RED KITE COMMUNITY HOUSING LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDING 31 MARCH 2018

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
Homes and Communities Agency registration number	4682
Registered office	Red Kite Community Housing Limited Windsor Court Kingsmead Business Park Frederick Place High Wycombe Buckinghamshire HP11 1JU
Board	Jennie Ferrigno BEM, Chairman (*resigned from the Board -13 September 2017)* Mike Gahagan, Chairman (*appointed as Chairman 13 September 2017*) Patricia Brion (*appointed 13 September 2017)* Wendy Byrne (*appointed 13 September 2017)* Malcolm Campbell *(Co-opted 1 June 2018)* Charles Leigh-Dugmore (*appointed to the Board and as Vice-Chairman on 13 September 2017)* Kate Haven (co-optee) (resigned 9th April 2018) Ian McEnnis James Moorcroft (*resigned as Temporary Vice-Chairman 13 September 2017*) Jean Needham (*resigned 5 July 2017*) Abieyuwa Obomighie (co-optee) (*resigned 20 July 2017*) Chris Pierce (*resigned 13 September 2017*) Steven McIntosh Patrick Smith (*appointed 13 September 2017*) James Threapleton Paul Turner (*appointed 17 May 2017*)

Group and Association information (continued)

Chief Executive	Trevor Morrow
Company Secretary	Neil Venables *(resigned 27th July 2017)* Ray Prior *(appointed 27th July 2017)*
Executive Directors	Alan Keers, Deputy Chief Executive Neil Venables, Group Director of Resources (resigned 27th July 2017) Ray Prior, Group Director of Resources (*appointed 28th July 2017*) Colin Gummow, Assistant Director - Finance (*appointed 28th July 2017*) Helen Anderson, Assistant Director-Business (*appointed 4th October 2017*)
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	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG
Internal Auditor	Mazars LLP Tower Bridge House St Katharine’s Way London E1W 1DD

Chairman's Statement

This is my first Chairman's statement since I succeeded Jennie Ferrigno as Chair of Red Kite last September. Jennie was fundamental to Red Kite's creation and success. Having led the campaign to transfer the housing from High Wycombe District, Jennie chaired Red Kite for our first six years. During that time key promises made to tenants were kept, good housing management practices were implemented, an embryo development programme formulated and the finances were placed on a sound footing. Perhaps most importantly, our culture as a tenant led organisation was embedded.

In the last twelve months we have built on those foundations. We have refinanced, enabling us to reduce our interest payments and this and other work we have undertaken have given us solid foundations on which to build. Over the past year, we have consulted with our tenants about the nature of our future. As a result, we have set up the Red Kite Community Housing Group including three new companies, Pennvale, Edenmead and Twenty11, sitting alongside Red Kite. Red Kite will continue as the landlord for our existing tenants, whose rights and opportunities will not be affected.

Perhaps the most innovative development is Twenty11. We have established this, under recent Government freedoms, as a non-regulated housing charity which we will launch in a limited way this autumn. We are using these freedoms to pilot new approaches for our tenants which more accurately reflect their circumstances and aspirations. In particular, we will set rents in accordance with a family's ability to pay and we will provide help and support in return for the family accepting certain responsibilities. We will monitor carefully the pilot.

Everyone knows that there is a severe housing shortage in our area and we see it as our duty to provide as many new homes as possible. We plan to build at least 375 homes over the next four years with a mix of tenures, including homes at a discounted rent, shared ownership properties and homes for sale and to rent at market price. The surplus from market priced homes will subsidise our sub-market homes. The pace of development will depend on, among other things, obtaining planning permissions.

Amongst all these changes the Board is aware that we must continue to improve the quality of the service which we provide to existing tenants. To help us achieve this we have recently changed our repairs and maintenance contractors and enhanced our information on the quality of our services. We will, therefore, continue to keep a close watch on performance. We also have launched our Springboard Fund to assist groups and individuals within our community.

We do need to refresh our approach to tenant involvement. Our volunteer tenants are a great strength and contribute across the organisation but their numbers are falling. Our Customer and Community Insight Group has recently been reformed under its chairman, Simon Archer and, importantly, is now developing its future role and agenda.

Finally, we have a strong, independently minded Board and an excellent executive team. We have been sorry to say goodbye to Chris Pierce and, as a co-optee, Kate Haven from the Board and to Neil Venables as Group Director of Resources. However, I am delighted to welcome onto the Board new members, Wendy Byrne, Patrick Smith and, recently, Malcolm Campbell. 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.

Business and financial review

The financial statements cover the twelve-month period to the 31 March 2018 and are presented on a 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 of £9,575,000 (2017: £7,655,000). The increase in the operating surplus for the year is influenced by the profile of the required investment in our existing homes following the planned levels that underpinned our transfer promises. The investment in our existing homes and garages charged to the statement of comprehensive income this year was £9,109,000 (2017: £10,046,000). In addition, we invested a further £4,019,000 (2017: £8,305,000) that was added to the value of our homes as reflected in the statement of financial position. This resulted in a total investment of £13,128,000 (2017: £18,351,000) in our existing homes. The recurring income for our homes reduced by £546,000 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.

The surplus for the financial year of £8,633,000 (2016: £6,778,000) was influenced by the increased operating surplus and reduced costs of servicing our debts, however this was impacted by the reduced gains of £1,145,000 on the disposal of properties (2017: £2,942,000). These disposals include the receipts on the planned sale of seven sheltered homes that was part of our review of our sheltered homes. A further £2.5 million (2016: £2 million) receipt on the sales of the sheltered schemes is shown in the balance sheet as a long-term creditor, as, if not reinvested in the building of new homes within ten years, it will be refundable to Wycombe District Council. However, we will utilise this within our development programme and do not anticipate having to refund the council. The reported total comprehensive income for the year of £9,612,000 (2017: £5,126,000) is significantly affected by an actuarial gain (relating to Buckinghamshire County Council Pension Fund) of £1,044,000 compared to a 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 939 tenants and leaseholders as shareholders (2017: 803), a figure that continues to rise; two positions are available for tenants and leaseholders 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.

Strategic Report (continued)

Business and financial review (continued)

During the year the Board approved the refinancing of our loan facilities that had underpinned the success of the business since its transfer in December 2011. The revised debt structure aligns itself to the new Corporate Journey that was previously approved by our Board and our tenants. In addition, the refinancing also generated an additional recurring £1 million savings to the business and freed up significant spare asset security (EUV-SH) that will underpin our future development aspirations.

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 £440,000 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 will allow 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. It is anticipated that the first homes will be transferred later this year.

Changes in Government policies continue to alter the environment in which we operate as demonstrated by the statement in October 2017 that Registered Providers will be allowed to increase their rents by a maximum of CPI plus 1% from April 2020 for five years. This was in addition to other sector friendly announcements in relation to housing benefit entitlement and refinements to universal credit. Ultimately such announcements strengthen us, but they do not undo the reduction in our development capacity caused by the four years of 1% rent reductions from April 2016.

The Board approved a business plan in March 2018 that reflects the benefits of the refinancing completed in July 2017 and the revised Government policy in future rent increases. The effective use of our resources enables us to generate approximately 50% ongoing operating margin that supports investment in the homes of our existing tenants and additional ones for future customers. The plan contains anticipated but uncommitted development expenditure of £78 million and receipts of £27million from outright market and first tranche shared ownership sales. This planned net expenditure of £51 million is our first step in providing additional homes for our local community and our Group structure will ensure we deliver this in a way that underpins the efficient use of our financial resources. In addition, we have 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.

Working through planning issues together with Wycombe District Council has delayed our investment programme. However, both parties remain committed to working together to resolve issues to ensure that we deliver lasting benefits to our local community.

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	2018	2017	2016	2015	2014*
	£'000	£'000	£'000	£'000	£'000
Statement of Comprehensive Income					
Total turnover	35,728	36,185	36,343	35,530	33,682
Operating surplus	9,575	7,655	9,681	9,478	10,927
Total comprehensive income for the year	9,612	5,126	7,017	1,113	9,999
Statement of Financial Position					
Negative goodwill	(35,006)	(36,514)	(38,187)	(40,206)	(41,316)
Housing properties, net of depreciation	173,099	171,935	166,306	158,006	150,101
Investment properties	4,551	4,260	4,085	3,987	-
Social housing grant and other grants	-	-	-	-	(27,626)
Other fixed assets	634	692	890	1,074	1,262
Fixed assets	143,278	140,373	133,094	122,861	82,421
Net current assets	5,634	6,249	5,028	9,405	13,309
Total assets less current liabilities	148,912	146,622	138,122	132,266	95,730
Creditors due in more than one year	(89,175)	(95,902)	(94,453)	(94,522)	(59,002)
Net pension liability	(7,076)	(7,740)	(5,793)	(6,883)	(8,939)
Provisions for liabilities	(75)	(6)	(28)	(28)	-
Total net assets	52,586	42,974	37,848	30,833	27,789
Reserves	(52,586)	(42,974)	(37,848)	(30,833)	(27,789)

Strategic Report (continued)

Business and financial review (continued)

	2018	2017	2016	2015	2014*
Social housing properties owned at the year-end:	5,831	5,833	5,911	5,944	5,980
Statistics:					
Operating surplus as % of turnover	26.80%	21.2%	26.6%	26.7%	32.4%
EBITDA interest cover (including sales)	381.5%	290.8%	265.8%	282.9%	366.5%
EBITDA MRI interest cover (including sales)	245.3%	77.9%	-10.4%	-53.1%	170.1%
Surplus for year as % of income from social housing lettings	27.0%	20.1%	17.1%	7.6%	31.2%
Rent losses (*voids and bad debts as % of rent and service charges receivable)*	1.6%	1.4%	1.5%	2.4%	2.5%
Rent arrears *(gross current tenant arrears as % of operating turnover)*	3.6%	3.6%	3.5%	3.6%	3.6%
Liquidity *(current assets divided by current liabilities)*	150.0%	146.1%	148.3%	186.6%	299.3%

* Old UK GAAP

Strategic Report (continued)

Business and financial review (continued)

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.

Following a Special General Meeting on 28th March 2018, which approved rule changes in line with the requirements of The Regulation of Social Housing (Influence of Local Authorities) (England) Regulations 2017 (the Regulations), we have registered a new set of rules removing the Council's golden share and voting rights in general meeting and restricting Council Board membership to a maximum of 24% of Board members. (The Regulations, which were introduced as a requirement on the government by the Office of National Statistics to demonstrate sufficient independence of government influence for sector debt not to be included on the Public Balance Sheet; are intended to demonstrate that Registered Providers are not in public sector control).

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

Creativity:
In an ever-changing world, standing still is not an option. We constantly seek out new and better ways of achieving our purpose. We use our creativity to drive innovation and deliver our objectives.

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

In March 2018 the new Value for Money Standard, replacing the then existing standard which dates from 2012, was issued by the Regulator of Social Housing (the Regulator) and came into effect from 1st April 2018. Amongst other things the new Standard replaces the requirement for Registered Providers (RPs) to prepare a Value for Money Statement with a requirement to include a report within the Financial Statements on Value for Money which includes seven standard metrics and allows for Boards to select other metrics which demonstrate how the Group is performing against its objectives.
Although the standard applies from 1st April 2018, the Regulator has specifically stated that it expects Registered Providers to use the new form report in Financial Statements published from 1st April 2018 even where the reporting period ends before that date. This report relates to the period 1st April 2017 to 31st March 2018 but has been prepared according to the new Standard and its accompanying Code of Practice.
The Board has also reviewed and updated our policy "Our Strategic Approach to Value for Money" to ensure we comply with the new Standard.

VFM activity in 2017-18

Although this is not a VfM statement, a number of VfM activities were outlined for the year in the 2017 statement and we note that, as a result of our approach to VfM, savings in all of £1,197,000 including £192,000 recurring savings have been made during the year to March 31st 2018. This is in addition to the approximate £1,000,000 savings made as a result of the refinancing on an ongoing basis. These savings will be re-invested in the business and support both the restructuring of the business to better deliver our purpose and the current and future plans to build new homes.

Standard Metrics

The seven standard metrics have been chosen, after consultation, by the Regulator so that they can be drawn from audited accounts and benchmarked against the Global Accounts report for comparative purposes. They are therefore of necessity in the main financial metrics. We report on them below. Where the Standard refers to "Housing Properties" we use "Homes" as the preferred Red Kite terminology.

Actuals, Forecasts, Targets and Benchmarking

In all graphs, our figures for 2013-18 relate to actual results, and for 2019 to 2023 forecast results. 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 2018. We have included the forecast figures for the years ending 31st March 2019 to 2023.

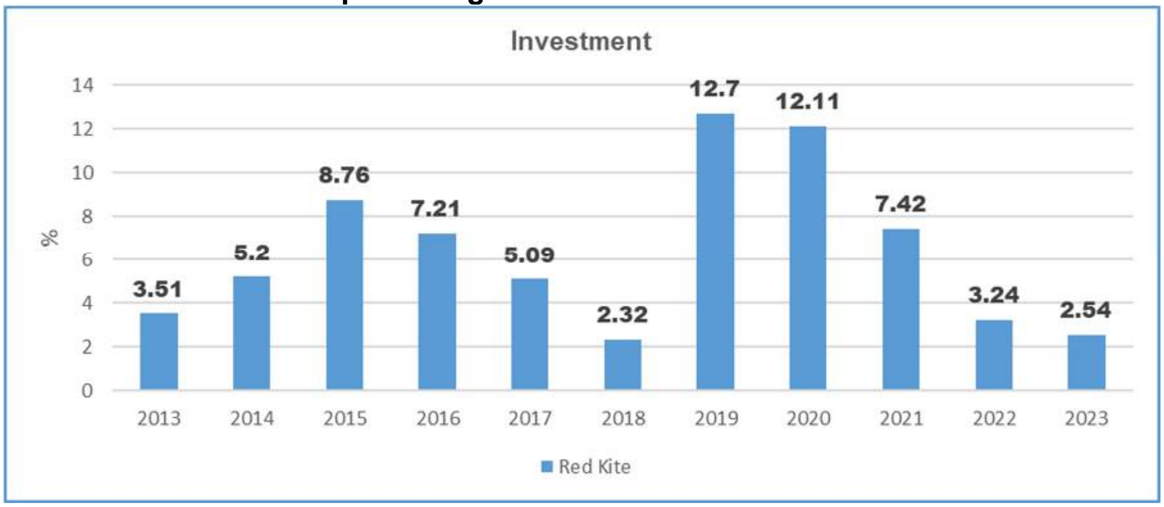
As this is the first year of reporting targets have not been set yet in relation to every metric, but will be set by the Board during the current financial year for next year's report.

For benchmarking we have used Global Accounts 2017 – published by the Regulator based on sector wide accounts where available or Sector Scorecard 2017 where not.

Strategic Report (continued)

Value for Money Report

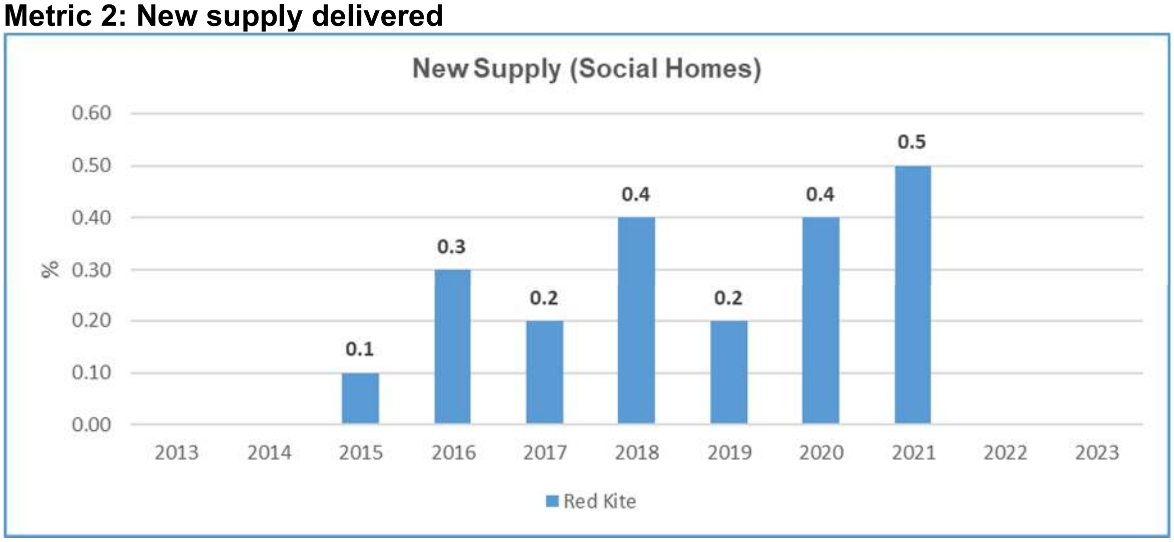
Metric 1: Reinvestment percentage



This is a new metric and so this year there is no benchmark figure from Global Accounts. It is provided on a group basis so will include development investment although much of this will be for homes transferred into Twenty11. It takes into account both capital investment in our existing homes and also includes investment in new properties.

The historic figures (to March 2018) largely reflect the investment in existing properties whereas the figures from 2019 to 2021 largely reflect the development programme which is expected to take place in those years.

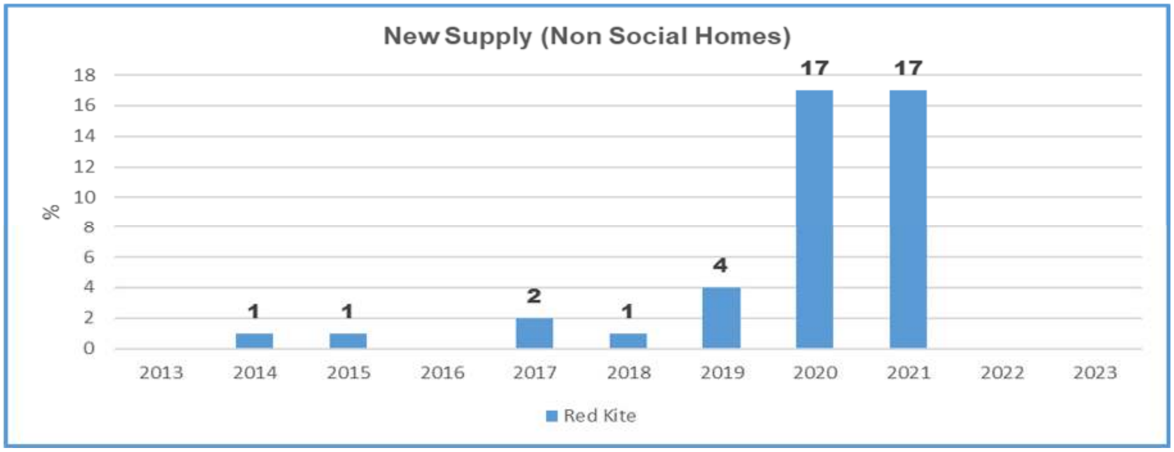
Metric 2: New supply delivered



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

Strategic Report (continued)

Value for Money Report



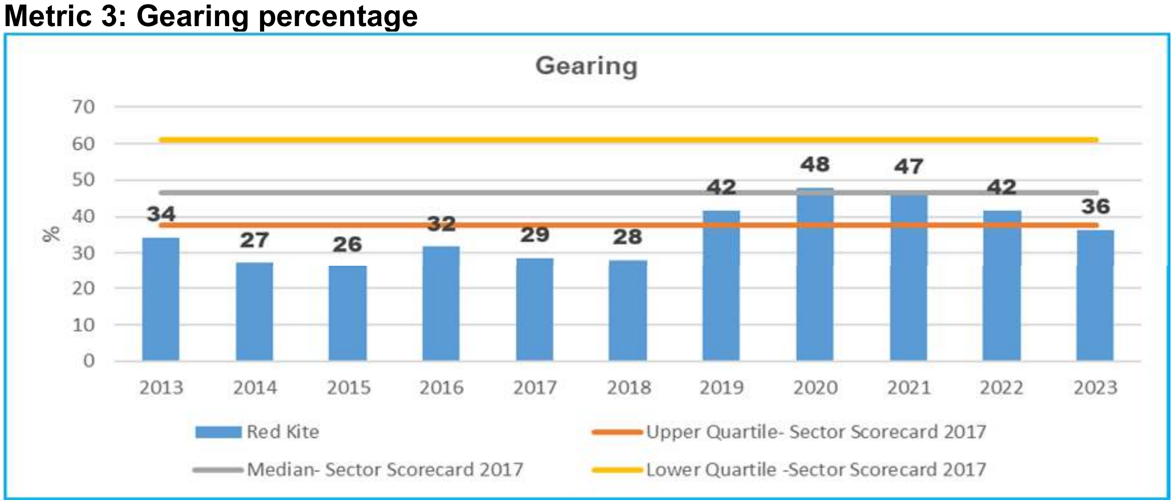
(Total homes acquired or developed in the period/Total homes held at the end of the Period)

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 the development homes transferred to Twenty11 are not included within this definition even though they will be discounted below 80% of market value and qualify from the point of view of Twenty11s charitable purpose.

For this reason, the new supply of social homes is relatively small; the development programme all falling in the second graph. It is anticipated given the status of our plans for development that some homes will be built this financial year but most completions will take place in the following two financial years.

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 to ensure that we 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.

Metric 3: Gearing percentage



(Net debt/Value of Homes at period end)

Strategic Report (continued)

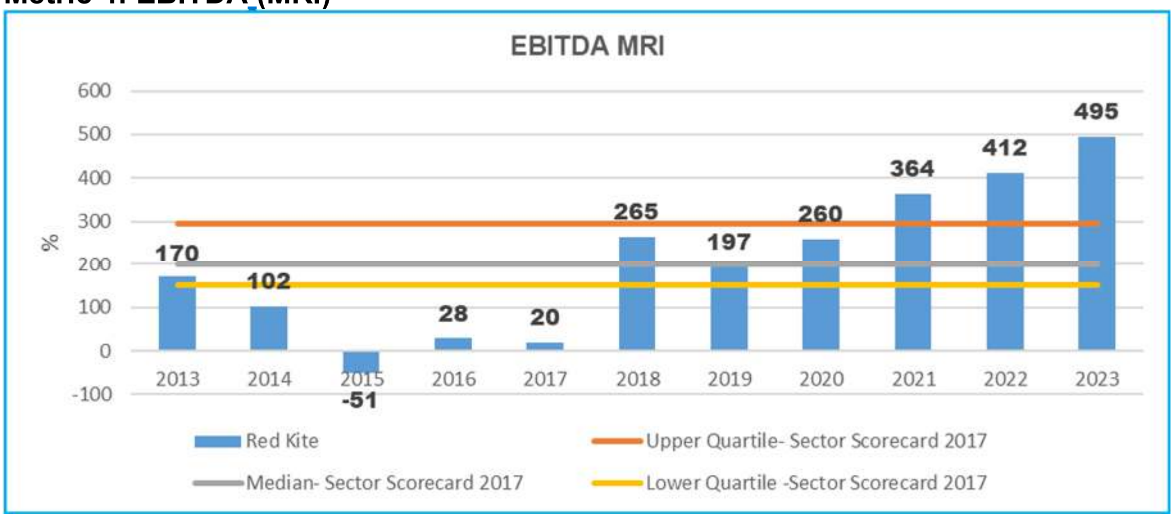
Value for Money Report

Gearing shows the extent to which our investment depends upon debt, measured on a group basis. It has traditionally been quite low but increases to just above the 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.

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.

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 four years.

Metric 4: EBITDA (MRI)



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

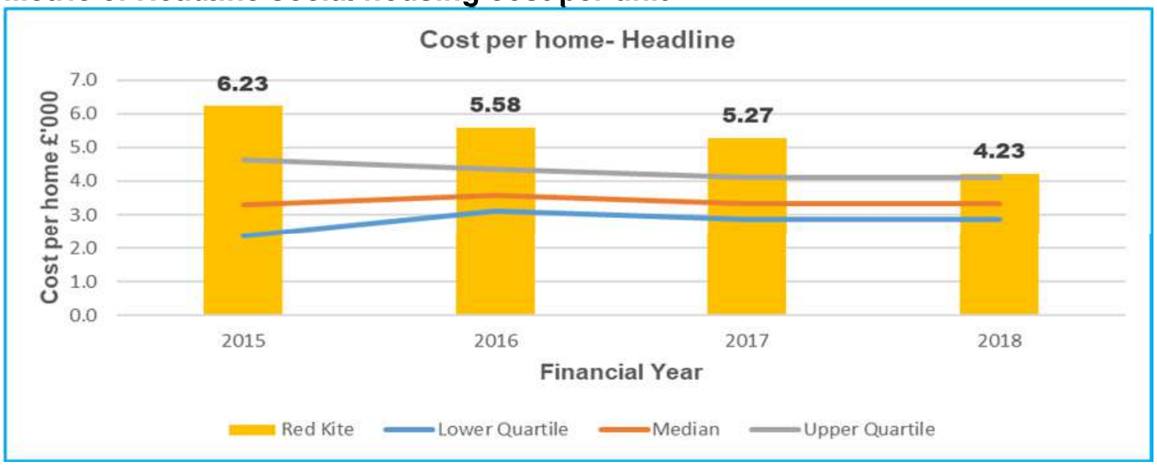
This key metric is one which our funders pay attention to. The levels of EBITDA (MRI) achieved and forecasted are comfortably above our covenant ratio and indeed our more challenging internal target of 130%. The significant improvement in this Financial year is a reflection of the very significant spend 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.

Strategic Report (continued)

Value for Money Report

Although Red Kite still has a very significant programme of investment in its homes, (see Metric 5 below Metric C (page 21) its EBITDA (MRI) shows a strengthening financial position and strong interest cover going forward. It will dip in 2019 slightly as the development programme unwinds and the strengthening position thereafter will support the Board's ambitions to carry out a sustained programme of development beyond its current plan.

Metric 5: Headline social housing cost per unit



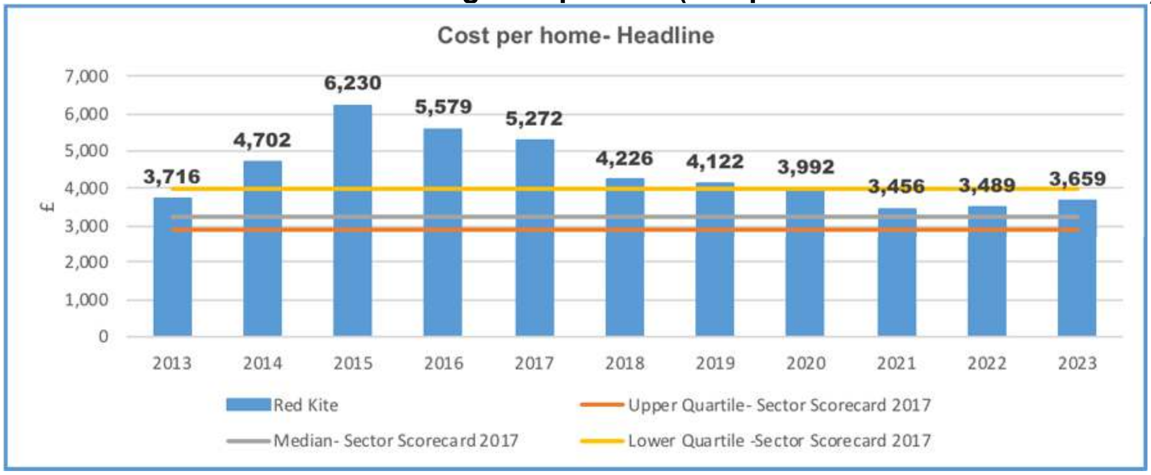
Historically Red Kite have had very high costs per home, in the main due to a high level of capital investment in our homes during the early years as we completed the promises made to our tenants at stock transfer. This year cost per home has decreased significantly so that it now corresponds to the upper quartile of costs from the global accounts. Further analysis of our cost per home is shown in Metric C. We have targeted reduction of management cost this year 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 RPs. 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.

Looking forward, using comparative data from the Sector Scorecard (see below), we can see that we are forecasting that cost per home will reduce further and stabilise close to the median cost per home around the year ended March 20121 and beyond. 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.

Strategic Report (continued)

Value for Money Report

Metric 5: Headline social housing cost per unit (comparison to Sector scorecard)



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

i) For social housing lettings

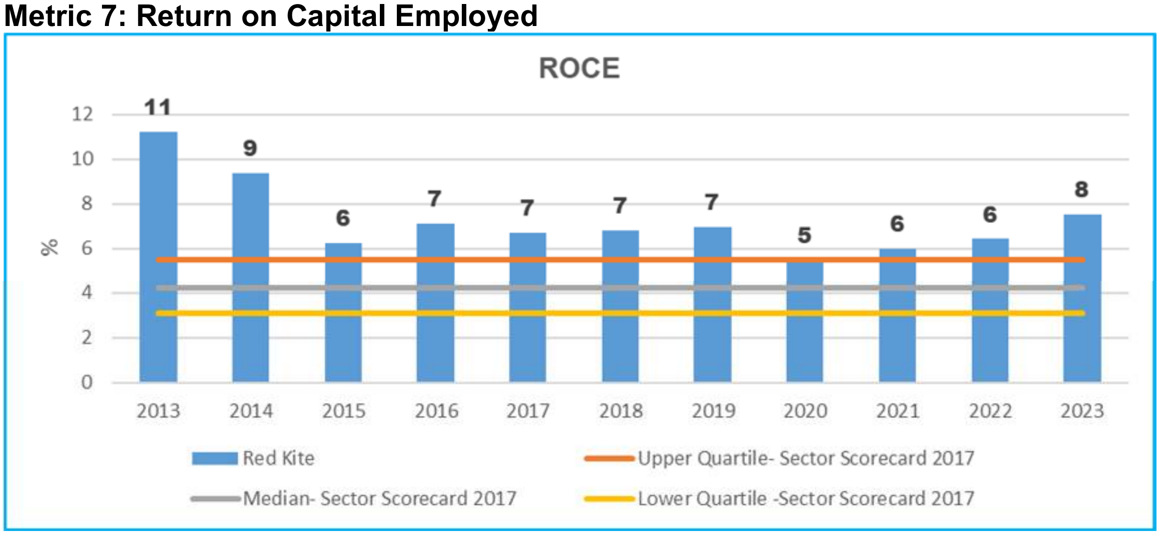
Our operating margin – Social Housing has improved this year but still sits below the median (sector scorecard). We are targeting in our Business Plan an improvement in this so that by 2020 this should be at sector median and thereafter reach the upper quartile. Our budgeting and efficiencies through development in our Information Technology systems will allow this to happen whilst not compromising our continued investment in our existing homes.

Strategic Report (continued)

Value for Money Report
Metric 6: Operating margin (measured for social housing lettings and overall)
ii) Overall

Overall operating margin follows a similar pattern to operating margin social housing. The decline in operating margin from 2013 to 2016 is due to the investment in our homes, some of which is taken through the Income and Expenditure account but the drop in 2017 is in part a result of the government rent policy; efficiencies made in the business have enabled us to manage this and this can be seen in the recovery this year and going forward. 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 on page 21) 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)

Strategic Report (continued)

Value for Money Report

We have a strong return on capital employed; this is in part due to the low gearing of our organisation and again is an indicator of our financial strength which will support our growth ambitions going forward.

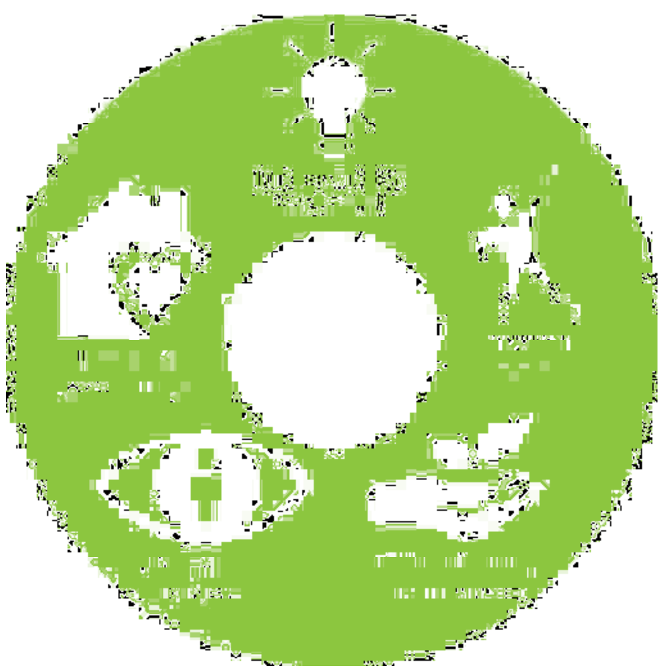
We are currently focussing our efforts on delivering our initial development plan and providing new housing solutions through the set-up of our group structures and this will be the focus for the next two years at least.

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".

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. As this is the first year of reporting against a standard published at the end of March, selection of these metrics has taken place after the year end – in some cases they set a base line and in others they provide more information to better understand existing metrics and in the case of the new group structures the intention to define metrics in the coming year is noted. To distinguish the Red Kite Metrics from the standard Metrics these will be 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:

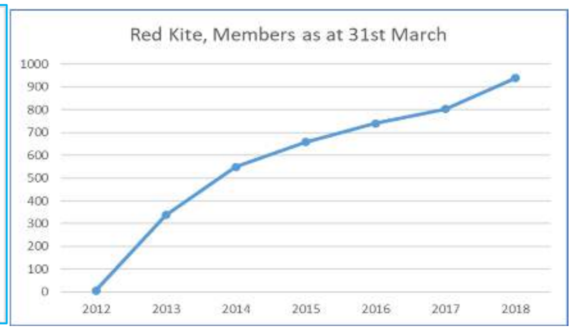


Strategic Report (continued)

Value for Money Report

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

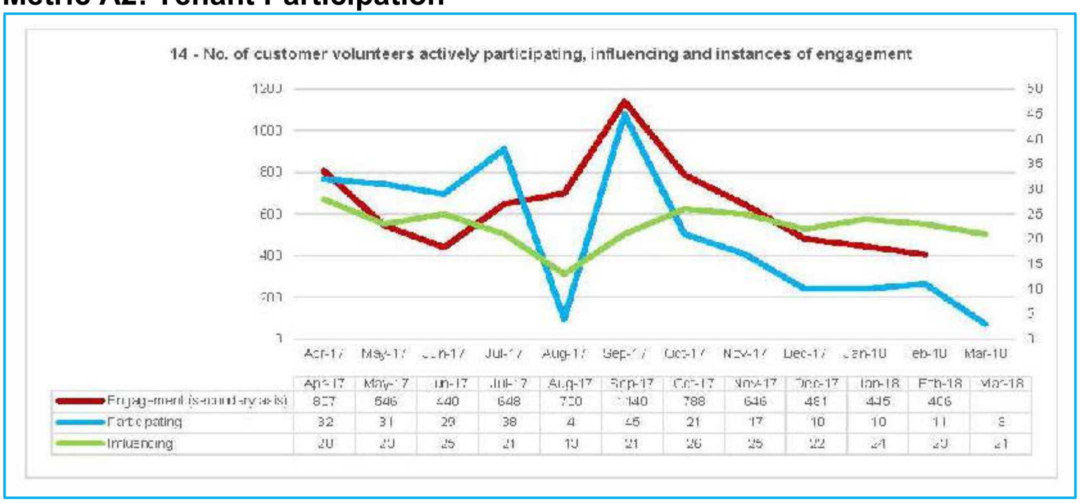
Metric A1: Membership



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 has steadily grown each year since Red Kite was set up in 2012.
The increase in membership in the second half of the year corresponded with a drive to increase member participation around the time of consultation on the new group structure. The Board sets no target for membership but actively encourages participation.

Metric A2: Tenant Participation



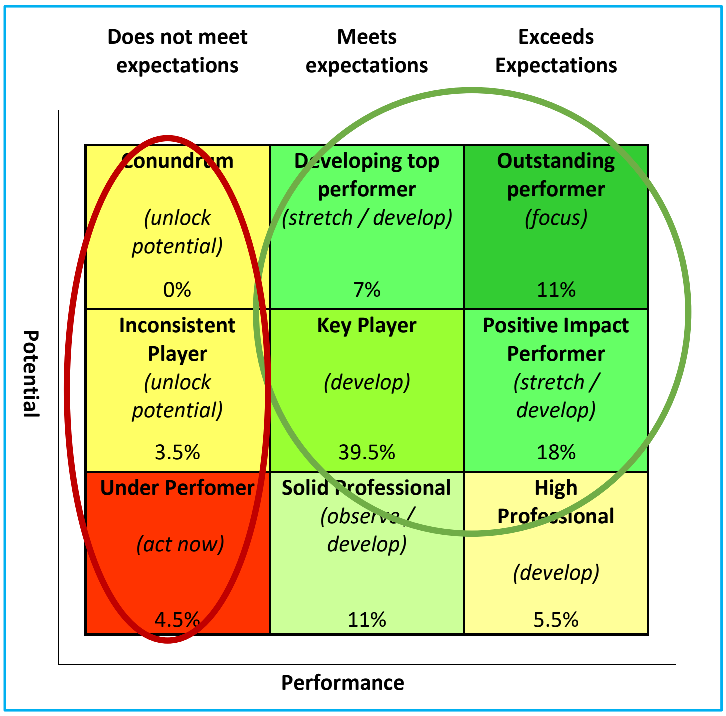
We measure Influencing – Those involved in high-level consultation; Participating – Those actively contributing to what we do by carrying out activities on our behalf and Engagement – Those taking an active interest in what we do (e.g. answering surveys, providing feedback, applying for funding, becoming members).

Strategic Report (continued)

Value for Money Report

This year has seen a decline in these metrics towards the end of the year. As an organisation we are already addressing this. We have refreshed our key tenant consultation group (CCIG) and they are looking at the question "What does "tenant led" look like and how do we increase engagement?" As part of this process they are engaging with members and the group will share its findings in a joint meeting with the Board in the autumn.

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



The nine-box grid is a tool we use 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 the year ended 31st March 2018 with only 8% of staff in the left-hand column indicating that these staff do not meet expectations and 75.5% of staff in the upper right four quartiles.

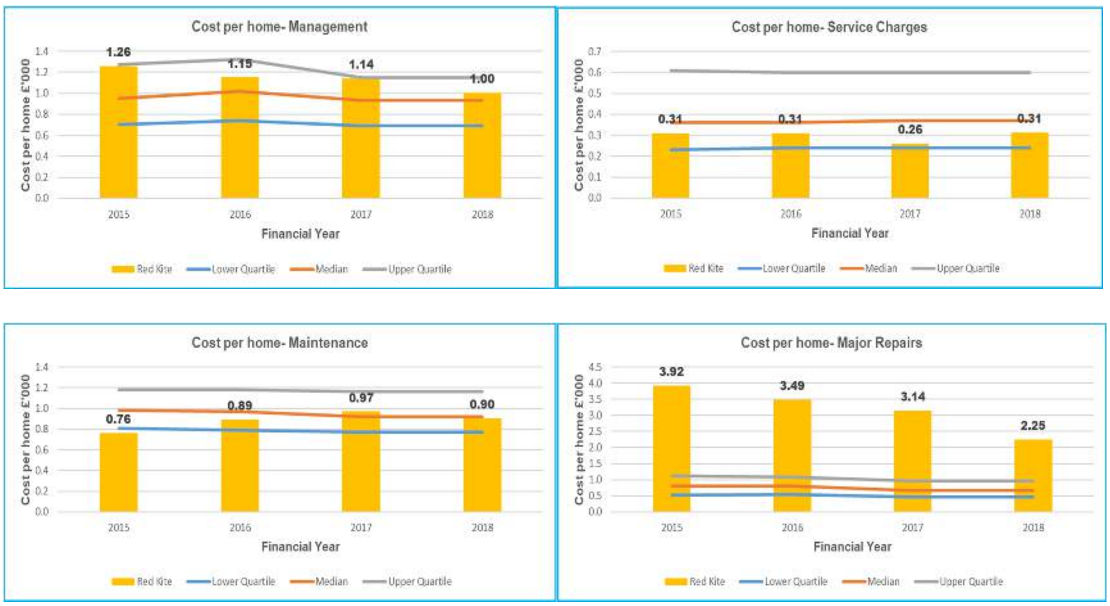
Whilst this is healthy and realistically any organisation will have some under-performers we will target increasing the percentage in the upper right four quartiles to 80% in the current year and those in the left-hand column to 5%.

Strategic Report (continued)

Value for Money Report

Red Kite aspires to be a growing organisation and to facilitate this we have introduced a corporate development programme this year - "GROW" - tailored to individual needs with the aim of more closely aligning the skills and values of the staff to those required by Red Kite group to enable our future growth.

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



This metric has been included as it provides necessary detail to understand the overall cost per homes figures provided in (Metric 5) and as there 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 upper quartile, it is in the area of management cost and major repairs that Red Kite is high.

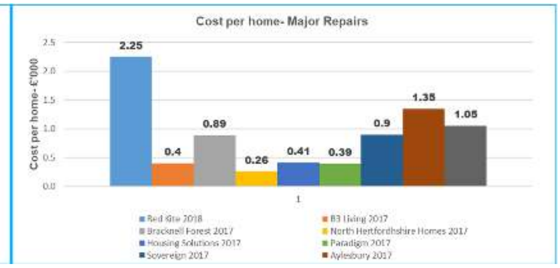
In the case of management cost this has steadily decreased over the last three years and is now close to the median for the sector. This reflects our approach towards Value for Money which is to look for every opportunity to improve either the efficiency or effectiveness of our approach.

The other outlier is major repairs. This has come down very significantly this year as we completed our promises in the stock transfer in December 2016 but is still high compared to sector norms. However, this is a conscious decision on the Board's part to invest in our existing homes beyond the decent homes standard and is not untypical for relatively new stock transfers.

Strategic Report (continued)

Value for Money Report

To further understand our figures we have compared Red Kite cost to other RPs in our vicinity (all figures taken from latest published Global Accounts).



Whilst this shows that we are investing more in our existing homes in terms of improvements (major repairs) this is a positive strategy and consistent with our Corporate Objectives (Providing Great Homes, Increasing our Investment). However, it shows that our management cost per home is competitive in comparison to our local peers with the exception of Paradigm which is something of an outlier.

D) Providing Great Homes

Metric D1 and D2 - Occupancy Level and rents collected

To measure our effectiveness of utilising our homes in providing homes to our customers we monitor occupancy rate and rents collected. For rent collected we only have two year's data. The benchmark figures are taken from Sector Scorecard information and relate to general needs homes only.

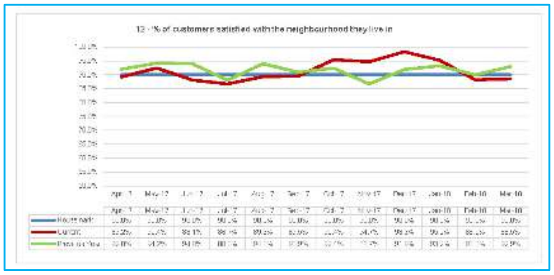
We target maximising our occupancy levels and rents collected and pay attention to any decrease. Against the Sector Scorecard we are maintaining levels between the sector median and upper quartile. Our occupancy levels are significantly lower in our sheltered housing accommodation where there is a higher churn and an oversupply of the traditional type of housing in the area. To address this the first sheltered housing review in 2015 led to the closure of a number of schemes some of which were included as sites for development and others sold. Two mixed schemes were converted to general needs.

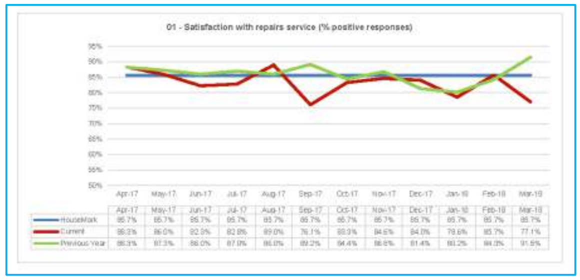
We have started a second review this year because the initial review identified a need for further action. The aim is to conclude the review this financial year with implementation to follow thereafter.

Strategic Report (continued)

Value for Money Report

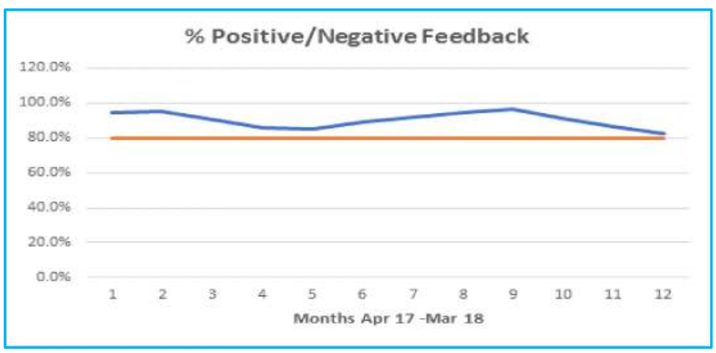
E) Knowing our Customers
Metric E1: Customer satisfaction





We monitor customer satisfaction on a monthly basis in a number of areas but the two most important issues to them (according to feedback from our customers) are repairs and anti-social behaviour so the measures above are indicators of our success in dealing with these issues.

However recently we have taken soundings from our customers and these have suggested that feel they are surveyed too often. So, we are looking at other ways of monitoring customer feedback and particularly we monitor unsolicited feedback.



Unsolicited feedback paints a similar picture to that of our surveys; most notably the decline towards the end of the year has been related to dissatisfaction with our repairs service which is being addressed through a re-procurement.

It also gives us early warnings of issues as it is specific and enables us to address these issues quicker than simple survey information.

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

Bringing it all back to the way we engage with the community now, we do this in a number of ways; through members' surveys, job fairs, running pop-up business schools, through a community morning where the whole staff team engage in various community support projects, through engagement weeks with the customers and families and through a

Strategic Report (continued)

Value for Money Report

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 Specialist.

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").

Metric F1: Development plan

Our development plan, approved by the Board in 2016, is for a sustainable mixed development of 375 new homes over a number of sites. The intention and financial commitment to develop is expressed in Metric 1 - Reinvestment and Metric 2 - New Supply Delivered.

Our mixed tenure development plan 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. Red Kite group will look to the next phase of development in bringing forward plans towards the end of the five-year period that the current plan covers. 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. What has changed 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 80% of market value will be applied (see below - G the Future)

Strategic Report (continued)

Value for Money Report

G) The Future - Twenty11 and Pennvale
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 had 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 commercial subsidiary that among other things would be able to compete in the estate management market as an ethical estate agent (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 (Twenty11).

The process of setting these subsidiaries up has necessarily been a long one and included 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). The Board approved business cases for both Pennvale and Twenty11 demonstrating their viability as stand-alone businesses with initial investments paying back within the first few years of their existence.

The current financial year will see the first lettings by Pennvale and also the first transfer of homes to Twenty11 and lettings to tenants using the model developed for that company. The objectives in setting up Twenty11 include setting rents appropriate to people's circumstances which can from time to time be adjusted as those circumstances change, supporting tenants and their families to improve their life chances through the employment of a Community Potential Specialist who will work in partnership with other organisations and with tenants to do this, and having a simple and effective way of managing both positive and negative tenant behaviour. The design of Twenty11 is based upon what our tenants told us was important to them and tenants have been involved in its development and set up.

Pennvale, in turn, whose staff will work with Red Kite and Twenty11 as well as in the commercial market, is key to us developing a range of housing solutions to support people at different stages in their life and also to lift standards locally.

During this Financial year we will develop metrics to measure the success of Pennvale and Twenty11 and these will be reported on in the 2019 report. We are looking for support from an external body to independently verify our performance in Twenty11 against the selected metrics to demonstrate the effectiveness of this pioneering approach to the provision of sub-market rental housing solutions.

As well as developing relevant metrics for our new businesses the Board will consider setting specific targets for the seven RSH standard metrics and Red Kite specific metrics during this year and these will be added once approved as an Appendix to the VfM Strategy (Our Strategic Approach to Value for Money).

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 successful implementation of the new Group structure;
- the successful pilot of 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.

Strategic Report (continued)

Capital structure and treasury policy

During the year the Group refinanced its previous £140million 30-year loan facility that was agreed in December 2011 with a new debt structure supporting our corporate ambitions. This has removed a number of onerous conditions of the previous agreement and has given the Group an agreement that gives it the required commercial freedoms that will allow it to run its business effectively. In addition, the Group has been able to benefit from reduced rates that reflect the changes in the market since 2011.

The composition of the refinancing has resulted in the debt structure being aligned to the new Corporate Journey and provides the required flexibly in liquidity needed as we invest in the 375 new homes.

The revised funding is provided by two separate counterparties, The Royal Bank of Scotland plc and The Pension Insurance Corporation. The agreement with The Royal Bank of Scotland plc consists of £20 million debt until July 2027 and a £40 million revolving credit facility to July 2022. The facility with The Pension Insurance Corporation is for a total of £60 million of which £20 million is deferred to July 2018, with the repayment dates ranging from 2033 to 2040.

Following the conclusion of the refinancing the Board in December 2017 approved the revised treasury strategy and policy, embedding the concept of golden rules to manage the potential impact of the revised risks that the Group now face.

The Group had cash balances of £13.5 million at 31 March 2018.

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, following the refinancing it is currently 100% and this is not forecasted to change in the next 12 months following the receipt of the third tranche of £20 million from The Pension Insurance Corporation in July 2018.

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 3.89%

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.

Strategic Report (continued)

Future developments (continued)

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.

To assess the feasibility of the new subsidiary Twenty11, the Board approved an initial pilot of 50 homes, over a 6-month period, that will be transferred from Red Kite Housing to it and, if this is a success, a full pilot of 500 homes over the following two years.

We have a strong financial business plan that can support additional investment in new homes. The refinancing in July 2017 released asset security that can be utilised for the future borrowings that will support this future additional investment. Over the next 12-24 months the Board will consider its approach to its 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 2014, and the Accounting Direction 2015.

The Board confirms that it complies with the Homes and Community Agency's Governance and Financial Viability standard. 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 self-assessment includes the new Value for Money regulatory standard that commenced on 1st April 2018.

The Board confirms that it has completed a self-assessment against its chosen Code of Governance and it fully complies it except in relation to the requirement that requires that all Board members undergo a selection process (D7). This is detailed on page 32.

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 2018.

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 ranging from four to 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 21). The Group has refinanced during the year and its 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 stream risks relate to changes in the rent formula stipulated by Government to set rents and increases in tenant arrears. During the year the Government announced the rent regime for the five years from April 2020 but the long-term uncertainty remains. Our revised 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 £60million of undrawn facilities at 31 March 2018), 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.

Report of the Board (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 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.

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 2017 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.

Report of the Board (continued)

Internal controls assurance (continued)

The Board and Executive have taken 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.

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 2018:

> 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.

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 2014, 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 2015. 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.

Report of the Board (continued)

Annual general meeting

The annual general meeting will be held on 12 September 2018 at Windsor Court, Frederick Place, High Wycombe, HP11 1JU.

External auditor

A resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming annual general meeting.

The report of the Board was approved by the Board on 18 July 2018 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 'parent society') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the consolidated statement of comprehensive income, the association statement of comprehensive income, the consolidated statement of changes in reserves, the association statement of changes in reserves, the group 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 parent society's affairs as at 31 March 2018 and of the group's and parent society's income and expenditure for the year then ended;
- have been properly prepared in accordance 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 2015.

Basis for opinion

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with regulations made under that Act. 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 society 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.

Who we are reporting to

This report is made solely to the society's members, as a body, in accordance with regulations made under Sections 87 and 98(7) of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society'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 society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

- the board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

- the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or parent society'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.

Other information
The board is responsible for the other information. The other information comprises the information included in the Annual Report, set out on pages 3 to 34 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

Responsibilities of the board for the financial statements
As explained more fully in the Statement of the Responsibilities of the Board (as set out on page 33), 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 parent society'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 parent society 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.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Consolidated Statement of Comprehensive Income

	Note	2018	2017
		£'000	£'000
Turnover	3	35,142	35,436
Operating costs	3	(26,153)	(28,530)
Other Income	33	586	749
Operating surplus	3	9,575	7,655
Gain on disposal of property	4	1,145	2,942
Interest receivable and other income	7	33	40
Interest payable and similar charges	8	(3,166)	(4,118)
Movement in fair value of financial instruments		755	84
Movement in fair value of investment properties	13	291	175
Surplus on ordinary activities before taxation		8,633	6,778
Tax on surplus on ordinary activities	27	-	-
Surplus for the financial year		8,633	6,778
Remeasurement of pension scheme	10	1,044	(1,664)
Other comprehensive (expenditure)/ income		(65)	12
Total comprehensive income for the year		9,612	5,126

The consolidated results relate wholly to continuing activities. The notes on pages 44 to 71 form part of these financial statements.

The financial statements were authorised and approved by the Board on 18 July 2018

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

Association Statement of Comprehensive Income

	Note	2018	2017
		£'000	£'000
Turnover	3	35,177	35,436
Operating costs	3	(25,811)	(28,530)
Other Income	33	626	749
Operating surplus	3	9,992	7,655
Gain on disposal of property	4	1,145	2,942
Interest receivable and other income	7	33	40
Interest payable and similar charges	8	(3,166)	(4,118)
Movement in fair value of financial instruments		755	84
Movement in fair value of investment properties	13	291	175
Surplus on ordinary activities before taxation		9,050	6,778
Tax on surplus on ordinary activities	27	-	-
Surplus for the financial year		9,050	6,778
Remeasurement of pension scheme	10	1,044	(1,664)
Other comprehensive (expenditure)/ income		(65)	12
Total comprehensive income for the year		10,029	5,126

The association's results relate wholly to continuing activities. The notes on pages 44 to 71 form part of these financial statements.

The financial statements were authorised and approved by the Board on 18 July 2018

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 1 April 2016	37,798	234	(184)	37,848
Total comprehensive income for the year	5,126	-	-	5,126
Release on disposal	(41)	-	41	-
Transfer of restricted expenditure from unrestricted reserve	(12)	12	-	-
Balance at 31 March 2017	42,871	246	(143)	42,974
Total comprehensive income for the year	9,612	-	-	9,612
Release on disposal	(20)	-	20	-
Transfer of restricted expenditure from unrestricted reserve	65	(65)	-	-
Balance at 31 March 2018	52,528	181	(123)	52,586

Further details of the revaluation reserve are contained in note 34.

The accompanying notes on pages 44 to 71 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 1 April 2016	37,798	234	(184)	37,848
Total comprehensive income for the year	5,126	-	-	5,126
Release on disposal	(41)	-	41	-
Transfer of restricted expenditure from unrestricted reserve	(12)	12	-	-
Balance at 31 March 2017	42,871	246	(143)	42,974
Total comprehensive income for the year	10,029	-	-	10,029
Release on disposal	(20)	-	20	-
Transfer of restricted expenditure from unrestricted reserve	65	(65)	-	-
Balance at 31 March 2018	52,945	181	(123)	53,003

Further details of the revaluation reserve are contained in note 34.

The accompanying notes on pages 44 to 71 form part of these financial statements.

Group and Association Statement of Financial Position

	Notes	Group		Association	
		2018	2017	2018	2017
		£'000	£'000	£'000	£'000
Fixed Assets					
Intangible assets					
Negative goodwill	**9**	(35,006)	(36,514)	(35,006)	(36,514)
Tangible assets					
Housing properties	**12**	173,099	171,935	173,099	171,935
Investment properties	**13**	4,551	4,260	4,551	4,260
Investment in subsidiaries	**14**	-	-	-	-
Other tangible fixed assets	**15**	634	692	634	692
		178,284	176,887	178,284	176,887
Current assets					
Debtors	**16**	3,386	3,533	4,845	3,533
Properties held for sale	**17**	-	97	-	97
Investments in shares	**18**	20	-	20	-
Cash at bank and in hand		13,506	16,208	13,506	16,208
		16,912	19,838	18,371	19,838
Creditors: amounts falling due within one year	**19**	(11,278)	(13,589)	(12,320)	(13,589)
Net current assets		5,634	6,249	6,051	6,249
Total assets less current liabilities		148,912	146,622	149,329	146,622
Creditors: amounts falling due after more than one year	**20**	(89,175)	(95,902)	(89,175)	(95,902)
Net pension liability	**10**	(7,076)	(7,740)	(7,076)	(7,740)
Provisions for liabilities	**21**	(75)	(6)	(75)	(6)
Total net assets		**52,586**	**42,974**	**53,003**	**42,974**
Reserves					
Restricted reserves		181	246	181	246
Revaluation reserve	**34**	(123)	(143)	(123)	(143)
Income & expenditure reserve		52,528	42,871	52,945	42,871
Total reserves		**52,586**	**42,974**	**53,003**	**42,974**

The accompanying notes on pages 44 to 71 form part of these financial statements.

The financial statements were approved by the Board of Directors on 18 July 2018.

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

Consolidated Statement of Cash flows

	Note	2018	2017
		£'000	£'000
Net cash generated from operating activities	25	5,054	11,301
Cash flow from investing activities			
Purchase of and improvements to housing properties	12	(4,019)	(8,749)
Purchase of other fixed assets	15	(215)	(327)
Sale of housing properties		2,214	6,519
Interest received		33	40
Cash flow from financing activities			
Interest paid		(2,614)	(3,773)
Other financing costs		(3,155)	-
Other financing received		-	-
Net change in cash and cash equivalents		(2,702)	5,011
Cash and cash equivalents at beginning of the year		16,208	11,197
Cash and cash equivalents at the end of the year		13,506	16,208

The accompanying notes on pages 44 to 71 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 a registered under the Companies Act which 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 Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice for Registered Housing Providers (Housing SORP 2014) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The financial statements are presented in Sterling (£).

The financial statements are prepared on the historical cost accounting basis.

Basis of Consolidation

The Group financial statements consolidate those of Red Kite Community Housing and its subsidiary undertakings drawn up to 31 March 2018. 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 fair value 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.

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

Social housing property depreciation 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.

Housing properties in the course of construction are stated 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 within the statement of financial position and due to the stability of the rentals

Accounting policies (continued)

Investment properties (continued)
charged for these properties, a review of the existing valuation will be made annually by a member of the EMT. 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.

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.

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.

Accounting policies (continued)

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 current 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.

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.

Accounting policies (continued)

Pension Costs (continued)

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 is recognised by HM Revenue and Customs as a charitable Registered Society and consequently has no liability to Corporation Tax in the period. An application has been made to HM Revenue and Customs in relation to the tax status of Twenty11. It is expected that Twenty11 will be recognised as a charitable Registered Society and consequently no liability to Corporation Tax. The other subsidiaries will be liable for Corporation Tax.

Every year before 31st 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. However, the substance of whole transaction means that the assets and liabilities will always be matched and be the same. Therefore, the Group recognises no assets or obligations are to be disclosed. Both are amortised over fifteen years.

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

Accounting policies (continued)

Profits on the disposal of our homes and other assets (continued)

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.

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 properties is released to the income and expenditure account over 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.

Accounting policies (continued)

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.

Until July 2017 our loans were measured at fair value and following our refinancing and the revised terms of funding the existing fixed rate debt with RBS was no longer classified as non-basic. The difference between the nominal and fair values of this instrument will be amortised over the length of the respective fixed rates.

The funding agreement with the Pension Insurance Corporation is classed as a basic instrument.

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 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

Group	Turnover	2018 Operating Costs	Operating Surplus / (Deficit)
	£000	£000	£000
Social housing lettings	33,832	(23,179)	10,653
Non-social housing activities			
Lettings from garages and shops	818	(457)	361
Non capitalised development	-	(1,226)	(1,226)
Other	492	(604)	(112)
Group Costs	-	(687)	(687)
	35,142	(26,153)	8,989
Exceptional income	586	-	586
Total activities	35,728	(26,153)	9,575

Group	Turnover	2017 Operating Costs	Operating Surplus / (Deficit)
	£000	£000	£000
Social housing lettings	34,277	(24,716)	9,561
Other social housing activities			
Supporting people	-	(5)	(5)
Non-social housing activities			
Lettings from garages and shops	742	(1,407)	(665)
Non capitalised development	-	(1,371)	(1,371)
Other	417	(1,031)	(614)
	35,436	(28,530)	6,906
Exceptional income	749	-	749
Total activities	36,185	(28,530)	7,655

Analysis of income and expenditure (continued)

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

Association	Turnover	2018 Operating Costs	Operating Surplus / (Deficit)
	£000	£000	£000
Social housing lettings	33,832	(23,179)	10,653
Non-social housing activities			
Lettings from garages and shops	818	(457)	361
Non capitalised development	-	(1,571)	(1,571)
Other	527	(604)	(77)
	35,177	(25,811)	9,366
Exceptional income	626	-	626
Total activities	35,803	(25,811)	9,992

Association	Turnover	2017 Operating Costs	Operating Surplus / (Deficit)
	£000	£000	£000
Social housing lettings	34,277	(24,716)	9,561
Other social housing activities			
Supporting people	-	(5)	(5)
Non-social housing activities			
Lettings from garages and shops	742	(1,407)	(665)
Non capitalised development	-	(1,371)	(1,371)
Other	417	(1,031)	(614)
	35,436	(28,530)	6,906
Exceptional income	749	-	749
Total activities	36,185	(28,530)	7,655

3. Analysis of income and expenditure (continued)

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

	General needs	Sheltered	2018 Total	2017 Total
INCOME	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	22,641	9,145	31,786	32,332
Service charges	273	1,340	1,613	1,432
Amortised government grant	433	-	433	513
Turnover from social housing lettings	23,347	10,485	33,832	34,277
EXPENDITURE				
Management costs	(4,093)	(1,749)	(5,842)	(6,639)
Service costs	(789)	(1,030)	(1,819)	(1,527)
Routine maintenance	(2,042)	(1,045)	(3,087)	(3,198)
Planned maintenance	(1,439)	(750)	(2,189)	(2,493)
Major repairs and improvements	(6,498)	(2,611)	(9,109)	(10,046)
Bad debts	(112)	(52)	(164)	(69)
Depreciation of housing properties	(1,681)	(720)	(2,401)	(2,163)
Amortisation of negative goodwill	1,008	424	1,432	1,419
Operating costs on social housing lettings	(15,646)	(7,533)	(23,179)	(24,716)
Operating surplus on social housing lettings	7,701	2,952	10,653	9,561
Void losses	163	216	379	387

4. Surplus on the sale of housing properties

	Group		Association	
	2018	**2017**	**2018**	**2017**
	£000	£000	£000	£000
Sale proceeds	4,392	11,167	4,392	11,167
Cost of disposals	(1,198)	(2,376)	(1,198)	(2,376)
Profit share on disposal	(576)	(2,058)	(576)	(2,058)
Payment to Wycombe District Council	(1,632)	(4,385)	(1,632)	(4,385)
Negative goodwill released on disposal	159	594	159	594
	1,145	**2,942**	**1,145**	**2,942**

5. Accommodation in management

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

	2018	2017
	No.	No.
Social Housing		
General needs housing	4,036	4,059
Sheltered housing and housing for older people	1,795	1,774
Total social housing owned & managed	5,831	5,833
Leasehold properties	648	644
Shared equity properties	7	7
Commercial properties	20	20
Total housing owned and managed	**6,506**	**6,504**

There were no properties in development at the year end.

6. Operating surplus

The operating surplus is arrived at after charging:

	Group		Association	
	2018	**2017**	**2018**	**2017**
	£000	**£000**	**£000**	**£000**
Depreciation – housing properties	2,401	2,163	*2,401*	2,163
Depreciation – other tangible fixed assets	273	525	*273*	525
Amortisation of negative goodwill	1,432	1,419	*1,432*	1,419
Operating lease rentals				
Building	273	263	*273*	263
Equipment	16	14	*16*	14
Auditor's remuneration (excluding VAT)				
Fees payable by the Association for the audit of the financial statements	22	20	*22*	20
Fees payable for other services:				
• Audit of the accounts of Devco Limited	4			
Total audit services	**26**	**20**	***26***	**20**
Non Audit Services	2	1	*2*	1

7. Interest receivable and other income

	Group		Association	
	2018	**2017**	**2018**	**2017**
	£000	£000	£000	£000
Interest receivable and similar income	33	40	33	40
	33	**40**	**33**	**40**

8. Interest payable and similar charges

	Group		Association	
	2018	**2017**	**2018**	**2017**
	£000	£000	£000	£000
Loans and bank overdrafts	2,951	3,901	2,951	3,901
Defined benefit pension charge	215	217	215	217
	3,166	**4,118**	**3,166**	**4,118**

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 2014 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.

Costs	2018
	£'000
At 1 April 2017	(42,168)
Released	90
At 31 March 2018	(42,078)
Amortisation	
At 1 April 2017	5,654
Released	(14)
Annual charge	1,432
At 31 March 2018	7,072
Net book value after amortisation	
At 31 March 2018	(35,006)
At 31 March 2017	(36,514)

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	
	2018	2017
	No.	No.
Housing management	57	56
Property management	21	20
Central administration	41	44
	119	120

Employee costs:

	Group		Association	
	2018	2017	2018	2017
	£000	£000	£000	£000
Wages and salaries	4,626	4,400	4,626	4,400
Social security costs	490	468	490	468
Other pension costs	417	361	417	361
	5,533	**5,229**	**5,533**	**5,229**

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

	Group and Association	
	2018	2017
	No.	No.
£60,000 to £69,999	3	5
£70,000 to £79,999	3	3
	6	8

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 2018 were £238,094 (2017: £214,569).

10. 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 2018 by a qualified independent actuary.

The employer's contributions to the BCCPF by the Group for the period ended 31 March 2018 were £179,000 (2017: £189,000) at a contribution rate of 22.2% of pensionable salaries. The employer's contribution rate for the year ending 31 March 2019 has been set at 22.2% for the current service cost and a payment of £8,000 towards the deficit.

Estimated employers' contributions to the BCCPF during the accounting period commencing 1 April 2018 are £187,000

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

Financial assumptions:

	As at 31 March 2018 %	As at 31 March 2017 %
Discount rate	*2.55*	2.8
Future salary increases	*3.8*	4.2
Future pension increases	*2.3*	2.7
Inflation assumption (CPI)	*2.3*	2.7
Inflation assumption (RPI)	*3.3*	3.6

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 2015 Model, allowing for a long-term rate of improvement of 1.5%. The assumed life expectations on retirement at age 65 are:

	2018 No. of years	2017 No. of years
Retiring today:		
Males	*24.0*	23.9
Females	*26.1*	26.0
Retiring in 20 years:		
Males	*26.2*	26.1
Female	*28.4*	28.3

10. 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:

	2018 £'000	2017 £'000
Current service costs	330	246
Amount charged to operating costs	330	246
Net Interest	(215)	(217)
Amount charged to other finance costs	(215)	(217)

The losses on curtailments and settlements in 2018 were Nil (2017: Nil)

Amounts recognised in the surplus (Statement of Comprehensive Income)

	2018 £'000	2017 £'000
Re-measurement of (defined liability)/ net asset	1,044	(1,664)

Amounts recognised in the Statement of Financial Position:

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Present value of funded obligations	(21,846)	(21,722)
Fair value of scheme assets (bid value)	14,770	13,982
Net liability recognised in the statement of financial position	(7,076)	(7,740)

10. Employees (continued)

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

	2018	2017
	£'000	£'000
Opening defined benefits obligations	(21,722)	(16,812)
Current service cost	(330)	(246)
Interest cost	(606)	(634)
Change in financial assumptions	631	(4,167)
Change in demographic assumptions	-	203
Experience (loss)/ gain on defined benefit obligation	-	(348)
Liabilities assumed on settlements	-	-
Estimated benefits paid in net of transfers in	236	346
Past service cost, including curtailments	-	-
Contributions by scheme participants	(55)	(64)
Closing defined benefit obligation	(21,846)	(21,722)

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

	2018	2017
	£'000	£'000
Opening fair value of scheme assets	13,982	11,019
Interest on assets	391	417
Return on assets less interest	413	1,498
Other actuarial gains	-	1,150
Administration expenses	(14)	(9)
Contributions by employer	179	189
Contributions by scheme participants	55	64
Estimated benefits paid net of transfers in and including unfunded	(236)	(346)
Closing fair value of scheme assets	14,770	13,982

	2018	2017
	£'000	£'000
Actual return on scheme assets	804	1,915

10. Employees (continued)

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

	2018	2017
	%	%
Equities	56	56
Gilts	9	12
Other bonds	13	12
Properties	7	8
Cash	4	3
Alternative assets	1	1
Hedge Funds	5	4
Absolute Return Portfolio	5	4

Sensitivity analysis:

	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	21,416	21,846	22,285
Projected service cost	313	320	327
Adjustment to life expectancy assumption	+1 year	None	-1 year
Present value of total obligation	22,627	21,846	21,093
Projected service cost	330	320	310
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	21,884	21,846	21,808
Projected service cost	320	320	320
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	22,248	21,846	21,435
Projected service cost	327	320	313

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 £*965* (2017: £386) was made in the period.

11. Board members and executive directors (continued)

Executive directors:

	Basic salary £	Other benefits £	Pension costs £	2018 Total £	2017 Total £
Chief Executive:					
Trevor Morrow	128,272	8,646	28,476	165,394	153,851
Deputy Chief Executive:					
Alan Keers	110,000	5,703	11,000	126,703	117,305
Group Director of Resources:					
Neil Venables	36,094	2,026	3,226	41,346	115,013
Group Director of Resources:					
Ray Prior	93,549	5,000	9,355	107,904	4,750
Assistant Director-Finance:					
Colin Gummow	54,872	3,333	5,333	63,538	-
Assistant Director-Business:					
Helen Anderson	52,474	3,333	2,099	57,906	-
	475,261	28,041	59,489	562,791	390,919

The emoluments of the highest paid director during the year excluding pension contributions and other costs were £128,272 (2017: £124,536). 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

Social housing properties held for letting

Group and Association

	£'000
Cost:	
At 1 April 2017	178,491
Works to existing properties	4,019
Disposals	(645)
At 31 March 2018	181,865
Depreciation:	
At 1 April 2017	6,556
Released on disposal	(191)
Depreciation charge in the year	2,401
At 31 March 2018	8,766
Net book value after depreciation	
31 March 2018	173,099
31 March 2017	171,935

All properties are held freehold. No interest has been capitalised in the period.

Expenditure on works to existing properties:

	2018 £'000	2017 £'000
Components capitalised	4,019	8,305
Amounts charged to Statement of Comprehensive Income	9,109	10,046
	13,128	18,351

13. Investment properties

Non-social housing properties held for letting

Group and Association

	2018 £'000
At 1 April 2017	4,260
Increase in value	291
At 31 March 2018	4,551

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 2018. The garages were valued as at 31 March 2018 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 2017	-
Additions	13
At 31 March 2018	13

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

	2018 £'000	Allocation basis
HR, IT, & Office	158	FTE
Executive Management Team	132	Time allocation
Experience Pod	24	Time allocation
Business Pod	31	Time allocation
Income Stem	12	Time allocation
Communication & Branding	56	Time allocation
Development activities	224	Professional costs incurred
	637	

15. Tangible fixed assets- other

Group and Association

	IT & Infra-structure £'000	Furniture £'000	Office accommodation improvements £'000	Total £'000
Cost				
At 1 April 2017	1,863	300	660	2,823
Additions	215	-	-	215
At 31 March 2018	2,078	300	660	3,038
Depreciation				
At 1 April 2017	1,199	272	660	2,131
Charged in year	260	13	-	273
At 31 March 2018	1,459	285	660	2,404
Net book value				
31 March 2018	619	15	-	634
31 March 2017	664	28	-	692

None of the above are owned under finance leases (2017: £Nil).

16. Debtors

	Group		**Association**	
	2018	**2017**	**2018**	**2017**
	£000	£000	£000	£000
Rent and service charges receivable	1,694	1,797	1,694	1,797
Less: Provision for bad and doubtful debts	(913)	(828)	(913)	(828)
	781	969	781	969
VAT recoverable	896	457	896	457
Amounts owed by Group undertaking	-	-	1,459	-
Prepayments and accrued income	966	1,425	966	1,425
Other debtors	743	682	743	682
	3,386	**3,533**	**4,845**	**3,533**

17. Properties held for sale

Group and Association

	2018	2017
	£'000	£'000
Properties held for resale	-	97

18. Investments in the shares

Group and Association

	2018
	£'000
At 1 April 2017	-
Additions	20
At 31 March 2018	20

19. Creditors: amounts falling due within one year

	Group		Association	
	2018	**2017**	**2018**	**2017**
	£000	£000	£000	£000
Trade creditors	3,383	6,661	3,383	6,661
Rent and service charges received in advance	507	812	507	812
Amounts owed to Group undertaking	-	-	1,042	-
Payments due under the transfer agreement	4,654	4,385	4,654	4,385
Accruals and deferred income	2,119	1,281	2,119	1,281
Other taxation and social security	142	123	142	123
Other creditors	473	327	473	327
	11,278	**13,589**	**12,320**	**13,589**

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.

Accruals and deferred income contains deferred income of £377,000 relating to grants at the time of transfer (2017: £377,000)

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

Group and Association

	2018	2017
	£000	£000
Debt (note 22)	61,657	65,507
Payments due under the transfer agreement	11,700	14,146
Deferred income	15,818	16,249
	89,175	**95,902**

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.

Deferred income relates to grants at the time of transfer

21. Provisions

Group and Association	2018	2017
	£’000	£’000
Leave pay	75	6
	75	**6**

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

	2018	2017
	£’000	£’000
Bank loans	60,000	60,000
Less Loan issue cost	(582)	-
Financial instruments at cost/ fair value	2,239	5,507
	61,657	**65,507**

All debt is repayable in five years or more.

Financial instruments movements

	2018	2017
	£’000	£’000
At 1 April	5,507	5,591
Fair value adjustment for the year	(755)	(84)
Breakage fees	(2,513)	-
At 31 March	**2,239**	**5,507**

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

	2018 £'000	2017 £'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	60,000	60,000
	60,000	**60,000**

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

At 31 March 2018 the Group had undrawn committed loan facilities of £60million. The facilities are secured by a fixed charge over 2,952 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:

	2018 £'000	2017 £'000
Fixed rate	60,000	40,000
Floating rate	-	20,000
	60,000	**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 4.72% (2017: 5.34%) and the weighted average period for which they are fixed is 6 years (2017: 7 years). There were no floating rate financial liabilities during the period (2017: £20million).

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.

	2018 No.	2017 No.
Members at beginning of period	803	740
Number of members joining during the year	136	63
Number of members at end of period	**939**	**803**

25. Cash flow from operating activities

	2018	2017
	£'000	£'000
Surplus on ordinary activities	8,633	6,788
Adjustments for non-cash items		
Depreciation of tangible fixed assets	2,674	2,688
Amortisation of negative goodwill	(1,432)	(1,419)
Amortisation of grant	(433)	(513)
Defined benefit pension costs	165	66
Decrease / (Increase) debtors	147	(208)
(Decrease) / Increase creditors	(5,066)	3,174
Carrying amounts of tangible fixed asset disposals	493	1,593
Fair value adjustments	(1,046)	(259)
	4,135	11,910
Adjustments for investing or financial activities		
Interest payable	3,166	4,118
Interest receivable	(33)	(40)
Net proceeds from the sale of tangible fixed assets	(2,214)	(4,687)
Net cash inflow from operating activities	**5,054**	**11,301**

26. Capital commitments

	2018	2017
	£'000	£'000
Expenditure contracted but not provided for in the accounts	3,206	2,386
Expenditure authorised by the Board but not contracted	8,346	11,914
	11,552	**14,300**

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 liability have been netted off in the accounts and are not shown as separate items.

As at 31 March 2018, improvements to a value of £72million (2017: £65million) had been completed under the Development Agreement. The remaining liability at 31 March 2018 is £155million (2017: £162million).

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.

	2018 Land and Buildings £'000	2018 Office equipment and computers £'000	2017 Land and Buildings £'000	2017 Office equipment and computers £'000
Cost				
In one year or less	204	12	306	16
Between one and five years	1,097	-	1,224	12
In five years or more	-	-	178	-
	1,301	**12**	**1,708**	**28**

The lease for the office at Windsor Court commenced in November 2012 and is for a period of ten years. There was an option to terminate this at the fifth anniversary. During the year in exchange for not exercising the option to terminate we benefited from a nine-month rent free period from November 2017.

31. Related parties

During the year there were two tenants who were members of the Board, Jean Needham, and Patricia Brion. Their tenancies were on normal commercial terms and they were not able to use their position to their advantage.

Two members of the Board during the period, Ian McEnnis and Paul Turner are councillors with Wycombe District Council. The local authority had a proportion of the nomination rights over tenancies until 28 March 2018 due to its Golden Share. This was removed when our members approved a new set of Rules at a Special General Meeting on 28 March 2018. 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 £8,997 (2017: £3,105).

Related parties (continued)

As detailed in note 14 Red Kite Community Housing has provided £637,000 of services that have been recharged to its non-regulated subsidiaries. In additional to this during the year it novated £696,000 of professional fees that relate to the development of new homes to Red Kite Devco.

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

32. Categories of financial assets and liabilities

	2018	2017
	£'000	£'000
Financial liabilities measured at fair value through surplus or deficit	62,239	65,507

33. Other Income

During the year the Group received non-recurring consideration from HMRC in relation to a special method partial exemption that was agreed during the year. This sum of £586,000 related to the VAT returns for the period that covered June 2012 to March 2017.

In addition, the association received Gift Aid income from Red Kite Devco of £40,000.

34. Revaluation reserve

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

	2018	2017
	£'000	£'000
Deemed cost adjustment of sheltered and aged persons homes	4,117	4,158
Release of the deemed cost adjustment on disposal	(20)	(41)
Fair value adjustment of investment properties	(3,974)	(3,974)
	123	**143**