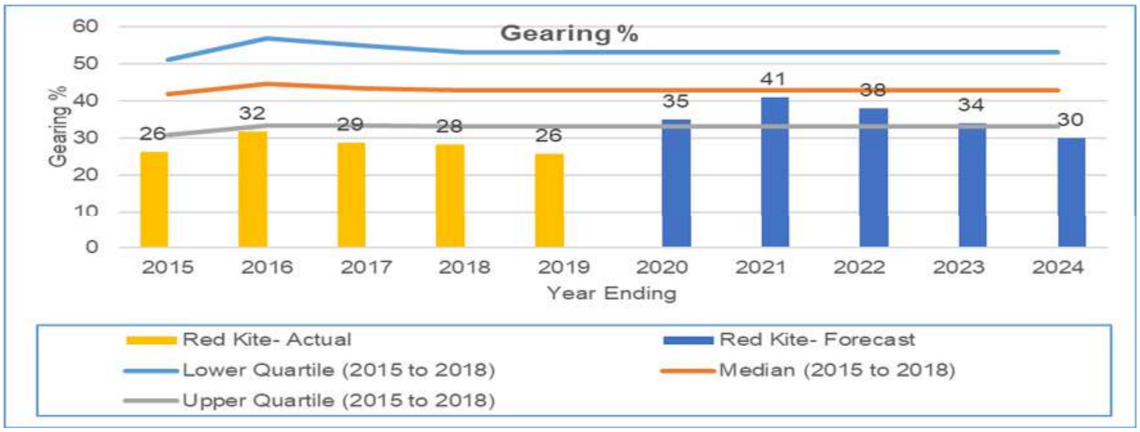
This metric is on a group basis but there is a requirement to distinguish between social and non-social homes. On a strict interpretation of the definition of social homes, development homes transferred to Twenty11 are not included within this definition even though they will be discounted below 80% of market value and qualify as meeting Twenty11's charitable purpose. For this reason, the new supply of social homes is relatively small; the development programme all being included in the second graph.

Strategic Report (continued)

Value for Money Report (continued)

The current development programme is explained in more detail under Metric F1 below and has been designed in such a way that Red Kite Group will be able to prepare a further plan to ensure a continuous development pipeline enabling us to continue to invest in homes available at a discount to the market value. This is not shown in the metrics as, at the moment, this is an intention without a definite plan to support it.
The main difference between this year and last years' reports is that development is delayed due to difficulties in obtaining planning permission. As noted above, both reports are based upon the original plan to develop 375 new homes.

Metric 3: Gearing percentage



(Net debt/Value of Homes at period end)

Target for y.e. 31 Mar 2020 is 35%, Lower guide rail 33%, Upper guide rail 40%

Gearing shows the extent to which our investment depends upon debt, measured on a group basis. It has traditionally been quite low and continues lower in the budget this year due to delays in the development programme but increases to just above the benchmark median as our development programme gets built. Although this shows a decrease in 2022/23 there is an intention to sustain an ongoing programme of development and this will be modelled in the 2020 business plan. When considering Gearing we need to be mindful of our financial covenant that gearing should not exceed 55% and our golden rule sets a maximum level of 50% before intervention is required.

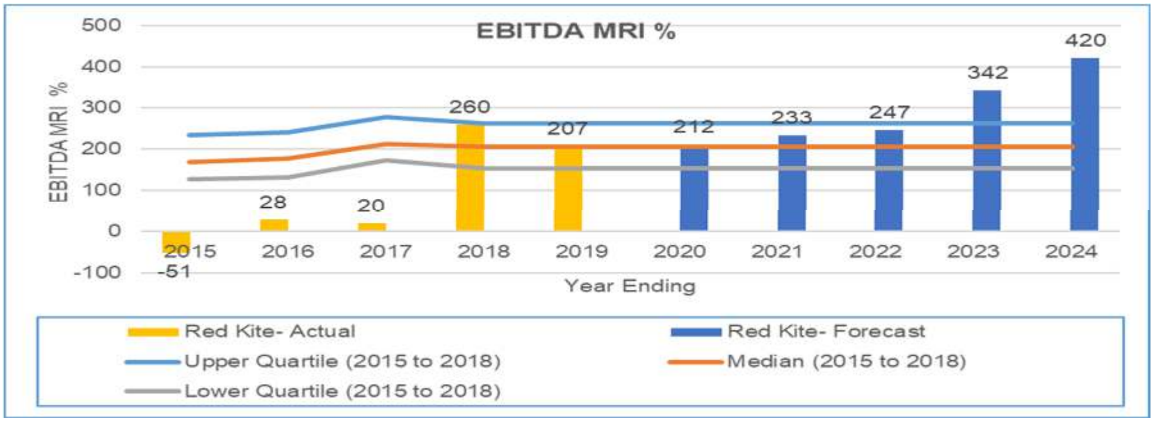
We are a relatively young organisation, being a stock transfer from Wycombe District Council at the end of 2011. The Board took a strategic decision for Red Kite to concentrate in its early years on fulfilling the stock improvement promises made to its residents (investing in our existing homes) before embarking upon development activity. The next stage of our Corporate Journey has involved establishing our development programme of a minimum of 375 new homes over the next three years.

Whilst Red Kite has as yet no definitive plans, the mix of development in the first phase alongside our relatively low gearing and unencumbered stock will allow further borrowings to support sustained development in future.

Strategic Report (continued)

Value for Money Report (continued)

Metric 4: EBITDA(MRI)

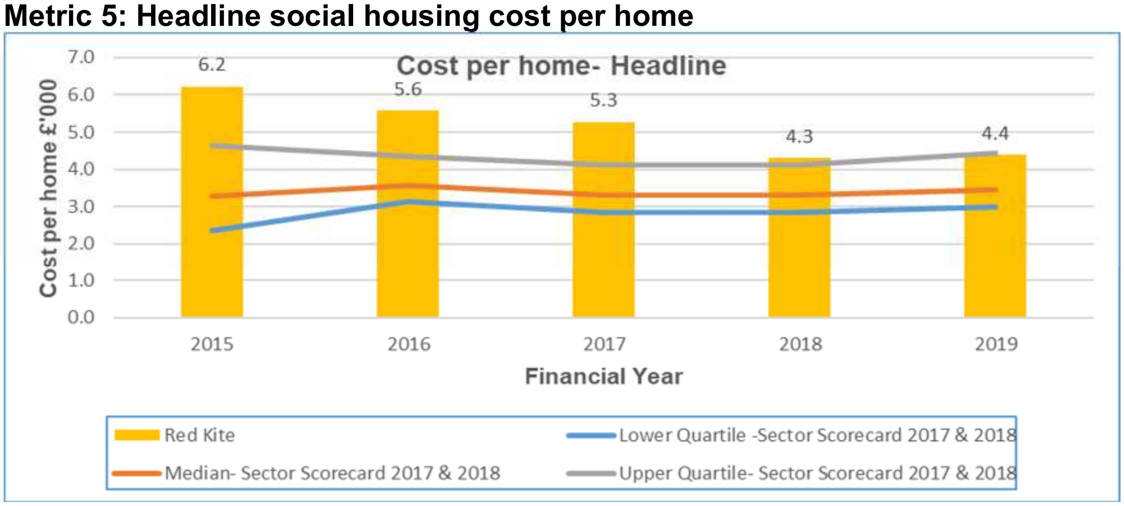


(Operating surplus adjusted for depreciation and grant and capital investment in properties/interest cost)

Target for y. e. 31 Mar 2020 is 212%, Lower guide rail 201%, Upper guide rail 244%

This key metric is one which our funders pay attention to. The levels of EBITDA(MRI) achieved and forecasted are comfortably above our covenant ratio and indeed our more challenging golden rule of 130%. The significant improvement in the most recent two financial years reflects the very significant spend made in Red Kite in the first five years of its existence on improvements to its existing homes (see Metric 1 above) and the reduction in interest cost occasioned by our re-financing in 2017. Red Kite delivered its promised investment in existing homes by December 2016 at a cost of £34m less than originally budgeted. Although Red Kite still has a very significant programme of investment in its homes, (see Metric 5 and Metric C below) its EBITDA(MRI) shows a strengthening financial position and strong interest cover going forward. Its slight dip in 2019 was forecast last year. The strengthening position thereafter will support the Board's ambitions to carry out a sustained programme of development beyond its current plan (as noted above under reinvestment percentage).

Metric 5: Headline social housing cost per home



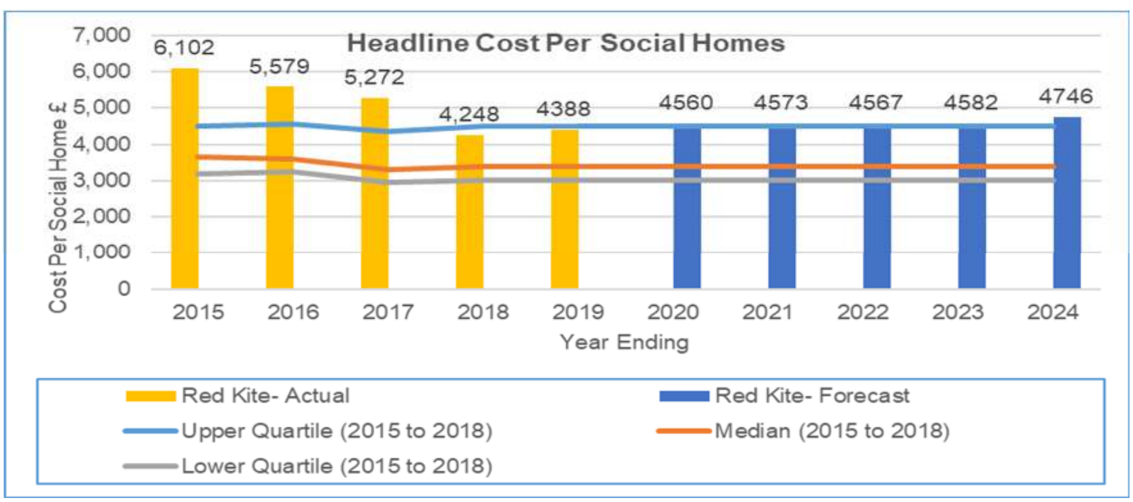
Strategic Report (continued)

Value for Money Report (continued)

Historically Red Kite have had very high costs per home, due to a high level of capital investment in our homes during the early years as we completed the promises made to our tenants at stock transfer. In the last two years cost per home has decreased significantly so that it now corresponds to the upper quartile of costs from the Global Accounts; (here upper quartile means higher… so in this case not a positive). In every area we are at median or below with the exception of investment in our existing homes. The Board has made a conscious decision to make a significant investment based upon stock condition information and our higher 'Red Kite standard', agreed with tenants, above the base decent homes standard. This is a measure of our commitment to our residents and not unusual within a relatively new stock transfer.

Further analysis of our cost per home is shown in Metric C. We have targeted reduction of management cost over the last two years and this has reduced in part due to diversification of activities and in part due to efficiency savings. This is now at a level much closer to the median (Global Accounts comparison) and compares favourably with other local Registered Providers. We will continue to manage these costs whilst ensuring that there is sufficient investment to meet our corporate objectives. For more detailed commentary see Metric C below.

Looking forward, using comparative data from the Sector Scorecard (see below), we are forecasting cost per home to stabilise at around its current level. Our Red Kite standard is higher than the basic homes standard and our future investment is fully in line with our stock condition survey information. We also have a significant investment within tenant involvement and community investment (including £100k a year invested in community projects via our Springboard fund); these figures are not included in our cost per home but represent a real investment in the community.

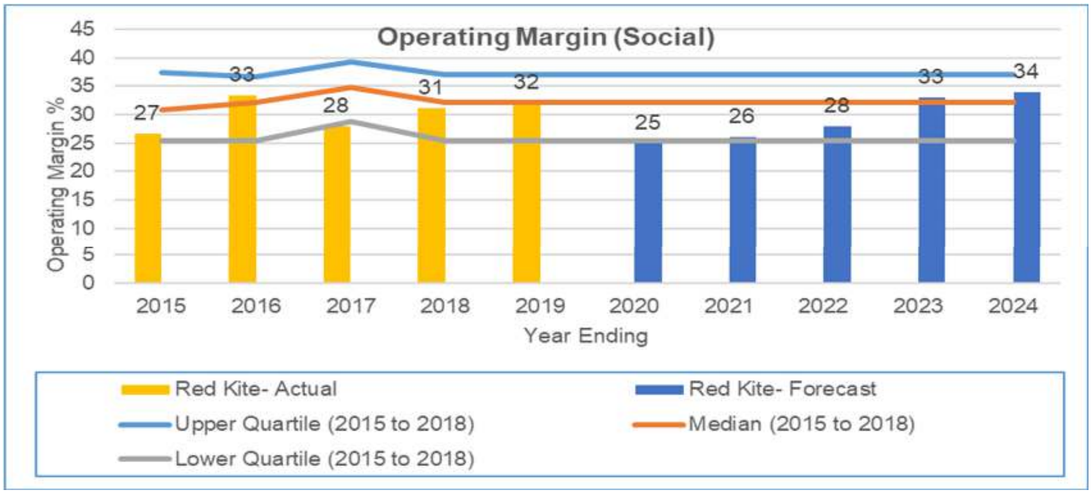


Target for y.e. 31 Mar 2020 is £4,560, Lower guide rail £4104, Upper guide rail £4,788

Strategic Report (continued)

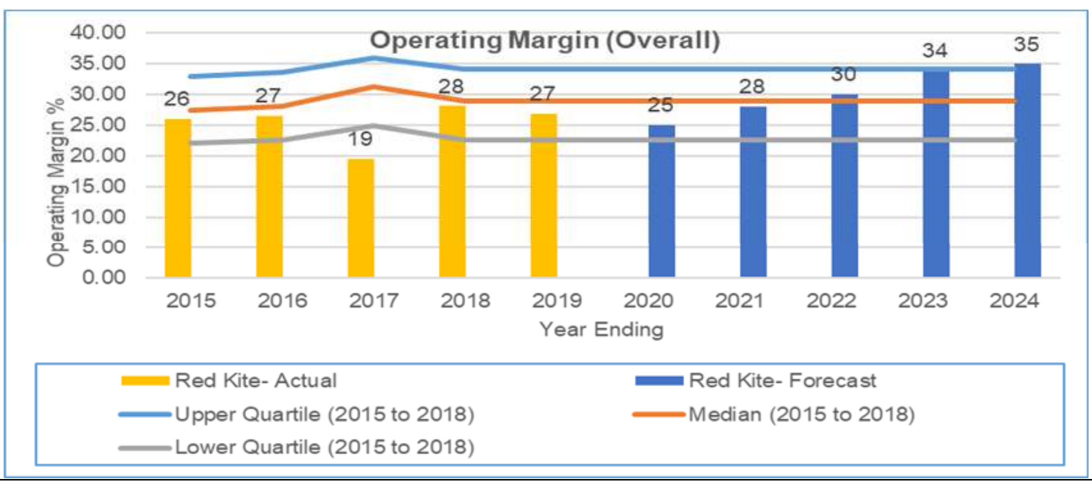
Value for Money Report (continued)

Metric 6: Operating margin (measured for social housing lettings and overall)



Target for y.e. 31 Mar 2020 is 25%, Lower guide rail 23.75%, Upper guide rail 28.75%

Our operating margin – social housing sits below the median and will decrease slightly next year. We are forecasting an improvement to current median by March 2023. The dip this year is due to higher planned investment in existing homes; the improvement will come from the change to rental restrictions and efficiencies through development of our Information Technology systems without compromising our investment in our homes.



Target for y.e. 31 Mar 2020 is 25%, Lower guide rail 23.75%, Upper guide rail 28.75%

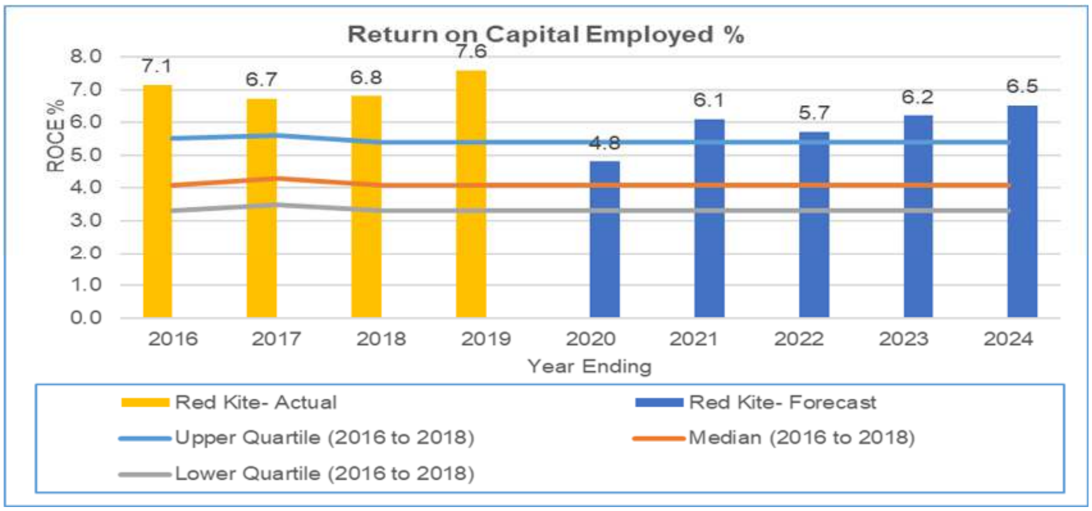
Overall operating margin follows a similar pattern to operating margin - social housing. The level of operating margin from 2015 to 2017 is due to the investment in our homes, some of which is taken through the Income and Expenditure account; efficiencies made in the business have enabled us to manage the change in government rental policy and this and this can be seen in the recovery from 2018.

Strategic Report (continued)

Value for Money Report (continued)

The strong predicted improvement in operating margin from the year ended 31st March 2021 reflects both the lower required investment in our homes (having completed the promises, but still significantly higher than sector average – see Metric C) and the change in government rent setting policy (from a 1% year on year actual reduction to CPI + 1% for that year onward).

Metric 7: Return on Capital Employed



(Operating surplus plus other gains and losses/Total assets less current liabilities)

Target for y.e. 31 Mar 2020 is 4.8%, Lower guide rail 4.6%, Upper guide rail 5.5%

We have a strong return on capital employed; this is an indicator of our financial strength which will support our growth ambitions going forward. We are currently focussing our efforts on delivering our initial development plan and providing new housing solutions through the set-up of our group structures and this will be the focus for the next two years at least.

Moving forward the Board will look to review our future growth plans to utilise our financial strength to maximise our ability to achieve our corporate “why?” – namely “To realise the potential of our communities”.

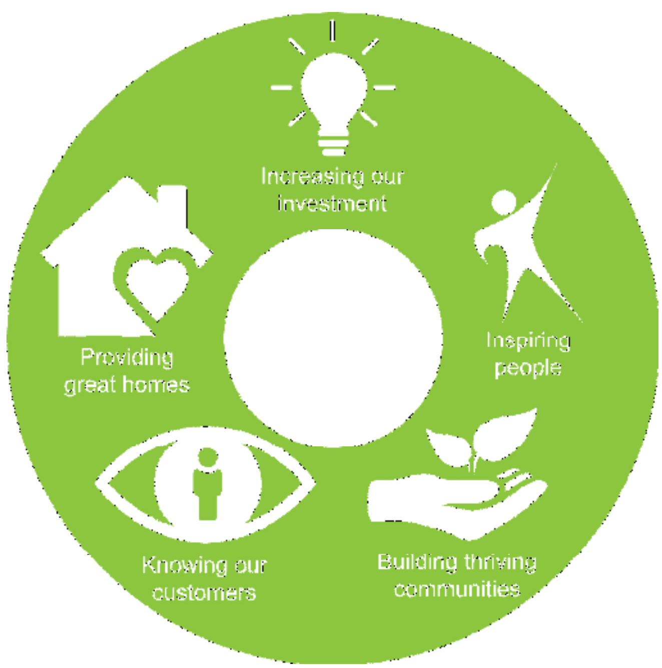
Strategic Report (continued)

Value for Money Report (continued)

Red Kite Group Metrics (based on Corporate Objectives)

The Standard allows for RPs to select additional metrics which demonstrate performance against Corporate Objectives and the range of activities that the Group undertakes. Last year, selection of these metrics took place after the year end; thus setting a base line for future years (and in the case of the breakdown of cost per home (metric C) providing more information to inform our overall cost per home measure. This year we have set guide rails for each measure; have defined two new measures to monitor the performance of Twenty11 and refined our approach to measuring tenant participation. Each metric is referenced to relevant corporate objectives. To distinguish the Red Kite Metrics from the standard Metrics they are numbered alphanumerically.

Red Kite's Corporate strategy is expressed within "Our Corporate Journey" agreed by the Board in 2016. "Our Corporate Journey" starts with Red Kite's history and its foundation as a tenant led organisation. It goes on to express our purpose "To realise the potential of our communities" and expresses that in terms of five Corporate Objectives:



Strategic Report (continued)

Value for Money Report (continued)

The Board set guide rails in May 2019 for the Red Kite defined measures and these are noted below.

Red Kite measures				
KPI No	Description	Lower Guide rail	Upper Guide rail	Corporate objective
A1	Membership	850	1000	Tenant Led
A2	Tenant participation - influencing	20	40	
C	CPH Management	90%	105%	Providing great homes Increasing our investment
	CPH Service Charges	90%	105%	
	CPH Maintenance	90%	105%	
	CPH Major Repairs	90%	105%	
D	Occupancy Level - General	99.4%	99.7%	Providing great homes
	Occupancy Level - Sheltered	98.9%	99.4%	
	Rents Collected	99.9%	100.4%	
E1	Customer satisfaction - repairs	85%	93%	Knowing our customers
	Customer satisfaction – ASB (satisfied with neighbourhood)	80%	90%	
E2	Positive/negative feedback	85%	97.5%	
F	Development plan mix (affordable homes) – includes social, affordable and discounted rental homes	163/375	189/375	Commitment to the community
G1	Twenty11 – average Tenancy Sustainment Licence Score	97	105	Providing great homes
G2	Twenty 11 – arrears ratio	1.1	0.8	

No guide rail has been set for Measure B as we will not be using this measure going forward. This is because the organisation is no longer using the 9-box grid as a measure of performance. It is intended to replace this measure later in the year following further work on corporate development.

Strategic Report (continued)

Value for Money Report (continued)

Being a Tenant Led Organisation
(Corporate Objectives; Knowing Our Customers and Inspiring People)

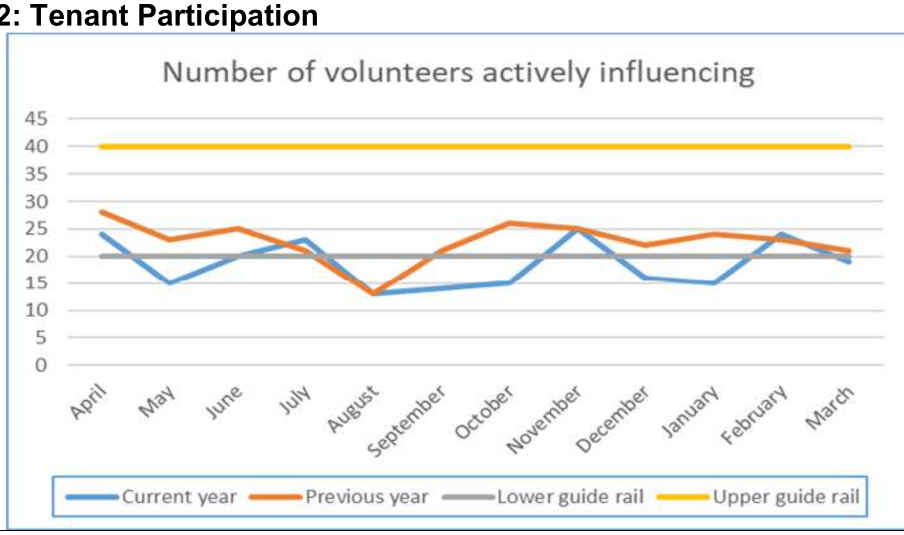
Metric A1: Membership

For the year ending 31 Mar 2020 Lower guide rail is 850, Upper guide rail is 1000

As a tenant led organisation, we have an open membership and encourage tenant participation in decision making. Membership is formally measured on the occasion of Board meetings; hence this graph does not measure it every month.

Our membership grew each year since Red Kite was set up in 2012 until the year ending March 2018. There was a conscious effort in 2017 to recruit new members whilst we were consulting about the future direction of Red Kite prior to setting up the new group structure. Since then there has been no similar focussed campaign and membership has declined although still within the guide rails and at a higher level than in March 2017. The value of setting guide rails for this measure is it will require consideration about how we could actively promote wider membership going forward the key to which is plinked to Metric A2 below.

Metric A2: Tenant Participation



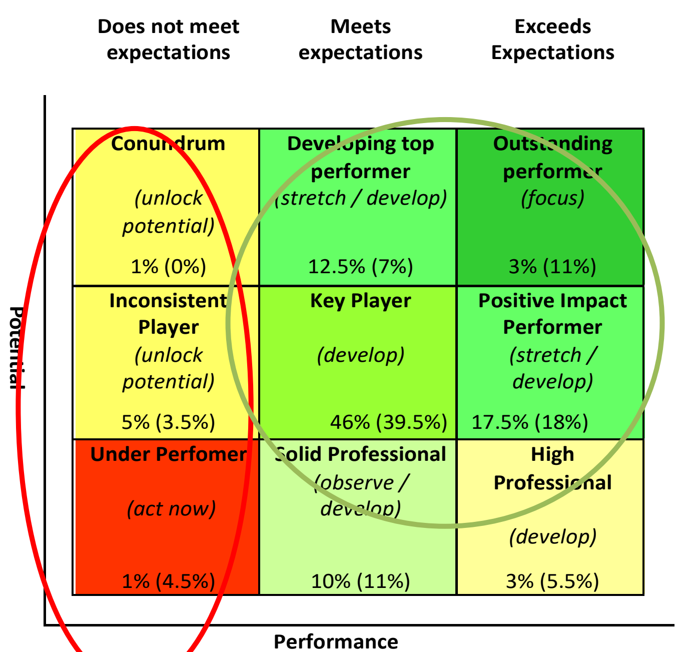
For the year ending 31 Mar 2020 Lower guide rail is 20, Upper guide rail is 40

Strategic Report (continued)

Value for Money Report (continued)

We have refined this measure this year to focus on "Influencing"; those involved in high-level consultation. This measure is part of our overall performance framework of KPIs monitored by the Board (in this case in the first instance by the People, Operational Performance and Policy Committee – henceforth in this document PPP). This year the number has oscillated around the lower guide rail which was set for this measure by Board both for the year to March 2019 and the current financial year. In the previous year the average number influencing per month was higher (22.7) in comparison to this year (18.6). This decline has been noted and we are working with our key tenant representative group (previously known as CCIG, now Residents Representative Team) to improve this. We recruited ten new volunteers to work with us in a variety of areas since January this year. This should have an impact on this measure new volunteers complete their induction and take an active role in the life of Red Kite. We are also recruiting a manager to work on volunteering and community involvement as we recognise that this key strategic area is proving to be challenging.

A) Inspiring People
Metric B: the nine-box grid



The nine-box grid is a tool we have used to evaluate our staff's performance and potential to ensure that we have the appropriate blend of people with the right values and experience to deliver our Corporate Objectives. A base line was set in last year with only 8% of staff in the left-hand column indicating a need for improvement and 75.5% of staff in the upper right four quartiles (last year's figures in brackets).
We did target increasing the percentage in the upper right four quartiles (green circle) to 80%. When last measured this had increased to 79%. At the same time those in the left-hand column have reduced to 7% (5% target).

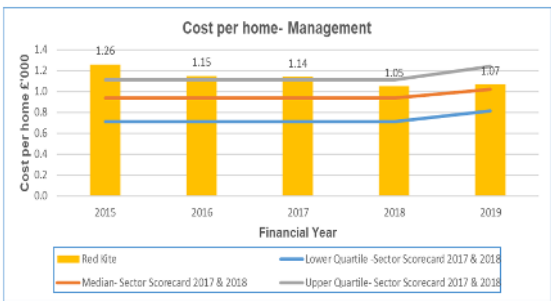
Strategic Report (continued)

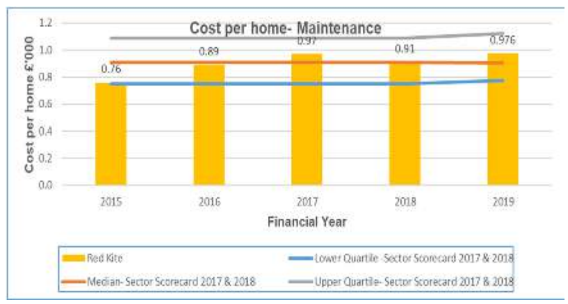
Value for Money Report (continued)

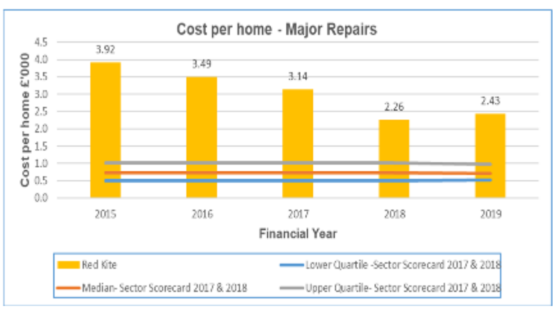
Red Kite aspires to be a growing organisation and to facilitate this we have continued with and further developed our corporate development programme “GROW” this year - tailored to individual needs and aimed at more closely aligning the skills and values of the staff to our stated values and so enable our future growth.

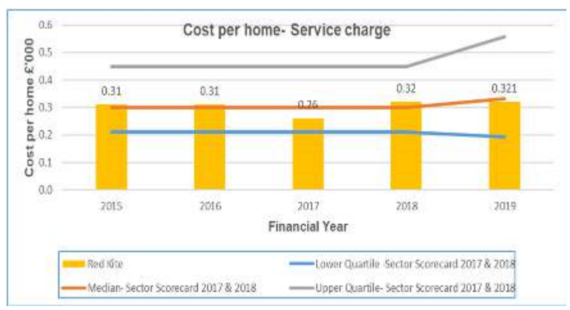
The 9-box grid is no longer being used to measure staff performance and potential because it was not well received or understood by staff. Alternative performance management tools will be developed in this financial year and for VfM purposes we will look to develop an alternative measure based upon staff well-being.

C) Providing Great Homes and Increasing our Investment
Metric C: Cost of Homes Broken into individual Components









Component	Target (budget)	Lower guide rail	Upper guide rail
Management	£1,060	£954	£1,113
Maintenance	£978	£880	£1,027
Major repairs	£2,430	£2,187	£2,551
Service charges	£321	£289	£337

This metric has been chosen because it gives the Board a better insight into Metric 5 and ensures that we are investing in our homes in a way that achieves good value but is also consistent with our overall corporate aims. The figures, as per overall cost per home (Metric 5) are benchmarked against the Global Accounts. When broken down to its components it is clear that, whilst overall cost per home is coming down and just about matches the higher quartile, it is in the area of management cost and major repairs that Red Kite is high. (As noted above in this context upper quartile means the higher level of cost and not the best performance).

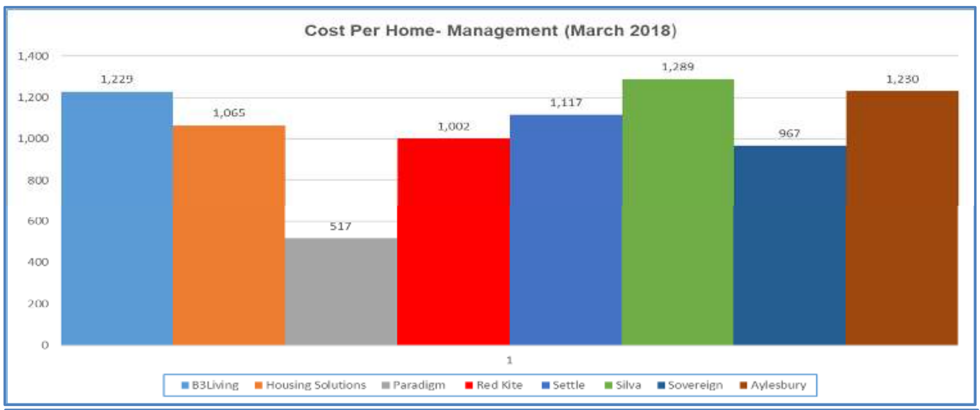
Strategic Report (continued)

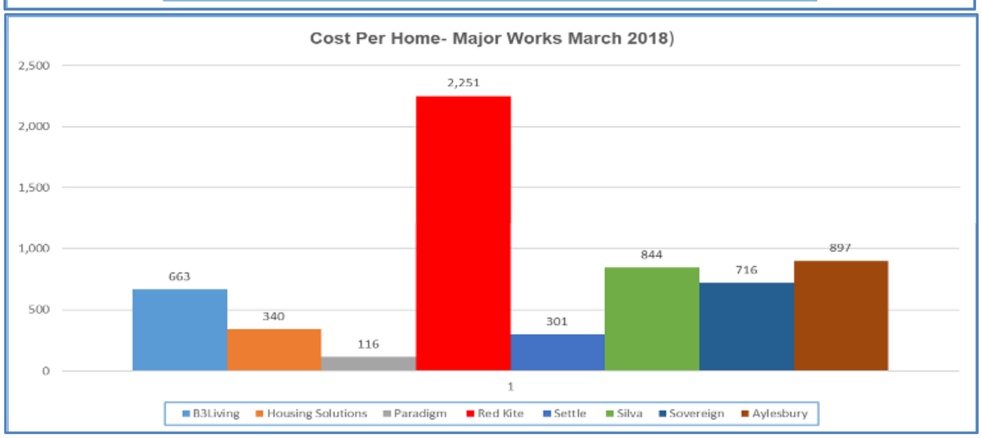
Value for Money Report (continued)

Management cost has steadily decreased over the last three years and is now close to the median for the sector. This reflects our approach towards Value for Money which is to look for every opportunity to improve either the efficiency or effectiveness of our approach.

Major repair cost swamps the other parts of the overall cost per home calculation. It came down very significantly in the year to March 2018 as we completed our promises in the stock transfer in December 2016 but is still high compared to sector norms. However, this is based on a conscious decision on the Board's part to invest in our existing homes to the Red Kite standard which is beyond the decent homes standard and is not untypical for relatively new stock transfers.

Comparing Red Kite cost to other RPs in our vicinity (all figures taken from published Global Accounts for 2018) is also illuminating.





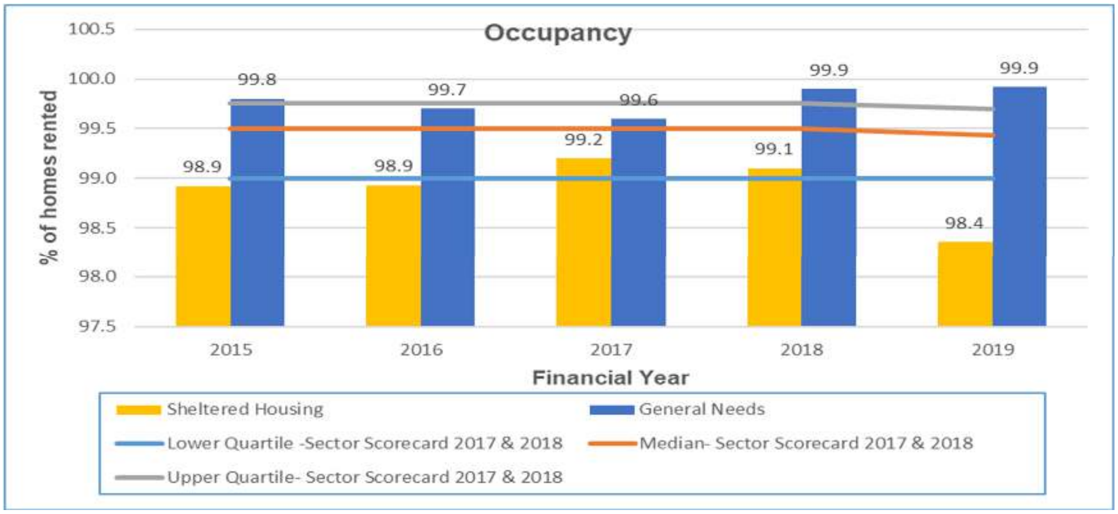
We are investing significantly more in our existing homes in improvements (major repairs) as a conscious, positive strategy consistent with our Corporate Objectives (Providing Great Homes, Increasing our Investment). However, for management cost per home we are competitive in comparison to our local peers. Paradigm is somewhat of an outlier in reported cost (both measures) but with that hard to explain exception, our management cost is at the same level or lower than our local peers.

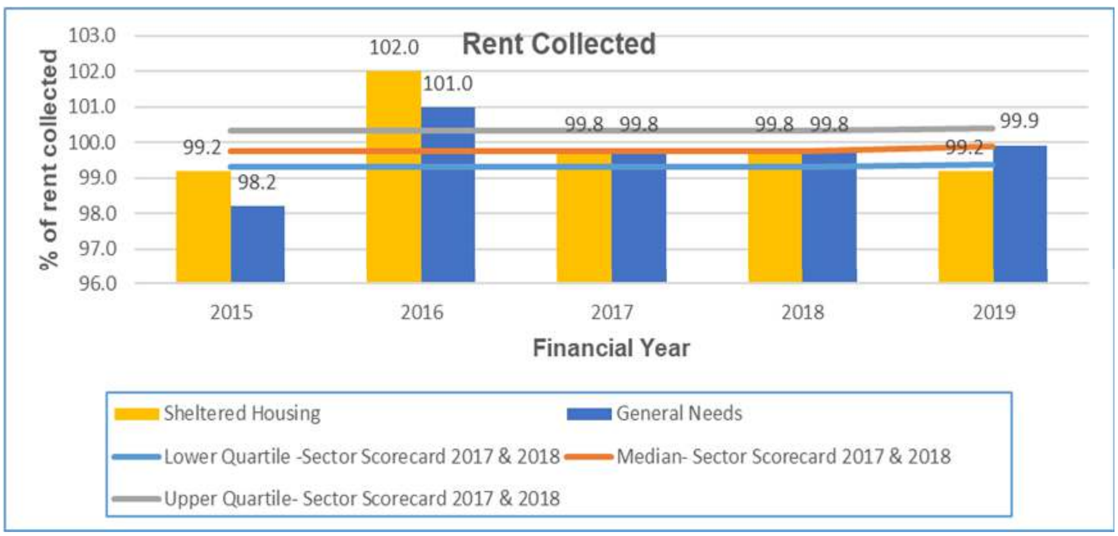
Strategic Report (continued)

Value for Money Report (continued)

D) Providing Great Homes

Metric D1 and D2 - Occupancy level and rents collected





Measure	Lower guide rail	Upper guide rail
Occupancy (general)	99.4%	99.7%
Occupancy (sheltered)	98.9%	99.4%
Rents collected	99.9%	100.4%

We monitor occupancy rate and rents collected to measure the effectiveness in providing homes to our customers. The benchmark figures are taken from Sector Scorecard information and relate to general needs homes only.

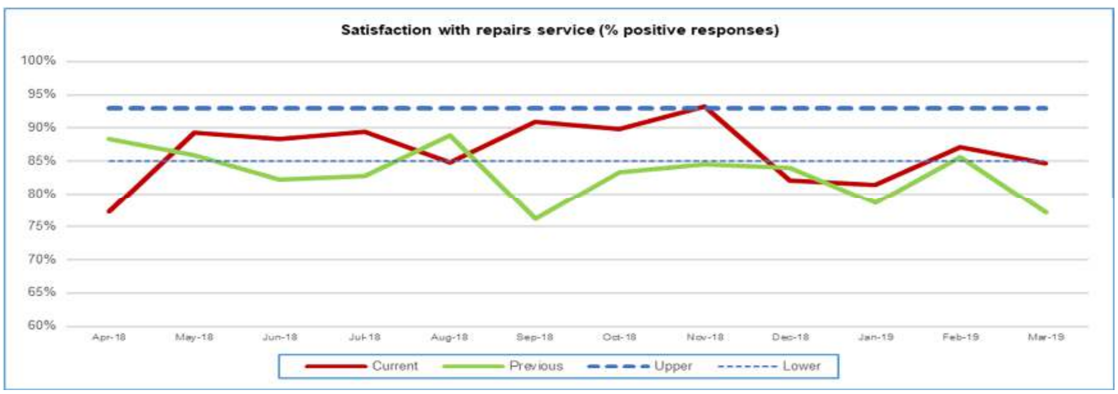
Strategic Report (continued)

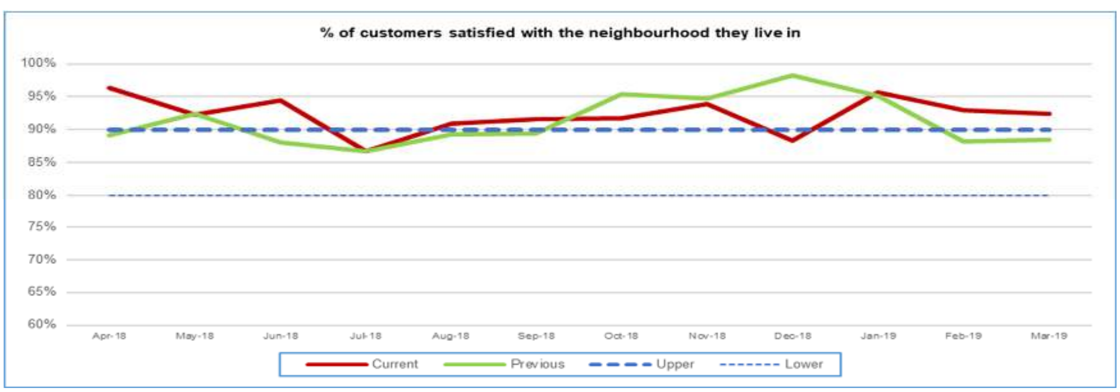
Value for Money Report (continued)

We target maximising our occupancy levels and rents collected and pay attention to any decrease. Against the Sector Scorecard we are maintaining levels between the sector median and upper quartile. Our occupancy levels are significantly lower in our sheltered housing accommodation where there is a higher churn and an oversupply of the traditional type of housing in the area. To address this the first sheltered housing review in 2013 led to the closure of a number of schemes some of which have been included as sites for development and others sold and two mixed schemes were converted to all general needs. We have started a second review this year (2019-20) because the initial review identified a need for further action. The aim is to conclude the review this financial year with implementation to follow thereafter.

E) Knowing our Customers

Metric E1: Customer satisfaction





Measure	Lower guide rail	Upper guide rail
Satisfaction with repairs service	85%	93%
Satisfaction with neighbourhood	80%	90%

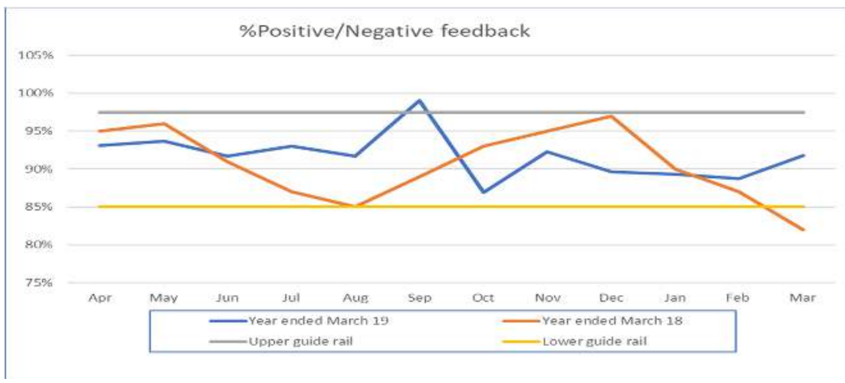
The two most important issues, according to customer feedback, are repairs and anti-social behaviour. The measures above are indicators of our success in dealing with these issues (the second one takes into account feedback across all neighbourhoods). The two metrics' guide rails are set by Board as part of our performance framework.

Strategic Report (continued)

Value for Money Report (continued)

We have an improved level of satisfaction with repairs this year. The slight dip around the beginning of the calendar year corresponded to the review of the existing contract. Addressing the issue with the contractor has shown some improvement. The second measure shows a high level of customer satisfaction with the neighbourhoods in which they live and is consistent with last year's performance.

We are looking at other ways of monitoring customer feedback without additional surveys. For two years we have monitored unsolicited compliments as a percentage of feedback from customers. (It should be noted that this does not include Quick Resolution issues – where a customer has raised concerns over an issue and we have been able to resolve it quickly without it escalating to a formal complaint.)



For the y.e. 31st March 2020 the lower guiderail is 85%, upper guide rail 97.5%

Unsolicited compliments are showing throughout the year a consistently strong level of satisfaction and an improved stability on the previous year. The small drop off through December to February corresponds to the issues noted above with the repairs contractor, but that has turned around by March.

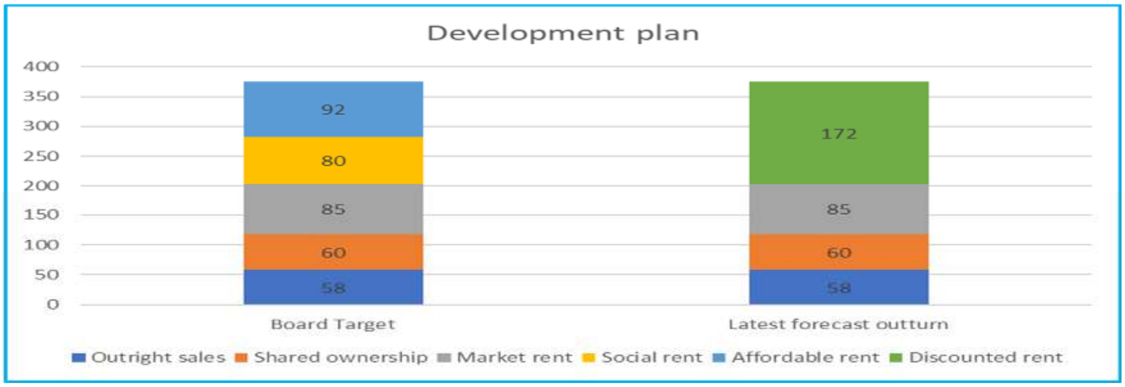
F) Commitment to our community – Our why "To realise the potential of our communities" Corporate objectives: Building Thriving Communities, Increasing Our Investment

Bringing it back to the way we engage with the community, we do this in a number of ways including members' surveys, job fairs, pop-up business schools, a community morning where the whole staff team engage in various community support projects, engagement weeks with the customers and families and through a Christmas market where we encourage some of the local small business start-ups, helped through our pop-up business school, to participate. We work to develop partnerships locally through our Community and Volunteering team and will be expanding that in future through our recently employed Community Potential Specialists. The most important way in which we are showing this commitment however is through our development programme (see also metrics 1 and 2) and through the development of new ways of supporting people's life ambitions (see G below "the future").

Strategic Report (continued)

Value for Money Report (continued)

Metric F1: Development plan



Our mixed tenure development plan, approved by the Board in 2016, is for a sustainable development of 375 new homes over a number of sites. This should be complete by March 2022 subject to planning permission. The intention and financial commitment to develop is expressed in Metric 1 - Reinvestment and Metric 2 - New Supply Delivered. The plan mix allows us to cross-subsidise homes at lower than market rental (social, affordable, discounted) and shared ownership homes to enable a sustainable development plan. This means that we will have resources once we have completed the current plan to continue to develop in the future.

There is potential within the current plan to exceed the 375 homes planned, building up to 500 homes, depending upon the viability of site assessments and next year's business plan will reflect this as we develop an approach to turn this into definitive plans, with a further pipeline of 120 homes per year for the following five years. What has changed from our original plan is that the homes built for subsidised rental will be transferred to our new unregulated subsidiary, Twenty11, where a more flexible rental of between 50% and 70% of market value will be applied - dependant on the household's income. (see below - G the Future). It is possible that some of these homes will if purchased as S106 homes stay in Red Kite as affordable homes.

G) The Future - Twenty11

Corporate objectives: Knowing Our Customers, Building Thriving Communities, Increasing Our Investment

One of the requirements of the new standard is that Boards should review from time to time whether they have the most effective delivery structure in place to deliver their objectives. Such a review took place in June 2017 building on the "Corporate Journey" and reflecting on the best way to deliver our "Why" and our Corporate Objectives. The conclusion, after asking our customers what was important to them, was that we could do this best by developing a new corporate structure including both a subsidiary to carry out any commercial activities on Red Kite's behalf (Pennvale) and a new charitable subsidiary to provide subsidised or discounted housing with the same objectives as Red Kite, but as an unregulated housing provider (which is called Twenty11 (Homes) Ltd).

Strategic Report (continued)

Value for Money Report (continued

Setting these subsidiaries up has necessarily been a long process, after an options appraisal using the Form Follows Function toolkit and extensive consultations with our residents, Wycombe District Council, the Regulator and the MHCLG (then DCLG).

In September 2018 Twenty11 let its first home to a tenant. After a 6 months initial pilot the two Boards reviewed the evidence for the success of Twenty11 and agreed that it was strong enough to allow Twenty11 to continue into a full trial phase of two years. Red Kite have commissioned Sheffield Hallam University to develop measures giving independent analysis of Twenty11's success against its objectives in this period and we will look to supplement the chosen measures based upon external data provided. For the present however, at this very early stage we have selected two measures which can give us an early indication of success or otherwise.

The first measure relates to the Tenant's Sustainability licence (TSL). Every Twenty11 tenant receives a TSL and starts points of 100. Positive points are awarded for actions such as taking out contents' insurance, volunteering in the local community, engaging with the Community Potential Specialist to capture a Personal Success Plan; negative points for Anti-Social Behaviour or for going into arrears on their tenancy. As such it is a good early gauge of whether we are successful in influencing the factors that affect tenants and support them in achieving their potential. The measure chosen is average points on the TSL. As at March 2019 this stood at 102.9, an early small indicator of success. The guide rails set for this measure for 2019-20 are a lower guide rail of 97 and an upper guide rail of 105.

The second measure is arrears ratio. This compares arrears as a percentage of rental debit over a given period to that of Red Kite General Needs customers over the same period. Twenty11 did not become active until September 2018 so the period of 6 months has been chosen. This will be measured on a rolling basis. The ratio as at 31st March 2019 was 0.84 which indicates that the process of matching rent to affordability in Twenty11 is effective. The guide rails set for this measure in 2019-20 are a lower guide rail of 0.80 and an upper guide rail of 1.1.

We will continue to review the suitability of these measures as more data becomes available on Twenty11 through the pilot and may supplement them with measures derived from the work carried out by Sheffield Hallam University on our behalf.

Regarding Pennvale, after a trial period in which we were unsuccessful in breaking into the private lettings market, the Board of Pennvale agreed to suspend activity in this respect during the year. It would not therefore yet be appropriate to set a measure for Pennvale as it is currently not engaging in commercial activity of behalf of the group. Pennvale will continue to be a vehicle for letting our own market rental properties as these come on to the market and also will be the vehicle for any future commercial ventures. The quick decision to suspend the private rental experiment was made in the interests of Red Kite to protect its assets and minimise losses beyond an initial figure agreed by the Board.

Strategic Report (continued)

Risk Management

The Board has approved a robust strategic approach to risk management and a comprehensive risk matrix. The changing nature of risks is monitored regularly throughout the year by the Audit & Risk Committee, a sub-committee of the Board. This is underpinned by the annual review of the three-year internal audit strategy to ensure that it remains aligned to the changing external environment and Group structure. This will ensure that it can provide the appropriate assurance to the Board.

Key risks facing the Group include:

- the continued successful implementation of the new Group structure;
- the continued implementation of the vision for Twenty11;
- achieving timely and appropriate planning determinations;
- the successful investment in new homes;
- the exposure to sales risk as the Group develops new homes for outright sale and shared ownership;
- the impact of welfare and benefit reforms on the ability of the tenants to pay rent and the ability of the Group to let properties;
- adapting to the changing statutory and regulatory requirements for the sector (especially with the imminent publication of the government's green paper on social housing)
- the impact of the decision to leave the European Union;
- the recruitment and retention of board members, staff and volunteers with the skills necessary to deliver the business objectives;
- the development of the use of technology and IT systems to support the business objectives.

Capital structure and treasury policy

As the result of the refinancing that was successfully completed in the previous financial year we have the required debt structure and flexibility in liquidity that will underpin the successful investment in both our existing and the planned new homes for our local community. The revised loan covenants give the Group the required commercial freedoms that will allow it to run the business effectively.

The revised business plan that was approved by the Board in March 2019 demonstrates our resilience to the risks that are associated with our planned investment in new homes and the environment that we operate in. This risk management is underpinned by our annual review of our Treasury Strategy and Treasury Policy, with the latter embedding the concept of golden rules and financial triggers. After the refinancing in July 2017 the Board approved a fundamental realignment of these documents to our revised treasury position, and the December 2018 review resulted in only minor changes in them.

In July 2018 the Group received the third and final £20 million tranche from Pension Insurance Corporation in the anticipation of these receipts being required to fund our

Strategic Report (continued)

Capital structure and treasury policy (continued)

investment in new homes, but delays to this has resulted in an increased cash balance to £31.9 million at 31 March 2019. The annual treasury review in December 2018 took into consideration this increased cash balance and revised investment profile.

Following the receipt of this final tranche from The Pension Insurance Corporation our fixed debt with them increased to £60 million, and the repayment dates ranges from 2033 to 2040. Due to the level of cash held there was not a requirement to utilise the £40 million revolving credit facility with The Royal Bank of Scotland plc. The level of debt with them remained at £20 million with fixed end dates for each £10 million tranche of 2021 and 2016. The revolving credit facility expires in July 2022 and the debt in July 2027.

The Group only enters into interest rate swaps that are embedded within the existing funding agreement. The Group policy states that at least 60% of drawn debt must be fixed, it is currently 100%, but this will reduce as we start to utilise our revolving credit facility.

The interest rate strategy will continue to balance interest risk exposure and interest costs. The borrowings incur interest rates, including margins, of a weighted average cost of 4.01%

The Group's funding agreements require compliance with a number of financial and non-financial covenants. Compliance is monitored on an on-going basis and reported to the Finance Committee and Board each quarter. The Group has been in compliance with its loan covenants at the balance sheet date and throughout the year and the Board expects to remain compliant in the foreseeable future.

Future Developments

In June 2017 the Board undertook a review of options to determine how best to serve the needs of the local community. This clearly demonstrated that the best operating model that would deliver our corporate plan was deemed to be the development of the Red Kite Group.

In December 2017 the Board approved a Group structure that will:

- continue to invest in our existing homes to ensure that they provide quality homes to our existing and potential tenants;
- provide investment in new homes for our community in a financial efficient way;
- allow new commercial activities to be explored, if successful it will strengthen our financial position and provide additional resource to invest in its community;
- provide homes where rents are based on an individuals' ability to pay and tenancies are underpinned by a 'tenancy sustainment licence' – a tenant-led scheme that allocates positive and negative points to tenants, based on behaviour, with an aim of reducing anti-social behaviour.

Strategic Report (continued)

Future Developments (continued)

Following the successfully initial pilot of 50 homes to assess the feasibility of the new subsidiary Twenty11, the Board approved in March 2019 a full pilot of 500 homes over the following two years.

The Board approved a revised Development Strategy during the year, and this seeks to utilise the increased financial strength and available asset security of the Group. This revised Strategy also acknowledged the challenges of limiting the current and future investment in homes in just the Wycombe District Council by flexing the area in which we will operate by increasing the number of local authorities that we can work with. Other the next twelve months the Board will consider how it implements this next phase of investment in additional homes. It is fully aware of the ongoing requirement to cross-subsidise sub-market homes through a mixed programme including market sales and market rental homes to allow a continued investment in homes that are truly affordable.

We await further announcements as the enquiry into the tragic Grenfell disaster progresses. The Board is committed to ensuring that the safety of our homes for our customers will always be given the highest priority. The combination of the profile of our homes and our financial strength means that any additional regulations and other measures we choose to take to ensure this will be affordable to the business.

Statement of compliance

In preparing this Strategic Report and Report of the Board, the Board has followed the principles set out in the Statement of Recommended Practice (SORP): Accounting by Registered Social Housing Providers 2018, and the Accounting Direction 2019.

The Board confirmed at its meeting in July that it has complied with the Regulator of Social Housing's Governance and Financial Viability standard except for one issue of non-compliance.

The basis of this statement is the annual self-assessment against the regulatory standards, and this is underpinned by independent reviews carried out by the internal auditors during the year. This review also included assurance that we complied with all relevant laws other than issue with the non-compliance detailed below.

The one issue of non-compliance relates to a small number of tenancies where the rent charged was not aligned to the requirements of the Welfare Reform Act, and as such we did not comply with the Governance Standard. Where this breach resulted in an overpayment by the tenant, rent account balances have been adjusted and any request for repayment has been completed, and where it is Housing Benefit related we have worked with the Local Authority to resolve the issue. At its meeting in March 2019 the Board took the decision to self-report this non material breach to the Regulator.

The Board confirms that it has completed a self-assessment against its chosen Code of Governance and it fully complies with it except in relation to the requirement that requires that all Board members undergo a selection process (D7). This is detailed on page 36.

Report of the Board

The Board of Red Kite Community Housing Limited is pleased to present its report together with the audited financial statements of the Group for the year ended 31 March 2019.

Principal activities, business review and future developments

Details of the Group's principal activities, its performance during the year and factors likely to affect its future development are contained within the Strategic Report, which precedes this report.

Board members and executive directors

The Board members and executive directors of the Group in the year are set out on pages 2 & 3.

The executive directors are the chief executive and other members of the Group's executive management team. They act as executives within the authority delegated by the Board. The executive directors are employed on the same terms as other staff, their notice periods of six months. The executive directors are eligible for membership of either the Buckinghamshire County Council Pension Fund, which is a defined benefit (final salary) pension scheme, or the Red Kite defined contribution scheme. They participate in the schemes on the same terms as all other eligible staff. The executive directors are entitled to other benefits including an allowance towards the cost of a car and health care insurance. Full details of their individual remuneration packages are included in note 11 to the audited financial statements.

Employees and involved tenants and leaseholders

Red Kite is a successful tenant-led business and is committed to remaining true to these values. Its aspirations are underpinned by it being a community focused housing provider dependent upon the effective partnership working between employees and the large number of involved tenants and leaseholders who volunteer their time to the business. During the year we have worked closely with our involved tenants and wider membership to shape the future direction of the business.

We are committed to providing effective training and development to all its employees and to its involved customers. The Board is aware of its responsibilities on all matters relating to health and safety and has adequate health and safety policies and procedures in place.

Donations

The Group made no charitable or political donations during the year.

Report of the Board (continued)

Financial risk management objectives and policies

The Group relies upon the availability of affordable funding facilities and strong rental income streams to fund the delivery of its business plan.

The Group manages exposure to interest rate fluctuations on its borrowings through the use of fixed and variable rate facilities, including interest rate swaps embedded within the loan facility agreement (details in note 23). The Group has previously refinanced these new facilities provide sufficient liquidity flexibility and to deliver the business plan. Additional short-term liquidity is provided by an overdraft facility of £500,000 with The Royal Bank of Scotland. We have more than adequate security to cover our current funding and to return to the financial markets again when we are ready to invest further.

The principal long term income risks relate to changes in the rent formula stipulated by Government to set rents, and increases in arrears. During the year the Government confirmed the rent regime for the five years from April 2020, but the long-term uncertainty remains. Our Treasury Policy seeks to manage the impact of the risk of any Government action that could potentially decrease the security value of our homes.

As the Group commences the provision of new homes to its local communities, some will be for home ownership, whether outright or shared ownership sales. Sales receipts will be used to cross subsidise the provision of other tenures and a reduction or delay in receiving such income will have an adverse impact on the cash flows of the Group. There are a number of drivers that create this risk and each one has varying time lags before they impact the Group's cash flows. To mitigate the impact of these risks the treasury policy limits our exposure to the value of the homes that are in development or are awaiting sale at any one time. In addition to this the treasury policy requires us to maintain our long-term liquidity (24 months) without the sales receipts generated from property sales. Our cash flow loan covenants are not exposed to any sales receipts risk; as such income is excluded from them.

Going concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The Group has in place long-term funding facilities (including £40million of undrawn facilities at 31 March 2019) and cash balances of £31.1 million, which provide adequate resources to finance committed major improvement programmes, the regeneration of the Castlefield estate in High Wycombe and the proposed development of new homes, along with the Group's day to day operations. The Group also has a 30-year business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Report of the Board (continued)

Internal controls assurance

The Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2018 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- Governance Regulations, approved in December 2016 and revised in February 2018, with delegated authorities updated regularly and reported to the Finance Committee;
- Board approved terms of reference and delegated authorities for Audit & Risk, Finance and People, Operational Performance and Policy, Development, and Remuneration committees;
- A coterminous Board policy to cover potential conflicts of interests arising from Board members sitting on different group company Boards
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks;
- Robust strategic and business planning processes, with detailed financial budgets and forecasts;
- Clear delegated authority limits for the executive team, employees and involved tenants and leaseholders;
- A sophisticated approach to treasury management which is subject to external review each year;
- Regular reporting to the Board and / or appropriate committee on key business objectives, targets and outcomes;
- Board approval of an Anti-corruption and Bribery Act policy. A fraud register is maintained and is reviewed by the Audit & Risk Committee at each meeting;
- Regular monitoring of loan covenants and loan facilities; and
- A comprehensive programme of internal audit reviews, conducted by an independent audit firm, with all review findings reported to the Audit & Risk Committee and implementation of recommendations monitored. No major weaknesses were reported during the year.

The Board and Executive took steps to prepare the Group to implement the requirements of the General Data Protection Regulations which came into effect on 25th May 2018 including a review of data held by the Group, the issue of privacy notices, training and awareness briefings for staff and Board and approval of revised Data Protection policies. To provide additional assurance to the Board our internal

Report of the Board (continued)

Internal controls assurance (continued)

auditors undertook a review of our compliance with this legal requirement, there were no major areas of concern. During the year the Board undertook an in-depth review of our risks that relate to the uncertainty around Brexit. This review also examined the migrations that had been put in place by the Group and its contractors.

The Board cannot delegate ultimate responsibility for the system of internal control but has delegated authority to the Audit & Risk Committee to review the effectiveness of the system of internal control. The Board receives Audit & Risk Committee reports and meeting minutes. The Audit & Risk Committee has received the chief executive's annual review of the effectiveness of the system of internal control for the Group and the annual report of the internal auditor and has reported its findings to the Board.

Code of Governance

The Group adopted the revised 2015 National Housing Federation (NHF) Code of Governance in March 2015. The Code states (paragraph A2) that the Rules of the Group take precedent over the Code where there is a conflict between the two. There is one area where the Rules took precedence over the Code at 31 March 2019:

D7: The Code requires that all Board members undergo a selection process. At present, this does not apply to nominees provided by Wycombe District Council;

The Board has prepared a comprehensive skills matrix for Board Members and monitors this to ensure that the Board collectively has the skills needed for effective governance of the business.

The Board has adopted a clear Code of Conduct that governs its behaviour and probity.

Compliance with the governance and financial viability standard

We have complied fully with requirements of the regulatory standards for the full reporting period other than the non-compliance detailed on page 32.

Report of the Board (continued)

Statement of the responsibilities of the Board for the report and financial statements

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

Co-operative and Community Benefit Society legislation requires the Board to prepare financial statements for each financial year. Under that law the Board have elected to prepare the financial statements in accordance with Financial Reporting Standard 102. Under the Co-operative and Community Benefit Society legislation the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Group for that period. In preparing these financial statements, the Board are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers Update 2018, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insofar as each of the Board members is aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the Board have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Board are responsible for the maintenance and integrity of the corporate and financial information included on the websites of the Group.

Annual general meeting

The annual general meeting will be held on 11 September 2019 at Windsor Court, Frederick Place, High Wycombe, HP11 1JU.

Report of the Board (continued)

External auditor

A resolution to appoint BDO LLP will be proposed at the forthcoming annual general meeting. This is subsequent to the decision by the Board to appoint BDO LLP in December 2018 to fill a casual vacancy.

The report of the Board was approved by the Board on 17 July 2019 and signed on its behalf by:

Mike Gahagan
Chairman

Independent auditor's report to the members of Red Kite Community Housing Limited

Opinion

We have audited the financial statements of Red Kite Community Housing Limited ("the association"') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of changes in reserves the consolidated and association statement of financial position, the consolidated statement of cash flow, and the related 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 of the Association's affairs as at 31 March 2019 and of the group's and the Associations surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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 Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Independent auditor's report to the members of Red Kite Community Housing Limited

Other information

The board is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. 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 including the Strategic Report and the Report of the Board of Management 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 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

- the information given in the Report of the Board of management for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent Association; or
- a satisfactory system of control has not been maintained over transactions; or
- the parent Association financial statements are not in agreement with the accounting records and returns; or
- ' we have not received all the information and explanations we require for our audit.

Responsibilities of the board for the financial statements

As explained more fully in the Statement of the Responsibilities of the Board, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board is responsible for assessing the group's and 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 Associations or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Red Kite Community Housing Limited

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report
This report is made solely to the members of the Association, as a body, in accordance with the Housing and Regeneration Act 2008 and the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Statutory Auditor
Gatwick, West Sussex

Consolidated Statement of Comprehensive Income

	Note	2019	2018*
		£'000	£'000
Turnover	3	34,679	34,709
Operating costs	3	(25,454)	(25,290)
Gain on disposal of property	4	793	1,196
Other Income	33	174	586
Operating surplus	3	10,192	11,201
Interest receivable and other income	7	205	33
Interest payable and similar charges	8	(3,164)	(3,166)
Other finance costs		-	(2,513)
Movement in fair value of investment properties	13	1,699	291
Surplus on ordinary activities before taxation		8,932	5,846
Tax on surplus on ordinary activities	27	-	-
Surplus for the financial year		8,932	5,846
Remeasurement of pension scheme	10	539	1,044
Total comprehensive income for the year		9,471	6,890

*restated

The consolidated results relate wholly to continuing activities. The notes on pages 48 to 80 form part of these financial statements.

The financial statements were approved and authorised by the Board on 17 July 2019

Mike Gahagan	**Charles Leigh-Dugmore**	**Ray Prior**
Chairman	**Vice chairman**	**Secretary**

Association Statement of Comprehensive Income

	Note	2019	2018*
		£'000	£'000
Turnover	3	34,630	34,744
Operating costs	3	(25,133)	(24,999)
Gain on disposal of property	4	793	1,196
Other Income	33	208	626
Operating surplus	3	10,498	11,567
Interest receivable and other income	7	238	33
Interest payable and similar charges	8	(3,164)	(3,166)
Other finance costs		-	(2,513)
Movement in fair value of investment properties	13	1,699	291
Surplus on ordinary activities before taxation		9,271	6,212
Tax on surplus on ordinary activities	27	-	-
Surplus for the financial year		9,271	6,212
Remeasurement of pension scheme	10	539	1,044
Total comprehensive income for the year		9,810	7,256

*restated

The association's results relate wholly to continuing activities. The notes on pages 48 to 80 form part of these financial statements.

The financial statements were approved and authorised by the Board on 17 July 2019

Mike Gahagan	**Charles Leigh-Dugmore**	**Ray Prior**
Chairman	**Vice chairman**	**Secretary**

Consolidated Statement of Changes in Reserves

	Income & expenditure reserve* £'000	Restricted reserve £'000	Revaluation reserve* £'000	Total* £'000
Balance at 31 March 2017	40,588	246	3,974	44,808
Total comprehensive income for the year	6,890	-	-	6,890
Transfer of restricted expenditure from unrestricted reserve	65	(65)	-	-
Balance at 31 March 2018	47,543	181	3,974	51,698

*restated

	Income & expenditure reserve* £'000	Restricted reserve £'000	Revaluation reserve* £'000	Total* £'000
Balance at 31 March 2018	47,543	181	3,974	51,698
Total comprehensive income for the year	9,471	-	-	9,471
Transfer of restricted expenditure from unrestricted reserve	(18)	18	-	-
Balance at 31 March 2019	56,996	199	3,974	61,169

*restated

Further details of the revaluation reserve are contained in note 33.

The accompanying notes on pages 44 to 80 form part of these financial statements.

Association Statement of Changes in Reserves

	Income & expenditure reserve* £'000	Restricted reserve £'000	Revaluation reserve* £'000	Total* £'000
Balance at 31 March 2017	40,588	246	3,974	44,808
Total comprehensive income for the year	7,256	-	-	7,256
Transfer of restricted expenditure from unrestricted reserve	65	(65)	-	-
Balance at 31 March 2018	47,909	181	3,974	52,064

*Restated

	Income & expenditure reserve* £'000	Restricted reserve £'000	Revaluation reserve* £'000	Total* £'000
Balance at 31 March 2018	47,909	181	3,974	52,064
Total comprehensive income for the year	9,810	-	-	9,810
Transfer of restricted expenditure from unrestricted reserve	(18)	18	-	-
Balance at 31 March 2019	57,701	199	3,974	61,874

*restated

Further details of the revaluation reserve are contained in note 33.

The accompanying notes on pages 44 to 80 form part of these financial statements.

Group and Association Statement of Financial Position

		Group		Association	
		2019	2018*	2019	2018*
		£'000	£'000	£'000	£'000
Fixed Assets					
Intangible assets					
Negative Goodwill	**9**	(51,924)	(54,379)	(51,554)	(54,379)
Tangible assets					
Housing properties	**12**	178,418	173,099	177,158	173,099
Investment properties	**13**	5,492	4,551	5,492	4,551
Investment in subsidiaries	**14**	-	-	2,114	-
Other tangible fixed assets	**15**	524	634	451	634
		184,434	178,284	185,215	178,284
Current assets					
Debtors due after one year	**16**	140,924	146,849	140,924	146,849
Debtors due within one year	**16**	9,229	11,482	10,555	12,941
Properties held for sale	**17**	883	51	709	-
Investments- shares	**18**	30	20	30	20
Investments- cash	**22**	5,000	-	5,000	-
Cash at bank and in hand	**22**	26,900	13,506	26,071	13,506
		42,042	25,059	42,365	26,467
Creditors: amounts falling due within one year	**19**	(18,728)	(18,997)	(19,497)	(20,039)
Net current assets		23,314	6,062	22,868	6,428
Total assets less current liabilities		296,748	276,816	297,453	277,182
Creditors: amounts falling due after more than one year	**20**	(87,732)	(71,118)	(87,732)	(71,118)
Net pension liability	**10**	(6,858)	(7,076)	(6,858)	(7,076)
Provisions for liabilities	**21**	(140,989)	(146,924)	(140,989)	(146,924)
Total net assets		**61,169**	**51,698**	**61,874**	**52,064**
Reserves					
Restricted reserves		199	181	199	181
Revaluation reserve	**33**	3,974	3,974	3,974	3,974
Income & expenditure reserve		56,996	47,543	57,701	47,909
Total reserves		**61,169**	**51,698**	**61,874**	**52,064**

*Restated

The accompanying notes on pages 44 to 80 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 17 July 2019.

Mike Gahagan	**Charles Leigh-Dugmore**	**Ray Prior**
Chairman	**Vice chairman**	**Secretary**

Consolidated Statement of Cash flows

	Note	2019	2018*
		£'000	£'000
Net cash generated from operating activities	25	9,578	7,268
Cash flow from investing activities			
Purchase of and improvements to housing properties	12	(5,578)	(4,019)
Development of new homes for management	12	(2,810)	-
Purchase of other fixed assets	15	(177)	(215)
Cash transfer to investments		(5,000)	-
Interest received		205	33
Cash flow from financing activities			
Interest paid		(2,824)	(2,614)
Other financing costs (refinancing)		-	(3,155)
Other financing received		20,000	-
Net change in cash and cash equivalents		13,394	(2,702)
Cash and cash equivalents at beginning of the year		13,506	16,208
Cash and cash equivalents at the end of the year		26,900	13,506

*restated

The accompanying notes on pages 44 to 80 form part of these financial statements.

Notes to the financial statements

The accompanying notes form part of these financial statements.

1. Legal status

Red Kite Community Housing Ltd is registered under the Co-operative and Community Benefit Societies Act 2014 and is a registered housing provider.

Red Kite Community Housing Ltd has four subsidiaries. Twenty11 (Homes) Ltd, is registered under the Co-operative and Community Benefit Societies Act 2014. Edenmead Ltd is registered under the Companies Act and develops new housing for sale to the Group. Pennvale (Holdings) Ltd, is registered under the Companies Act to provide commercial activities to the Group and the external market. Red Kite Devco, is registered under the Companies Act to provide design and build services to the Group.

2. Accounting policies

Basis of Accounting

The financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including the early adoption of the revised Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice for Registered Housing Providers (Housing SORP 2018) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

The financial statements are presented in Sterling (£).

The financial statements are prepared on the historical cost accounting basis except for the modification to a fair value basis for investment properties as specified in the accounting policies below.

Basis of Consolidation

The Group financial statements consolidate those of Red Kite Community Housing and its subsidiary undertakings drawn up to 31 March 2019. Intra-Group transactions are eliminated in full in accordance with FRS102.

Subsidiaries are fully consolidated from the date on which control was transferred to the Group.

Investment in Subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

Going Concern

The Group’s business activities, its current financial position and factors likely to affect its future development are set out within the Report to the Board. The Group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Group’s day to day operations. The Group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lender’s covenants.

Accounting policies (continued)

Going Concern (continued)

On this basis, 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 the financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Turnover

Turnover comprises rental income and service charges receivable in the year, other services included at the invoiced value (excluding VAT) of goods and services supplied in the year and revenue grants receivable in the year.

Restricted Reserves

The Group manages leasehold schemes where, under the terms of the lease, a proportion of proceeds from any sales of the properties must be retained and used to fund future major repair costs that may arise. These contributions are allocated directly to the restricted reserves, their use being limited to expenditure set out in the relevant lease contracts. Relevant expenditure is accounted for in accordance with the accounting policy for expenditure incurred on housing properties and an equivalent sum released from restricted reserves.

Fixed Assets and Depreciation

Fixed assets, excluding housing properties, are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected remaining economic useful lives of the assets as follows:

Category	**Years**
Motor Vehicles	5
Office and estate equipment and furniture	5
Leaseholder office improvements	5
ICT infrastructure, hardware and software	5-7
Mobile ICT	3

Other than Mobile ICT costing more than £500 only items with a cost in excess of £5,000 are capitalised. The useful economic lives of all tangible fixed assets are reviewed annually. A full year depreciation is charged in the year of acquisition and none in the year of disposal.

Housing Properties

Housing properties are homes held for the provision of social housing or otherwise provide social benefit.

The properties classified as general needs housing have a historical cost equal to their fair value at transfer and are stated at cost less accumulated depreciation. The properties classified as sheltered and housing for older people have a deemed cost based on a valuation as at 1 April 2014 less accumulated depreciation. The properties that are owned by Twenty11 (Homes) have been transferred from its parent to provide social benefit and have a historical cost equal to their value at transfer and are stated at fair value less accumulated depreciation.

Accounting policies (continued)

Housing Properties (continued)
Additions to the housing properties are stated at cost. This includes the cost of acquiring land and buildings, development costs and expenditure incurred in respect of improvements. The Group has adopted component accounting.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. Other expenditure incurred on major repairs, cyclical or void day to day repairs to housing properties is charged to the income and expenditure account in the period in which it is incurred.

The Group depreciates the major components of its housing properties at the following annual rates on a straight line basis:

Category	**Years**
Structure of Building	50
Kitchens	25
Bathrooms	30
Heating Systems	12
Windows	30
Roofs	50
Lifts	30
Guttering & Fascia	20

Property depreciation for social housing and for homes providing social benefit is charged on the cost, including the cost of components, excluding freehold land, which is not depreciated.

Housing properties, including those with individual components, are subject to impairment reviews annually. Where there is evidence of impairment, housing properties are written down to their recoverable amount, being the higher of the net realisable value or the value in use.

Donated land is included in cost at its valuation on donation, with the donation treated as a capital grant. Land that has a change of use will be revalued and recognised as a fixed asset for homes being retained for management, or as a current asset if it is related to outright sale.

Housing properties in the course of construction are stated at cost and are not depreciated. Housing properties are transferred to completed properties on practical completion. The cost of rebuilding properties which have been demolished is capitalised in full where there is no indication of impairment.

Investment properties
The Group's investment properties consist of commercial properties and other properties not held for the social benefit or for use in the business.

For commercial properties, due to the relatively small value of these properties

Accounting policies (continued)

Investment properties (continued)

within the statement of financial position and due to the stability of the rentals charged for these properties, a review of the existing valuation will be made annually by a member of the Executive Management Team. Only if there is a material change of circumstance will a separate independent valuation be sought.

For properties not held for the social benefit or for use in the business (garages), these are reviewed annually with any changes in fair value recognised in the statement of comprehensive income.

Shared ownership properties and stair casing
Under low cost home ownership arrangements, the Group disposes of a long lease on a low cost ownership home for a share ranging between 25% and 75% value. The Buyer has the right to purchase further proportions up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

Low cost home ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and the related sales proceeds included in turnover. The remaining element, “stair casing” is classed as a property and is recognised at cost less any provision for impairment. Sales of subsequent tranches are treated as a part disposal of a property. Such stair casing may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

For shared ownership accommodation that the Group is responsible for, it is the Group’s policy to maintain them in a continuous state of sound repair. Maintenance of other shared ownership properties is the responsibility of the shared owner. Any impairment in the value of such properties is charged to the Statement of Comprehensive Income.

Allocation of costs for mixed tenure and shared ownership developments
Costs are allocated to the appropriate tenure where it is possible to specific which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

Social Housing Grant (SHG)
Social Housing Grant (SHG) is receivable from the Homes & Communities Agency (HCA) and is utilised to reduce the capital costs of housing properties, including land costs.

SHG received for the Group’s homes is recognised in income over the useful life of the structure of the property that it relates to and, where applicable, its individual components (excluding land) under the accruals model. SHG due from the HCA or received in advance is included as a current asset or liability. SHG received in respect of revenue expenditure is credited to the income and expenditure account in the same period as the expenditure to which it relates once reasonable assurance has been gained the entity will comply with the conditions.

Accounting policies (continued)

Social Housing Grant (SHG)

SHG is subordinated to the repayment of loans by the agreement with the HCA. SHG released by the sale of property may be repayable but is normally available to be recycled and is credited to the recycled capital grant fund and included in the statement of financial position in the creditors.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in the Statement of Comprehensive Income in the year of disposal.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the statement of comprehensive income. Where components are disposed of as part of the Group home the grant is recycled.

Other Grants

Other grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

Operating leases

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

Properties Held for Resale

Where a decision has been taken to dispose of housing properties, these are held on the Statement of Financial Position under fixed assets. These properties are held at the lower of historical cost less depreciation, or net realisable value after allowing for further costs of completion and disposal.

Stock

Stock represents works in progress and completed properties developed for outright sale or shared ownership. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour, professional fees, and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

An assessment of whether there is any impairment is made at each reporting date. Where an impairment loss is identified, it is immediately recognised in the statement of comprehensive income.

On disposal, sales proceeds are included in turnover and the costs of sales, including costs incurred in the development of the properties, marketing and other incidental costs are included in operating expenses.

Accounting policies (continued)

Loan Issue Costs
Under FSR102 a loan that is classified as a non-basic financial instrument the relevant loan issue costs are written off immediately to the statement of comprehensive income. Where this is not applicable these costs are amortised over the length of the loan facility and are deducted from the amount drawn down.

Right to Buy
Proceeds from the sale of dwellings under Right to Buy are received by the Group in the first instance. For sales since December 2013, a sum that is equal to the net present value of income foregone is retained by the Group with the balance payable to Wycombe District Council.

Bad and Doubtful Debts
Provision is made against rent arrears of current and former tenants and miscellaneous debtors. This is based on an estimate of amount of the debt likely to be recovered.

Pension Costs
The Group participates in one defined benefits scheme and one defined contributions scheme. The cost of providing retirement pensions and related benefits is accounted for in accordance with FRS 102.

The Local Government Pension Scheme is administered by Buckinghamshire County Council and is independent of the Group's finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuary to enable the scheme to meet the benefits accruing in respect of current and future service. Pension scheme assets are measured using fair value.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at the appropriate high quality corporate bond rates of equivalent term and currency to the liability. The net surplus or deficit is presented separately from other net assets on the statement of financial position. A net surplus is recognised only to the extent that it is recoverable by the Group through reduced contributions or through refunds from the plan.

The current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements are reported in other comprehensive income.

The employer contributions for both schemes are recognised in the accounting periods in which the benefits are earned.

There is no liability for the Group for the defined contributions scheme other than the employer contributions due.

Value Added Tax ('VAT')
The Group is registered for VAT but a large proportion of its income, including its rents, is exempt for VAT purposes.

The qualifying expenditure under the VAT Shelter is shown net of the recoverable VAT, whilst the majority of other expenditure is subject to VAT that cannot be reclaimed and is shown inclusive of the irrecoverable VAT.

Taxation
Red Kite Community Housing and Twenty11 are recognised by HM Revenue and Customs (HMRC) as charitable Registered Societies and consequently have no liability to Corporation Tax in the period. HMRC has recognised that the Intra Group Lending Agreement as an exempt activity and Red Kite Community there was no Corporation Tax liability in relation to any such lending. The other subsidiaries will be liable for Corporation Tax.

Every year before 31 March each subsidiary Board will make a decision on whether or not a gift aid donation will be made to the parent.

Development Agreement
The Group entered into a Development Agreement with Wycombe District Council to undertake a complete cycle of refurbishment works to the housing stock that was to be transferred.

Under FRS102 the obligations of Wycombe District Council and the Group under the Development Agreement should be disclosed in the statement of financial position. The liability is extinguished as the repair costs are incurred.

With the approval of HM Revenue and Customs the VAT incurred on the qualifying expenditure can be recovered under a VAT Shelter agreement.

Under the Transfer Agreement the first tranche of VAT savings is retained by the Group. Savings in excess of this are shared equally between the Group and Wycombe District Council.

Profits on the disposal of our homes and other assets
Under the transfer agreement the profits on disposals, as defined within the agreement, are to be shared with Wycombe District Council when the consideration received exceeds £3,000. This profit share is for the period of thirty years from the date of transfer. The profit is shared 50:50 with the Wycombe District Council element being retained by the Group to invest in activities as defined in the agreement. Any balance of this retained profit not invested under the terms of the agreement by the tenth anniversary of the disposal with be paid to Wycombe Council. The retained profit relating to Wycombe District Council is recognised as a creditor and the Group's element is released through the Statement of Comprehensive Income in the year of disposal.

Capitalisation of Administration Costs
Administration costs relating to development activities are capitalised to the extent that they are part of the development process and directly attributable to bringing the properties into their intended use.

Accounting policies (continued)

Capitalisation of Interest Costs
Interest costs relating to the construction and acquisition of fixed assets are capitalised to the extent that they are incremental to the process and directly attributable to bringing the assets into their intended use. Other interest payable is charged to the income and expenditure account in the period in which the liability is incurred.

Negative Goodwill
Negative goodwill arises when the fair value of acquired assets exceeds the consideration given. Negative goodwill arising from the acquisition of land is released to the income and expenditure account over the period of the business plan that is thirty years. Debtors acquired are included at an estimate of their provisional fair value.

Impairment
Annually housing properties are assessed for impairment indicators. Where indicators are identified an assessment for impairment is undertaken comparing the scheme's carrying amount to its recoverable amount. Where the carrying amount of a scheme is deemed to exceed its recoverable amount, the scheme is written down to its recoverable amount. The resulting impairment loss is recognised as operating expenditure. Where a scheme is currently deemed not to be providing service potential to the Group, its recoverable amount is it fair value less costs to sell.

When considering the estimate of the recoverable amount of its homes the Group will:

(a) Determine the level at which the recoverable amount will be assessed. This could be the asset level or cash generating unit level (CGU level). The CGU level was determined to be an individual scheme
(b) Estimate the recoverable amount of each scheme
(c) Calculate the carrying amount of each scheme
(d) Compare the carrying amount to the recoverable amount to determine if an impairment loss has occurred.

Based on this assessment, the Group calculates the Depreciated Replacement Cost of each home, using appropriate construction costs and land prices.

Financial instruments
In accordance with FRS102, the Group classifies financial instruments as either basic or non-basic. Basic financial instruments are recognised at amortised historical cost. Non-basic financial instruments are recognised at their fair value using an accepted valuation technique.

At the end of each year, non-basic financial instruments are revalued to their fair value, with any gains or losses being reported in the statement of comprehensive income. The funding agreements with the Pension Insurance Corporation and the Royal Bank of Scotland are classed as a basic instrument.

Accounting policies (continued)

Investments
An investment in another entity's equity is measured at fair value, unless it is an unlisted investment whose fair value cannot be reliably measured, in which case it is measured at cost less impairment.

Judgements and Estimates
Preparation of financial statements requires management to make significant judgements and estimates. The items in the financial statements where there have been judgements and estimates made include determining the level of depreciation, housing properties valuation, pension liability, Development Agreement, and the bad debt provision.

For the housing properties valuation and pension liability the relevant professional advisor was engaged.

3. Analysis of income and expenditure

Particulars of turnover, cost of sales, operating costs and operating surplus

		2019	
Group	Turnover	Operating Costs	Operating Surplus / (Deficit)
	£000	£000	£000
Social housing lettings	33,054	(22,474)	10,580
Non-social housing activities			
Lettings from garages and shops	856	(332)	524
Non capitalised development	-	(707)	(707)
Other	687	(1,568)	(881)
Other Group companies	82	(373)	(291)
	34,661	(25,454)	9,225
Gains on property sales	-	-	793
Other income	-	-	174
Total activities	34,679	25,454	10,192

		2018	
Group	Turnover*	Operating Costs*	Operating Surplus / (Deficit)*
	£000	£000	£000
Social housing lettings	33,399	(22,302)	11,097
Non-social housing activities			
Lettings from garages and shops	818	(457)	361
Non capitalised development	-	(1,226)	(1,226)
Other	492	(669)	(177)
Other Group companies	-	(636)	(636)
	34,709	(25,290)	9,419
Gains on property sales	-	-	1,196
Other income	-	-	586
Total activities	34,709	(25,290)	11,201

*restated

Analysis of income and expenditure (continued)

Particulars of turnover, cost of sales, operating costs and operating surplus

Association	Turnover	2019 Operating Costs	Operating Surplus / (Deficit)
	£000	£000	£000
Social housing lettings	33,054	(22,474)	10,580
Non-social housing activities			
Lettings from garages and shops	856	(332)	524
Non capitalised development	-	(759)	(759)
Other	720	(1,568)	(848)
	34,630	(25,133)	9,497
Gains on property sales	-	-	793
Other income	-	-	208
Total activities	34,630	(25,133)	10,498

Association	Turnover*	2018 Operating Costs*	Operating Surplus / (Deficit)*
	£000	£000	£000
Social housing lettings	33,399	(22,302)	11,097
Non-social housing activities			
Lettings from garages and shops	818	(457)	361
Non capitalised development	-	(1,571)	(1,571)
Other	527	(669)	(142)
	34,744	(24,999)	9,745
Gains on property sales	-	-	1,196
Other income	-	-	626
Total activities	34,744	(24,999)	11,567

*restated

3. Analysis of income and expenditure (continued)

Particulars of income and expenditure from social housing lettings - Group and Association

	General needs	Sheltered	2019 Total	2018* Total
INCOME	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	22,109	9,161	31,270	31,786
Service charges	294	1,490	1,784	1,613
Turnover from social housing lettings	22,403	10,651	33,054	33,399
EXPENDITURE				
Management costs	(4,231)	(1,894)	(6,125)	(5,842)
Service charge costs	(780)	(1,072)	(1,852)	(1,819)
Routine maintenance	(2,293)	(1,415)	(3,708)	(3,087)
Planned maintenance	(1,258)	(669)	(1,927)	(2,189)
Major repairs and improvements	(6,350)	(2,087)	(8,437)	(9,109)
Bad debts	(70)	(27)	(97)	(164)
Depreciation of housing properties	(1,804)	(811)	(2,615)	(2,401)
Amortisation of negative goodwill	1,578	709	2,287	2,309
Operating costs on social housing lettings	(15,208)	(7,266)	(22,474)	(22,302)
Operating surplus on social housing lettings	7,195	3,385	10,580	11,097
Void losses	143	189	332	379

*restated

4. Surplus on the sale of housing properties

	Group		Association	
	2019	**2018***	**2019**	**2018***
	£000	£000	£000	£000
Sale proceeds	2,691	4,392	2,691	4,392
Cost of disposals	(546)	(1,198)	(546)	(1,198)
Profit share on disposal	-	(576)	-	(576)
Release of profit share on disposal	426	-	426	-
Payment to Wycombe District Council	(1,924)	(1,632)	(1,924)	(1,632)
Negative goodwill released on disposal	146	210	146	210
	793	**1,196**	**793**	**1,196**

*restated

5. Accommodation in management

At the end of the year accommodation in management for each class of accommodation was as follows:

	Group		Association	
	2019	2018	2019	2018
	No.	No.	No.	No.
Social Housing				
General needs housing	3,983	4,036	3,983	4,036
Sheltered housing and housing for older people	1,792	1,795	1,792	1,795
Total social housing owned & managed	5,775	5,831	5,775	5,831
Leasehold properties	658	648	658	648
Discounted Rents-Twenty11 (Homes)	41	-	-	-
Commercial properties	17	20	17	20
Shared equity properties	6	7	6	7
Total housing owned and managed	**6,497**	**6,506**	**6,456**	**6,506**

There were 52 properties in development at the year-end (2018: Nil).

6. Operating surplus

The operating surplus is arrived at after charging:

	Group		Association	
	2019	**2018***	**2019**	**2018***
	£000	**£000**	**£000**	**£000**
Depreciation – housing properties	2,635	2,401	2,615	2,401
Depreciation – other tangible fixed assets	287	273	275	273
Amortisation of negative goodwill	2,303	2,309	2,287	2,309
Operating lease rentals				
Building	300	273	300	273
Equipment	16	16	16	16
Auditor's remuneration (excluding VAT)				
Fees payable by the Association for the audit of the financial statements	24	22	24	22
Fees payable for other services:				
• Audit of the subsidiaries' accounts	13	4	-	4
Total audit services	**37**	**26**	**24**	**26**
Non Audit Services	4	2	4	2

*restated

7. Interest receivable and other income

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£000	£000	£000	£000
Interest receivable and similar income	205	33	238	33
	205	**33**	**238**	**33**

8. Interest payable and similar charges

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£000	£000	£000	£000
Loans and bank overdrafts	3,039	2,951	3,039	2,951
Capitalised Interest	(54)	-	(54)	-
Defined benefit pension charge	179	215	179	215
	3,164	**3,166**	**3,164**	**3,166**

9. Negative goodwill

The stock transfer from Wycombe District Council in December 2011 has been treated as an acquisition of an equity business in accordance with SORP 2018 and FRS102. All assets and liabilities were stated at their fair value on acquisition which resulted in a material level of negative goodwill. This is to be amortised over a period of thirty years, in line with the business plan.

	Group	**Association**
Costs	£'000	£'000*
At 1 April 2018	(69,231)	(69,231)
Released on disposal	298	298
Released on intra Group disposals	-	489
At 31 March 2019	(68,933)	(68,444)
Amortisation		
At 1 April 2018	14,852	14,852
Released on disposal	(146)	(146)
Released on intra Group disposals	-	(103)
Annual charge	2,303	2,287
At 31 March 2019	17,009	16,890
Net book value after amortisation		
At 31 March 2019	(51,924)	(51,554)
At 31 March 2018	(54,379)	(54,379)

*restated

10. Employees

Average monthly number of employees (expressed as full-time equivalents calculated based on a standard working week of 37 hours):

	Group and Association	
	2019	2018
	No.	No.
Housing management	61	57
Property management	24	21
Central administration	42	41
	127	119

Employee costs:

	Group		Association	
	2019	2018	2019	2018
	£000	£000	£000	£000
Wages and salaries	5,085	4,626	5,085	4,626
Social security costs	545	490	545	490
Other pension costs	497	417	497	417
	6,127	**5,533**	**6,127**	**5,533**

Employees, other than the executive management team (see note 11), with remuneration in excess of £60,000 during the year.

	Group and Association	
	2019	2018
	No.	No.
£60,000 to £69,999	6	3
£70,000 to £79,999	2	3
£80,000 to £89,999	2	-
£90,000 to £100,000	1	-
	11	6

The Group's employees are entitled to membership of either the Buckinghamshire County Council Pension Fund (BCCPF) or the Red Kite Defined Contribution Scheme

Red Kite Defined Contribution Pension

The Group operates a defined contribution scheme that is administrated by Now Pensions. For the whole financial year employees can choose their level of contribution as follows:

	Employee Contribution	Employer Contribution
Auto-enrolment	1%	3%
Lower threshold	3%	8%
Higher threshold	4%	10%

Total employer contributions for the defined contribution schemes for period ended 31 March 2019 were £320,574 (2018: £238,094).

Employees (continued)

Buckinghamshire County Council Pension Fund (BCCPF):

The BCCPF is a multi-employer scheme, administered by Buckinghamshire County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation was completed as at 31 March 2016 and rolled forward, allowing for the different financial assumptions required under FRS 102, to 31 March 2019 by a qualified independent actuary.

The employer's contributions to the BCCPF by the Group for the period ended 31 March 2019 were £184,000 (2018: £179,000) at a contribution rate of 22.2% of pensionable salaries. The employer's contribution rate for the year ending 31 March 2020 has been set at 22.2% for the current service cost and a payment of £9,000 towards the deficit.

Estimated employers' contributions to the BCCPF during the accounting period commencing 1 April 2019 are £186,000

The scheme has 31 active members and is closed to new members.

Financial assumptions:

	As at 31 March 2019	As at 31 March 2018
	%	%
Discount rate	2.40	2.55
Future salary increases	3.90	3.80
Future pension increases	2.40	2.30
Inflation assumption (CPI)	2.40	2.30
Inflation assumption (RPI)	3.40	3.30

Mortality assumptions:

The post-retirement mortality assumptions adopted to value the benefit obligation at March 2016 are based on the S2PA tables with a multiplier of 85%. These base tables are then projected using the CMI 2018 Model, allowing for a long term rate of improvement of 1.5%. The assumed life expectations on retirement at age 65 are:

	2019	2018
	No. of years	No. of years
Retiring today:		
Males	22.9	24.0
Females	24.8	26.1
Retiring in 20 years:		
Males	24.6	26.2
Female	26.6	28.4

Employees (continued)

Expected return on assets

For accounting years beginning on or after 1 January 2015, the expected rate of return and the interest cost has been replaced by a single net interest costs, which effectively sets the expected return equal to the discount rate

Analysis of the amount charged to Statement of Comprehensive Income:

	2019	2018
	£'000	£'000
Current service costs	313	330
Amount charged to operating costs	313	330
Net Interest	(179)	(215)
Amount charged to other finance costs	(179)	(215)

The losses on curtailments and settlements in 2019 were Nil (2018: Nil)

Amounts recognised in the surplus (Statement of Comprehensive Income)

	2019	2018
	£'000	£'000
Re-measurement of (defined liability)/ net asset	539	1,044

Amounts recognised in the Statement of Financial Position:

	As at 31 March 2019	As at 31 March 2018
	£'000	£'000
Present value of funded obligations	(22,295)	(21,846)
Fair value of scheme assets (bid value)	15,437	14,770
Net liability recognised in the statement of financial position	(6,858)	(7,076)

Employees (continued)

Reconciliation of opening and closing balances of the present value of scheme liabilities:

	2019 £'000	2018 £'000
Opening defined benefits obligations	(21,846)	(21,722)
Current service cost	(313)	(330)
Interest cost	(554)	(606)
Change in financial assumptions	(1,091)	631
Change in demographic assumptions	1,234	-
Experience (loss)/ gain on defined benefit obligation	-	-
Liabilities assumed on settlements	-	-
Estimated benefits paid in net of transfers in	328	236
Past service cost, including curtailments	-	-
Contributions by scheme participants	(53)	(53)
Unfunded pension payments	-	-
Closing defined benefit obligation	(22,295)	(21,846)

Reconciliation of opening and closing balances of the present value of scheme assets:

	2019 £'000	2018 £'000
Opening fair value of scheme assets	14,770	13,982
Interest on assets	375	391
Return on assets less interest	396	413
Other actuarial gains	-	-
Administration expenses	(13)	(14)
Contributions by employer	184	179
Contributions by scheme participants	53	55
Estimated benefits paid net of transfers in and including unfunded	(328)	(236)
Settlement prices received / (paid)	-	-
Closing fair value of scheme assets	15,437	14,770

	2019 £'000	2018 £'000
Actual return on scheme assets	771	804

Employees (continued)

Major categories of plan assets as a percentage of total plan assets:

	2019	2018
	%	%
Equities	51	56
Gilts	12	9
Other bonds	15	13
Properties	8	7
Cash	3	4
Alternative assets	1	1
Hedge Funds	5	5
Absolute Return Portfolio	5	5

Sensitivity analysis:

	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	21,856	22,295	22,744
Projected service cost	307	313	320
Adjustment to life expectancy assumption	+1 year	None	-1 year
Present value of total obligation	23,083	22,295	21,534
Projected service cost	324	313	303
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	22,338	22,295	22,252
Projected service cost	313	313	313
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	22,700	22,295	21,898
Projected service cost	320	313	307

11. Board members and executive directors

Board members:
Group

None of the Board members received any emoluments. Reimbursement for expenses incurred in the performance of their duties as Board members totalling £599 (2018: £965) was made in the period.

11. Board members and executive directors (continued)

Executive directors:

				2019	2018
	£	£	£	£	£
	Basic salary	Other benefits	Pension costs	Total	Total
Chief Executive:					
Trevor Morrow	132,120	9,682	29,331	171,133	165,394
Deputy Chief Executive:					
Alan Keers	113,300	6,603	11,330	131,233	126,703
Group Director of Resources:					
Ray Prior	103,000	5,900	10,300	119,200	107,904
	348,420	22,185	50,961	421,566	400,001

The emoluments of the highest paid director during the year excluding pension contributions and other costs were £132,120 (2018: £128,272). The Chief Executive is a member of the Local Government Pension Scheme. He is an ordinary member of the pension scheme and no enhanced or special terms apply. The Group does not make any further contribution to an individual pension arrangement for the Chief Executive.

12. Tangible fixed assets – housing

Housing properties (provide social benefits) held for letting

	Group	Association
	£'000	£'000
Cost:		
At 1 April 2018	181,865	181,865
Works to existing properties	5,578	5,578
New Homes- Works in Progress	2,810	2,830
Disposals	(506)	(506)
Intra Group disposals	-	(1,346)
At 31 March 2019	189,747	188,421
Depreciation:		
At 1 April 2018	8,766	8,766
Released on disposal	(72)	(72)
Intra Group disposal	-	(46)
Depreciation charge in the year	2,635	2,615
At 31 March 2019	11,329	11,263
Net book value after depreciation		
31 March 2019	178,418	177,158
31 March 2018	173,099	173,099

All properties are held freehold. £54,000 of interest costs in the period has been capitalised in the period (2018: Nil)

Tangible fixed assets – housing (continued)

Expenditure on works to existing properties:

	2019	2018
	£'000	£'000
Components capitalised	5,578	4,019
Amounts charged to Statement of Comprehensive Income	8,437	9,109
	14,015	13,128

13. Investment properties

Non-social housing properties held for letting

Group and Association	**Completed**	**Under Construction**	**Total**
	£'000	£'000	£'000
At 1 April 2018	4,551	-	4,551
Increase in value of the garages	1,459	-	1,459
Increase in value of the shops	240	-	240
Homes being held for market rent	-	982	982
Annual increase on the fair value	1,699	982	2,681
Reclassification of assets to land for development	(1,740)	-	(1,740)
At 31 March 2019	**4,510**	**982**	**5,492**

Investment properties relate to shops and garages that are not let as part of a residency tenancy agreement.

The shops were valued as at 31 March 2016 by Savills (UK)Limited, professional external valuers and management have assessed that there were no material changes at March 2019 except for one site that has development use for the Group. During the year two garages sites were revalued for development use by the Group. The retaining garages were valued as at 31 March 2019 by Savills (UK) Limited. These valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors as follows:

In valuing investment properties, a discounted cash flow methodology was adopted with key assumptions:

	Garages	Commercial Shops
Discount	11%	6% to 10%
Annual inflation rate, after first two years	2%	0%
Level of long term annual rent increase	2%	0%

The discount factor for the commercial shops varies per location reflecting on the level demand.

14. Investment in subsidiaries

As required by statute, the financial statements consolidate the results of Red Kite Devco Ltd, Edenmead Ltd, Pennvale (Holdings) Ltd, and Twenty 11 (Homes) Ltd, which were wholly owned subsidiaries at the end of the year. Red Kite Community Housing has the right to appoint members to the Boards of the four subsidiaries and therefore exercises control over them. Twenty 11 (Homes) is regulated by the Charity Commission with the other three subsidiaries not being regulated. The registered office is the same for all the group entities. Red Kite Community Housing Limited is the ultimate parent undertaking.

Association

	2018
	£
At 1 April 2018	13
Additions (as detailed below)	2,114,000
At 31 March 2019	2,114,013

Additions	£
Homes transferred to Twenty 11	914,000
On lending to the subsidiaries	1,200,000
Total	2,114,000

During the year Red Kite Community Housing recharged the following amounts to the unregistered subsidiaries.

	Red Kite Devco £'000	Edenmead £'000	Twenty11 £'000	Pennvale £'000	2019 £'000	2018 £'000	Allocation basis (Note1)
HR,IT, Finance & Office	250	37	-	26	313	158	FTE
Executive Management Team	8	2	3	-	13	132	TA
Community Pod	-	-	-	-	-	24	TA
Relationship Pod	-	-	1	-	1	-	TA
Property Pod	-	-	2	-	2	-	TA
Commercial Pod	-	-	60	32	92	31	TA
Income Stem	-	-	1	-	1	12	TA
Communication & Branding	4	-	11	3	18	56	TA
Development activities	200	34	-	-	234	224	PC
	462	73	78	61	674	637	

Note 1: AB- Allocation basis: FTE- Full time equivalent: TA- Time allocation: PC- Professional costs incurred

15. Tangible fixed assets- other

Group

	IT & Infra-structure £'000	Furniture £'000	Office accommodation improvements £'000	Total £'000
Cost				
At 1 April 2018	2,078	300	660	3,038
Additions	172	5	-	177
Disposals	-	(11)		(11)
At 31 March 2019	2,250	294	660	3,204
Depreciation				
At 1 April 2018	1,459	285	660	2,404
Charged in year	273	14	-	287
Released on disposal	-	(11)	-	(11)
At 31 March 2019	1,732	288	660	2,680
Net book value				
31 March 2019	518	6	0	524
31 March 2018	619	15	-	634

None of the above are owned under finance leases (2018: £Nil).

Association

	IT & Infra-structure £'000	Furniture £'000	Office accommodation improvements £'000	Total £'000
Cost				
At 1 April 2018	2,078	300	660	3,038
Additions	87	5	-	92
Disposals	-	(11)		(11)
At 31 March 2019	2,165	294	660	3,119
Depreciation				
At 1 April 2018	1,459	285	660	2,404
Charged in year	261	14	-	275
Released on disposal	-	(11)	-	(11)
At 31 March 2019	1,720	288	660	2,668

Tangible fixed assets- other (continued)

Net book value				
31 March 2019	445	6	-	451
31 March 2018	619	15	-	634

None of the above are owned under finance leases (2018: £Nil).

16. Debtors

Debtors due within one year

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£000	£000	£000	£000
Rent and service charges receivable	1,655	1,694	1,646	1,694
Less: Provision for bad and doubtful debts	(870)	(913)	(866)	(913)
	785	781	780	781
VAT recoverable	822	896	776	896
Amounts owed by Group undertaking	-	-	1,377	1,459
Development Agreement	5,925	8,096	5,925	8,096
Prepayments and accrued income	964	966	964	966
Other debtors	733	743	733	743
	9,229	**11,482**	**10,555**	**12,941**

The Development Agreement debtor due within 12 months is the forecasted expenditure within this period that will be recovered under the terms of it. It has a matching liability with the creditors due within the same period.

Debtors due after one year

	Group		Association	
	2019	**2018**	**2019**	**2018**
	£000	£000	£000	£000
Development Agreement	140,924	146,849	140,924	146,849
	140,924	**146,849**	**140,924**	**146,849**

The Development Agreement debtor due after 12 months is the forecasted expenditure from 1 April 2020 that will be recovered under the terms of it. It has a matching provision in note 21.

17. Properties held for sale

	Group		Association	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Homes for outright sale- Works in progress	329	51	150	-
Shared Ownership- 1st tranche- Works in progress	554	-	559	-
Total	**883**	**51**	**709**	**-**

18. Investments in the shares

Group and Association

	2019
	£'000
At 1 April 2018	20
Additions	10
At 31 March 2019	30

19. Creditors: amounts falling due within one year

	Group		Association	
	2019	**2018***	**2019**	**2018***
	£000	£000	£000	£000
Trade creditors	3,060	3,383	2,859	3,383
Rent and service charges received in advance	892	507	890	507
Amounts owed to Group undertaking	-	-	969	1,042
Payments due under the transfer agreement	6,578	4,654	6,578	4,654
Development Agreement	5,925	8,096	5,925	8,096
Accruals and deferred income	1,652	1,742	1,633	1,742
Other taxation and social security	153	142	153	142
Other creditors	468	473	490	473
	18,728	**18,997**	**19,497**	**20,039**

*restated

Payments due under the transfer agreement between the Group and Wycombe District Council relate to monies due in relation to the sharing of Right to Buy sales receipts.

Development Agreement- This presents the expected expenditure in the next twelve months under the agreement. There is a corresponding asset

20. Creditors: amounts falling due after more than one year

Group and Association

	2019	2018*
	£000	£000
Debt (note 22)	79,479	59,418
Payments due under the transfer agreement	8,253	11,700
	87,732	**71,118**

Restated

Payments due under the transfer agreement between the Group and Wycombe District Council relate to monies due in relation to the VAT Shelter agreement and the profit share agreement on disposals.

21. Provisions

Group and Association	2019	2018*
	£'000	£'000
Development Agreement	140,924	146,849
Leave pay	65	75
	140,989	**146,924**

*Restated

The Development Agreement provision represents the financial obligations under it. This is obligation is matched by a debtor in note 16.

The leave pay provision represents holiday balances accrued as a result of services rendered in the current period and which the employees are entitled to carry forward. The provision is measured as the salary cost payable for the period of absence.

22. Debt analysis

Group and Association

	2019	2018*
	£'000	£'000
Bank loans	80,000	60,000
Less Loan issue cost	(521)	(582)
	79,479	**59,418**

*Restated

All debt is repayable in five years or more.

Debt analysis (continued)

Net Debt

Group

	At 31 March 2018 £'000	Cashflows £'000	Other Changes £'000	At 31 March 2019 £'000
Cash at bank and in hand	13,506	(1,606)	15,000	26,900
Debt due within one year	-	-	-	-
Debt due after more than one year	(60,000)	-	(20,000)	(80,000)
Current asset investments	-	-	5,000	5,000
	(46,494)	(1,606)	-	(48,100)

Association

	At 31 March 2018 £'000	Cashflows £'000	Other Changes £'000	At 31 March 2019 £'000
Cash at bank and in hand	13,506	(2,435)	15,000	26,071
Debt due within one year	-	-	-	-
Debt due after more than one year	(60,000)	-	(20,000)	(80,000)
Current asset investments	-	-	5,000	5,000
	(46,494)	(2,435)	-	(48,929)

23. Terms of repayment and interest rates

The funding is repayable in accordance with the individual agreements with RBS and the Pension Insurance Corporation.

Group and Association

	2019 £'000	2018 £'000
Within one year or on demand	-	-
One year or more but less than two years	-	-
Two years or more but less than five years	-	-
Five years or more	80,000	60,000
	60,000	**60,000**

Terms of repayment and interest rates (continued)

The first repayment is due in 2022-23 and the last in 2040-41

At 31 March 2019 the Group had undrawn committed loan facilities of £40million. The facilities are secured by a fixed charge over 2,611 of the Group's properties.

Interest rate exposure on borrowings is managed using a mix of fixed and floating rate arrangements available within the loan facilities as follows:

	2019	2018
	£'000	£'000
Fixed rate	80,000	60,000
Floating rate	-	-
	80,000	**60,000**

The Group has not entered into any derivatives or financial instruments outside of the committed loan facilities. The fixed rate financial liabilities have a weighted average interest rate of 3.69% (2018: 4.72%) and the weighted average period for which they are fixed is 11 years (2018: 10years). There were no floating rate financial liabilities during the period (2018: Nil.)

24. Share Capital

Membership comprises tenants and resident leaseholders plus Wycombe District Council. Each member holds one share with a value of £1. The shares provide members with the right to vote at general meetings, but do not provide any right to dividends or distribution on the winding up of Red Kite Community Housing.

	2019	2018
	No.	No.
Members at beginning of period	939	803
Annual movement in the number of members	(50)	136
Number of members at end of period	**889**	**939**

25. Cash flow from operating activities

	2019	2018*
	£'000	£'000
Surplus on ordinary activities	8,932	5,846
Adjustments for non-cash items		
Depreciation of tangible fixed assets	2,922	2,674
Amortisation of negative goodwill	(2,303)	(2,309)
Defined benefit pension costs	142	165
Decrease debtors	82	147
(Decrease) creditors	(534)	(5,103)
Development of homes for sale	(832)	-
Carrying amounts of tangible fixed asset disposals	(93)	493
Fair value adjustments	(1,699)	(291)
	6,617	1,622
Adjustments for investing or financial activities		
Interest payable	3,166	3,166
Other finance costs	-	2,513
Interest receivable	(205)	(33)
Net cash inflow from operating activities	**9,578**	**7,268**

*restated

26. Capital commitments

	2019	2018
	£'000	£'000
Expenditure contracted but not provided for in the accounts	10,492	3,206
Expenditure authorised by the Board but not contracted	37,195	8,346
	47,687	**11,552**

The above commitments will be financed through utilising the committed loan facilities, which are available for draw-down under existing loan arrangements.

27. Tax on surplus on ordinary activities

The ultimately parent company Red Kite Community Housing has charitable status with HMRC and is not liable for Corporation Tax on its ordinary activities. No taxable activities have occurred during the period.

28. Development Agreement

The Group entered into a Development Agreement with Wycombe District Council on 13 December 2011 under which the Group is committed to carry out improvements to the properties acquired from the Council over the following 15 years. The total value of the commitment over the 15 years is £227,336,000. An invoice for the same sum has been issued by the Group to Wycombe District Council. The debtor and the provision are shown as separate items in the accounts.

Development Agreement (continued)

As at 31 March 2019, improvements to a value of £82million (2018: £72million) had been completed under the Development Agreement. The remaining liability at 31 March 2019 is £145million (2018: £155million).

29 Contingent assets / liabilities

There are no contingent assets and liabilities to disclose.

30. Leasing commitments

The future minimum lease payments are set out as below. The leases relate to the office at Windsor Court and to office equipment.

	2019 Land and Buildings £'000	2019 Office equipment and computers £'000	2018 Land and Buildings £'000	2018 Office equipment and computers £'000
Cost				
In one year or less	306	27	204	12
Between one and five years	791	48	1,097	-
In five years or more	-	-	-	-
	1,097	**75**	**1,301**	**12**

The lease for the office at Windsor Court commenced in November 2012 and is for a period of ten years.

31. Related parties

During the year there was one tenant who was a member of the Board, Patricia Brion. The tenancy was on normal commercial terms and was not able to use the position to her advantage.

Two members of the Board during the period, Ian McEnnis and Paul Turner are councillors with Wycombe District Council. All transactions with the Council are on normal commercial terms and the Board members nominated by the Council are not able to use their position to their advantage.

The total value of related party transactions during the year was £7,177 (2018: £8,997).

As detailed in note 14 Red Kite Community Housing has provided £674,000 of services that have been recharged to its non-regulated subsidiaries. In addition, the intra Group lending arrangements has resulted in £33,000 of interest being charged to the subsidiaries during the period.

Red Kite Devco during the year provided to its parent design and build services in relation to its investment in new homes.

32. Other Income

During the year the Group received non-recurring consideration from HMRC in relation to the final agreement of a special method partial exemption that was initial recognised in the last financial year. In addition, the association received Gift Aid income from Red Kite Devco Ltd of £34,000 (2018: £40,000)

	Group	Association
	£'000	£'000
HMRC- Historical VAT	174	174
Gift Aid	-	34
	174	**208**

34. Revaluation reserve

The revaluation reserve relates to accounting adjustments made on the introduction of FRS102.

	2019	2018*
	£'000	£'000
Fair value adjustment of investment properties	3,974	3,974
	3,974	**3,974**

*restated value

35 Prior Years Adjustment

Restated statement of financial position

	Revenue	Restricted	Revaluation	Total
As at 1 April 2017	£'000	£'000	£'000	£'000
Original reserves	42,871	246	(143)	42,974
Grant amortisation	(11,373)	-	-	(11,373)
Financial instrument adjustment	5,507	-	-	5,507
Negative goodwill amortisation	7,700	-	-	7,700
Reclassified reserves	(4,117)		4,117	-
Restated reserves	40,588	246	3,974	44,808

The following narrative provides further clarification of the change to the statement of financial position:

Grant amortisation
Previously the grant consideration at the time of the transfer from Wycombe District was recognised as grant and amortised over the 50 years. This assessment has been revised and the £28 million has now being included in the measurement of negative goodwill. This adjustment adjusts the revenue reserve by derecognising the income from December 2011 to March 2017.

Prior Years Adjustment (continued)

Negative goodwill amortisation
Negative goodwill is amortised over a thirty year period or at the time of disposal outside the Group. This adjustment reflects the increase in the opening measurement of negative goodwill now that it includes grant.

Financial instrument adjustment
Recognition of the loans as basic financial instruments following the early adoption of the Housing SORP 2018.

Reclassification of reserves
The deemed cost revaluation adjustment of the aged persons accommodation during the implementation of FRS102 was allocated to revaluation reverse. This adjustment is now recognised in the revenue reserve.

Restated surplus for the year ending 31 March 2018

	Group	Association
	£'000	£'000
Original surplus on ordinary activities before tax	8,633	9,050
Fair value adjustment of the financial instrument	(755)	(755)
Breakage fees of a fixed rate loan	(2,513)	(2,513)
Increase in the negative goodwill charge for the year	877	877
Increase in the negative goodwill charge on the disposal of homes	51	51
Derecognition of the grant income for the year	(433)	(433)
Reclassification of cost as an operating one	(65)	(65)
Revised treatment of development costs for Edenmead	51	-
Restated surplus on ordinary activities before tax	**5,846**	**6,212**

The following narrative provides further clarification of the changes to the surplus:

Fair value adjustment of the financial instrument
Recognition of the loans as basic financial instruments following the early adoption of the Housing SORP 2018.

Breakage fees of a fixed rate loan
Now recognised as a financing cost due to the early adoption of the SORP 2018

Increase in the negative goodwill charge for the year
The remeasurement of the initial cost of negative goodwill has resulted in this increased charge for the year.

Increase in the negative goodwill charge on the disposal of homes
The remeasurement of the initial cost of negative goodwill has resulted in this increased charge on disposal.

Derecognition of the grant income for the year
This derecognises the release of grant for the year. The grant in now included in the measurement of negative goodwill.

Prior Years Adjustment (continued)

Reclassification of cost as an operating one
Transfer the cost from other comprehensive income to an operating one

Revised treatment of development costs for Edenmead
This recognises that £51,000 of costs in period to 31 March 2018 were related to future cost of sales.