

RED KITE COMMUNITY HOUSING LIMITED

**REPORT AND ACCOUNTS
FOR THE PERIOD ENDING 31st MARCH 2012**

REGISTERED WITH THE HOMES & COMMUNITIES AGENCY No. 4682
REGISTERED WITH THE FINANCIAL SERVICES AUTHORITY No.31322R

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Association information

Industrial and Provident Society registration number	31322R
Homes and Communities Agency registration number	4682
Registered office	Red Kite Community Housing Limited Queen Victoria Road High Wycombe Buckinghamshire HP11 1BB
Board	Jennie Ferrigno (Chairman) Hugh Ashton-Moore (Vice-Chairman) Michaela Booth Justin Bootland Hazel Chandler Sheelagh Jones Ian McEnnis James Moorcroft Chris Pierce Brian Pollock Chris Thomas Jonathan Walton Chris Watson Hugh McCarthy (resigned 25 th January 2012) Elizabeth Mayer (resigned 24 th August 2011) Willow Morigun O'Connor (appointed 24 th August 2011, resigned 21 st December 2011) All Board members were appointed on 26 th July 2011 and served throughout the period unless otherwise stated.
Chief Executive	Trevor Morrow (appointed 13 th December 2011)

Association information (continued)

Company Secretary	Neil Venables (appointed 21 st December 2011) Jennie Ferrigno (appointed 26 th July 2011, resigned 21 st December 2011)
Executive Directors	Martyn Hale, Director of Neighbourhood Services (appointed 13 th December 2011) Alan Keers, Director of Property Services and Development (appointed 12 th December 2011) Neil Venables, Resources Director (appointed 1 st September 2011)
Bankers	The Royal Bank of Scotland plc 280 Bishopsgate London EC2M 4RB Santander UK plc 17 Ulster Terrace London NW1 4JP
Solicitors	Trowers & Hamblins LLP 3 Bunhill Row London EC1Y 8YZ
External Auditors	Grant Thornton LLP Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW
Internal Auditors	RSM Tenon LLP 66 Chiltern Street London W1U 4GB

Chairman's Statement

I am delighted to be introducing our first set of financial statements. They represent very tangible evidence that the promises made to tenants and leaseholders across Wycombe District are now able to be delivered. The past year has been an exciting and challenging time. The successful transfer of homes from Wycombe District Council to Red Kite could not have happened without the commitment of so many tenants and leaseholders, employees, the Council, many partner organisations and, not least, Board members. Thank you to everyone involved.

However, the transfer has been just the start of a journey as we seek to become a provider of "excellent services for you and your community". We want to gain a reputation of being the best, not because we are the biggest or cheapest, but because we are tenant-led and can be different. Red Kite is the first tenant-led whole stock transfer and we are determined that this drives services that are focused on what tenants and leaseholders value most and that deliver value for money from the income that we receive. We want tenants and leaseholders to inspire and influence everything we do.

So far we have concentrated on establishing Red Kite as a sound business with excellent governance and effective management. We have started to deliver improvements to homes, but we will be spending over £100 million on improving the homes of our tenants over the next five years and we need to get the foundations to the business right. Procuring new contracts, moving to new offices and making best use of technology are all planned for the year ahead.

But Red Kite is not just about homes and services. We want also to make a difference to communities and the places where we live, which is a vision that will be a challenge to achieve in these difficult economic times. Welfare reforms, high levels of unemployment, banking crises and uncertainty in the Eurozone all present a stark back-drop to our aspirations. But I believe that we have the determination and abilities to succeed and that this success will be built upon our values of partnership, respect and pride. Together we can make Red Kite the success that tenants and leaseholders voted for and that so many are working hard to achieve.

I look forward to a challenging and exciting year ahead.

Jennie Ferrigno
Chairman

Operating and financial review

Principal activities

The association is a charitable industrial & provident society that was registered with the Financial Services Authority on 26th July 2011 and commenced trading on 13th December 2011 when it received the transfer of the entire housing stock of Wycombe District Council following a positive ballot of Council tenants and resident leaseholders. Red Kite's primary purpose is to deliver the promises made to tenants and leaseholders in the formal Transfer Offer issued in April 2011 and to provide affordable housing throughout Wycombe District.

The association owns and manages over 6,700 properties across Wycombe District, including over 600 leasehold flats. The association also provides housing-related services, including a 24-hour contact and response service to vulnerable people.

Business and financial review

The financial statements cover a trading period of three and a half months, from 13th December 2011 to 31st March 2012. The Board reports a surplus for the period of £3,322,000. This surplus will contribute towards the £100 million programme of investment in properties that will be undertaken over the next 5 years.

The major transaction during the period has been the acquisition of 6,700 properties from Wycombe District Council on 13th December 2011. The consideration paid for the properties amounted to £65,619,000. The properties are included within the financial statements at their fair value of £139,945,000 in accordance with FRS 7.

The major activity since transfer has been to establish systems and procedures to enable delivery of the promises made in the Transfer Offer document, establish effective risk management and control processes and build strong governance.

Central to this process has been to begin the procurement of contracts to deliver the major improvement works to properties transferred from Wycombe District Council.

Operating and financial review (continued)

Business and financial review (continued)

This is the association's first accounting period. A summary income and expenditure account and balance sheet are shown below:

For the period ended 31 March	2012 (3 ½ months) £'000s
Income and Expenditure account (£'000)	
Total turnover	9,353
Operating surplus	4,626
Surplus for the year transferred to reserves	<u>3,322</u>
Balance Sheet (£'000)	
Negative goodwill	<u>(43,964)</u>
Housing properties, net of depreciation	140,508
Social housing grant and other grants	(28,000)
Other fixed assets	<u>587</u>
Fixed assets	113,095
Net current liabilities	<u>(461)</u>
Total assets less current liabilities	<u>68,670</u>
Loans (due over one year)	(63,262)
Pension liability	(3,711)
Reserves	<u>(1,697)</u>
	<u>(68,670)</u>
Social housing properties owned at period end:	6,057
Statistics:	
Operating surplus as % of turnover	49.5%
Surplus for year as % of income from social housing lettings	37.7%
Rent losses (<i>voids and bad debts as % of rent and service charges receivable</i>)	3.33%
Rent arrears (<i>gross arrears as % of annual rent and service charges receivable</i>)	3.75%
Liquidity (<i>current assets divided by current liabilities</i>)	94.1%

Operating and financial review (continued)

Objectives and strategy

Our mission is to provide “Excellent services for you and your community”. This mission is underpinned by three key objectives:

- provide excellent quality affordable homes to the highest standards;
- work to ensure responsive, value for money services that deliver successful outcomes and are transparent; and
- develop new and creative ways of working that respect all views, benefit communities and encourage involvement at all levels.

A 5-year Corporate Strategy is being developed that sets out specific activities that will ensure these overall objectives are met. Central to this is establishing Red Kite as a truly tenant-led association, so that tenants and leaseholders “inspire and influence the design, delivery and outcomes of everything we do”.

Red Kite is a tenant-led housing association. A comprehensive tenant and leaseholder involvement structure has been established, overseen by the Board, that includes:

- a Tenant and Leaseholder Improvement Commission, that will provide scrutiny of the association’s activities, identifying areas for service review and opportunities for service improvements;
- four specialist interest groups, covering repairs and maintenance, neighbourhood services, sheltered housing and leaseholder services that will monitor performance and service delivery outcomes; and
- a wide range of opportunities for tenants and leaseholders to inspire and influence the services that the association provides, including participation in key procurement decisions.

A comprehensive performance monitoring framework has been developed, our “Excellence Index”, including a wide range of measures. Specifically, these include service satisfaction measures alongside more traditional targets.

Operating and financial review (continued)

Value for Money

The Excellence Index forms the cornerstone of a robust value for money strategy that has been adopted by the Board. The most important challenge is to develop a culture that embeds value for money across all that the association does. This will ensure that cost-effective procurement decisions are made (“economy”), that service reviews are carried out to ensure the optimum use of resources (“efficiency”) and that services meet the needs and aspirations of tenants and leaseholders (“effectiveness”).

During 2012-14 we will be procuring major contracts for the delivery of the improvements to properties promised to tenants and major service delivery contracts (including response repairs, grounds maintenance, cleaning services and IT services). Base-line costs will be established and bench-marked and this will form a basis for a programme of service reviews that will further improve value for money.

Risk Management

The Board has approved a robust risk management strategy 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.

Key risks facing the association include:

- the impact of welfare and benefit reforms, both those already scheduled for implementation and those being discussed, on the ability of the tenants to pay rent and the ability of the association to let properties;
- the continuing uncertainty surrounding the availability and cost of bank funding;
- the ability of the association to secure the procurement of major contracts at prices necessary to the delivery of the pre-transfer promises made to tenants;
- the impact of Right to Buy discount changes applicable from April 2012 on the level of property sales and retained stock numbers; and
- the control risks associated with major change in staff structures, IT systems and office location.

Operating and financial review (continued)

Capital structure and treasury policy

The association entered into a £140 million 30-year funding facility on 13th December 2011 that will fund the delivery of the pre-transfer promises made to tenants and leaseholders. The facility is provided by The Royal Bank of Scotland plc and Santander UK plc. At 31st March 2012, £65 million was drawn down on the facility. None of the facility is required to be repaid before 2017.

The association only enters into interest rate swaps that are embedded within the existing funding agreement. The association's policy is to keep between 75 per cent and 90 per cent of its borrowings at fixed rates of interest. At the year-end, 92 per cent of the association's borrowings were at fixed rates reflecting the high level of fixed rates entered into at the date of transfer. The Board has approved this temporary operation outside of Treasury policy limits. The position will adjust once the major repairs contracts are procured and commence.

The fixed rate borrowings incur interest rates, including margins, of a weighted average cost of 5.01%. Variable rate borrowings incur an average cost of 3.23%. The funding agreement has provision for a review of lenders' margins after 5 years.

The association's funding agreements require compliance with a number of financial and non-financial covenants. The position is monitored on an on-going basis and reported to the Finance Committee and Board each quarter. Recent reports confirmed that the association was in compliance with its loan covenants at the balance sheet date and the Board expects to remain compliant in the foreseeable future.

The association had cash balances of £5,740,000 at 31st March 2012. On 13th April 2012, the cash balances were used to repay £5 million of borrowings drawn on the revolving credit facility. The sum is available to be redrawn once the major improvement programme of works commences.

Future Developments

The priority for the association over the coming 12 months is to complete the set-up of the business, including moving to new office accommodation and establishing a culture that reflects the Board and executive team's aspiration for the association to be tenant-led. The procurement of the major improvement contracts will be the main financial influence on the review of the 30-year business plan. The timing of draw down of further borrowing will be determined by the successful outcome of this procurement process.

Statement of compliance

In preparing this Operating and Financial Review and Report of the Board, the board has followed the principles set out in the SORP 2010.

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 association for the period ended 31 March 2012.

Principal activities, business review and future developments

Details of the association's principal activities, its performance during the year and factors likely to affect its future development are contained within the Operating and Financial Review, which precedes this report.

Board members and executive directors

The Board members and executive directors of the association are set out on pages 2 and 3.

The executive directors are the chief executive and other members of the association's executive management team. They act as executives within the authority delegated by the Board. All the executive team were appointed during the period, reflecting the fact that the association was formed on 26th July 2011. The executive directors are employed on the same terms as other staff, their notice periods ranging from three 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 schemes, or the Red Kite Group Personal Pension Fund, a 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 10 to the audited financial statements.

Employees and involved tenants and leaseholders

Red Kite is determined to be a successful tenant-led business. The delivery of the pre-transfer promises made to tenants and leaseholders will depend crucially on effective partnership working between employees and the large number of involved tenants and leaseholders. We are committed to providing effective training to all employees and involved tenants and leaseholders. 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.

Report of the Board (continued)

Donations

The association made no charitable or political donations during the period.

Financial risk management objectives and policies

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

The association has exposure to interest rate fluctuations on its borrowings and this risk is managed by the use of both fixed and variable rate facilities, including interest rate swaps embedded within the loan facility agreements (details set out in note 17). The association has entered into a loan facility that provides sufficient liquidity to deliver the business plan. Sufficient security value exists within the properties owned by the association to support the drawdown of the loan facility.

The principal income stream risk relates to tenant arrears and is likely to be particularly affected by impending changes to housing benefit and welfare benefit entitlement. The association is currently assessing the impact of these changes and the risk is being managed by providing support and advice to tenants.

Going concern

The association's business activities, its current financial position and factors likely to affect its future development are set out within the Operating and Financial Review. The association has in place long-term funding facilities (including £75 million of undrawn facilities at 31 March 2012), which provide adequate resources to finance committed major improvement programmes, along with the association's day to day operations. The association also has a 30-year business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

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

Report of the Board (continued)

Internal controls assurance

The Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the association is ongoing and has been in place throughout the period commencing 13th December 2011 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- Board approved terms of reference and delegated authorities for Audit & Risk, Finance and HR committees;
- 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 and HR Committee approval of a whistle-blowing policy;
- 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. No major weaknesses were reported during the period.

A fraud register is maintained and is reviewed by the Audit & Risk Committee on a bi-monthly basis. During the year there were no frauds reported.

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 committee has received the chief executive's annual review of the effectiveness of the system of internal control for the association and the annual report of the internal auditor and has reported its findings to the Board.

Report of the Board (continued)

Code of Governance

The association complies with the principal recommendations of the NHF Code of Governance (revised). A review of governance arrangements has been undertaken during the period by the Board and by the internal auditors and recommendations are being implemented that will further strengthen governance practices. The Board has adopted a clear Code of Conduct that governs its behaviour and probity.

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.

Industrial and Provident Society legislation requires the Board to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under the Industrial and Provident Society legislation the directors 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 association for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 2010, 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 association 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 association and enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002. It is also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Board (continued)

Code of Governance

In so far as each of the directors is aware:

- there is no relevant audit information of which the association's auditors are unaware; and
- the directors 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 directors are responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual general meeting

The annual general meeting will be held on 11th September 2012.

External auditors

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 18th July 2012 and signed on its behalf by:

Jennie Ferrigno
Chairman

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

We have audited the financial statements of Red Kite Community Housing Limited for the period ended 31 March 2012 which comprise the income and expenditure accounts, statement of recognised surpluses and deficits, the balance sheet and cashflow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the housing association's members, as a body, in accordance with regulations made under Section 4 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the housing association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the housing association and the housing association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and the auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 13, the board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

In addition, we read all the financial and non-financial information in the Chairman's Statement, Operating and Financial Review and Report of the Board to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we will consider the implications for our report.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2012 and of its income and expenditure for the period then ended;
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002, the Housing and Regeneration Act 2008 and The Accounting Requirements for Registered Social Landlords General Determination 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002 requires us to report to you if, in our opinion:

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

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Central Milton Keynes

Income and expenditure account for the period ended 31st March 2012

	Note	2012 * £'000s
Turnover: continuing activities	3	9,360
Operating costs	3	<u>(4,734)</u>
Operating surplus: continuing activities	3	4,626
Interest receivable and other income	6	22
Interest payable and similar charges	7	(1,320)
Other finance costs	9	<u>(6)</u>
Surplus on ordinary activities before taxation		3,322
Tax on surplus on ordinary activities	11	<u>-</u>
Surplus for the financial year	19	<u><u>3,322</u></u>

The accompanying notes form part of these financial statements.

Historical cost surpluses and deficits were identical to those shown in the income and expenditure account.

The financial statements were approved by the Board of Directors on 18th July 2012.

Jennie Ferrigno

Hugh Ashton-Moore

Neil Venables

Chairman

Vice chairman

Secretary

*There are no comparatives for previous years as the company was incorporated on 26th July 2011 and commenced trading on 13th December 2011.

Statement of total recognised surpluses and deficits

	Note	2012 * £'000s
Surplus for the financial year		3,322
Actuarial losses relating to pension scheme	9	<u>(1,625)</u>
Total recognised surpluses and deficits relating to the year	19	<u>1,697</u>

Balance sheet as at 31st March 2012

	Note	2012 * £'000s
Intangible assets		
Negative goodwill	8	<u>(43,964)</u>
Tangible assets		
Housing properties	12	140,508
Social housing grant and other grants	12	<u>(28,000)</u>
	12	112,508
Other tangible fixed assets	13	<u>587</u>
		<u>113,095</u>
Current assets		
Debtors	14	1,666
Cash at bank and in hand		<u>5,740</u>
		7,406
Creditors: amounts falling due within one year		
	15	<u>(7,867)</u>
Net current liabilities		<u>(461)</u>
		<u>68,670</u>
Total assets less current liabilities		
		<u>68,670</u>
Creditors: amounts falling due after more than one year		
	16	63,262
Net pension liability	9	<u>3,711</u>
		66,973
Capital and reserves		
Restricted reserves	19	130
Revenue reserve	19	<u>1,567</u>
		<u>68,670</u>

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board of Directors on 18th July 2012.

Jennie Ferrigno

Hugh Ashton-Moore

Neil Venables

Chairman

Vice chairman

Secretary

*There are no comparatives for previous years as the company was incorporated on 26th July 2011 and commenced trading on 13th December 2011.

Cash flow statement for the period ended 31st March 2012

	Note	2012 £'000s
Net cash inflow from operating activities	20	<u>10,433</u>
Returns on investments and servicing of finance		
Interest received		22
Interest paid		<u>(1,052)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(1,030)</u>
Capital expenditure and financial investment		
Purchase and construction of housing properties		(66,194)
Purchase of other fixed assets		<u>(619)</u>
Net cash outflow from capital expenditure and financial investment		<u>(66,813)</u>
Net cash outflow before financing		<u>(57,410)</u>
Financing		
Loans received		65,000
Loan set-up costs		<u>(1,850)</u>
Net cash inflow from financing		<u>63,150</u>
Increase in cash	22	<u><u>5,740</u></u>

The accompanying notes form part of these financial statements.

Notes to the financial statements

1. Legal status

The association is registered under the Industrial and Provident Societies Act 1965 and is a registered housing provider.

2. Accounting policies

Basis of Accounting

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and the Statements of Recommended Practice: Accounting by Registered Social Housing Providers Update 2010 and comply with the Accounting Requirements for registered social landlords General Determination 2006.

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

Going Concern

The Directors have reviewed the forecasts for the foreseeable future and have determined that the association has sufficient financial resources based on these forecasts and current expectations of future sector conditions to meet its liabilities as they fall due. As a consequence, the Board believes that the association is well placed to manage their business risks successfully despite the current uncertain economic outlook.

The Board has a reasonable expectation that the association has adequate resources to continue in operational existence for the foreseeable future. Thus they adopt the going concern basis in preparing 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.

Charges for supported services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities. Charges for support services not funded by Supporting People are shown within 'Services' costs.

Notes to the financial statements

2. Accounting policies (continued)

Restricted Reserves

The association 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 accounted for as income and then transferred to 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
ICT infrastructure, hardware and software	5 – 7

Only items with a cost in excess of £5,000 are capitalised. The useful economic lives of all tangible fixed assets are reviewed annually. Assets are depreciated for the whole financial year in which the purchase is completed.

Housing Properties

Housing properties are principally properties available for rent.

Housing properties purchased at transfer have a historical cost equal to their fair value at transfer and are stated at fair value less accumulated depreciation.

Additions to the housing properties following the transfer are stated at cost. This includes the cost of acquiring land and buildings, development costs and expenditure incurred in respect of improvements. The association 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.

Notes to the financial statements

2. Accounting policies (continued)

Housing properties (continued)

Depreciation is charged on a straight line basis over the expected remaining economic useful lives of the assets as follows:

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

Social housing property depreciation is charged on the cost, including the cost of components, excluding freehold land, which is not depreciated.

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 at cost less Social Housing Grant ('SHG') 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.

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 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.

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 balance sheet in the creditors.

Notes to the financial statements

2. Accounting policies (continued)

Other Grants

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

Operating Leases

Rentals payable under operating leases are charged to the Income and Expenditure Account on a straight line basis over the lease term.

Properties Held for Resale

Where a decision has been taken to dispose of housing properties, these are held on the balance sheet under current assets. These properties are held at the lower of historical cost less depreciation, or net realisable value.

Loan Issue Costs

Issue costs of long term finance are deducted from the amount drawn down. The cost of raising finance is amortised over the period to the first price review by lenders of the facility.

Right to Buy

Proceeds from the sale of dwellings under Right to Buy are received by the association in the first instance. The association is entitled to retain the first tranche of sale income. Thereafter, until 2041, a sum that is equal to the net present value of income foregone is to be retained by the association with the balance payable to Wycombe District Council.

Sales are recognised in the Income and Expenditure Account at the date of transfer of title.

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.

Notes to the financial statements

2. Accounting policies (continued)

Pension Costs

The association 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 17 - 'Retirement Benefits'.

The Local Government Pension Scheme is administered by Buckinghamshire County Council and is independent of the association'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 market value.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at the rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the association's defined benefit pension scheme expected to arise from employee service in the period is charged to operating surplus. Past service costs are spread over the period until the benefit increases vest. Interest on the scheme liabilities and the expected return on scheme assets are included net in other finance costs. Actuarial gains and losses are reported in the statement of total recognised surpluses and deficits. The pension scheme's surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

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

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

Value Added Tax ('VAT')

The association 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.

The balance of VAT payable or recoverable at the year end is included as a current liability or asset.

Notes to the financial statements

2. Accounting policies (continued)

Taxation

The association is recognised by HM Revenue and Customs as a charitable Industrial and Provident Society and consequently has no liability to Corporation Tax in the period.

Development Agreement

The association 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.

The obligations of Wycombe District Council and the association under the Development Agreement are netted off the in accounts and are both 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 under the Development Agreement is retained by the association. Savings in excess of this are shared equally between the association and Wycombe District Council.

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 the average life of structure of the housing properties. Debtors acquired are included at an estimate of their provisional fair value.

Notes to the financial statements

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

	2012		
	Turnover	Operating Costs	Operating Surplus / (Deficit)
	£'000s	£'000s	£'000s
Social housing lettings	8,801	(4,409)	4,392
Other social housing activities			
Supporting people	152	(194)	(42)
	152	(194)	(42)
Non-social housing activities			
Lettings from garages and shops	206	(37)	169
Restricted reserves received on acquisition	137	(7)	130
Other	64	(87)	(23)
	407	(131)	276
	<u>9,360</u>	<u>(4,734)</u>	<u>4,626</u>

Notes to the financial statements

Particulars of income and expenditure from social housing lettings

	2012		Total
	General needs housing	Sheltered housing	
	£'000s	£'000s	£'000s
INCOME			
Rent receivable net of identifiable service charges	6,133	2,300	8,433
Service charges	66	302	368
Net rental income	<u>6,199</u>	<u>2,602</u>	<u>8,801</u>
Turnover from social housing lettings	<u>6,199</u>	<u>2,602</u>	<u>8,801</u>
EXPENDITURE			
Management costs	(1,258)	(566)	(1,824)
Service costs	(212)	(344)	(556)
Routine maintenance	(856)	(463)	(1,319)
Planned maintenance	(109)	(90)	(199)
Major repairs and improvements	(413)	(284)	(697)
Bad debts	(77)	(19)	(96)
Depreciation of housing properties	(9)	(4)	(13)
Amortisation of negative goodwill	206	89	295
Operating costs on social housing lettings	<u>(2,728)</u>	<u>(1,681)</u>	<u>(4,409)</u>
Operating surplus on social housing lettings	<u>3,471</u>	<u>921</u>	<u>4,392</u>
Void losses	<u>44</u>	<u>160</u>	<u>204</u>

Notes to the financial statements

4. Accommodation in management

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

	2012
Social Housing	
General needs housing	4,212
Sheltered housing and housing for older people	1,845
Total social housing owned	6,057
Housing managed for others	110
Total social housing managed	6,167
Leasehold properties	616
Shared equity properties	10
Commercial properties	20
Total housing owned and managed	6,813

There were no properties in development at the period end.

5. Operating surplus

The operating surplus is arrived at after charging:

	2012
	£'000s
Depreciation – housing properties	13
Depreciation – other tangible fixed assets	32
Amortisation of negative goodwill	295
Operating lease rentals	82
Auditor's remuneration (including VAT)	
- Fees payable for the audit of the financial statements	23
	23

6. Interest receivable and other income

	2012
	£'000s
Interest receivable and similar income	22

Notes to the financial statements

7. Interest payable and similar charges

	2012
	£'000s
Loans and bank overdrafts	1,208
Amortisation of loan set-up fees	112
	1,320
	1,320

No interest has been capitalised in the period.

8. Negative goodwill

On 13 December 2011, the association purchased 6,057 social housing properties for rent from Wycombe District Council. This followed a positive vote from the tenants and resident leaseholders in favour of the transfer. The association paid £65,619,000 for the properties. On the same date, one hundred employees of Wycombe District Council transferred to the association under the Transfer of Undertakings of Public Employees (TUPE) provisions.

In accordance with the Statement of Recommended Practice 2010, the properties have been included in the financial statements at their fair value of £139,946,000, being the existing use value for social housing (EUV-SH). The full value of the properties at the date of acquisition has been accounted for as land acquired.

The association received a non-repayable grant from Wycombe District Council of £28,000,000 on the date of acquisition. The association also incurred an actuarial FRS 17 liability in respect of the transferring employees of £2,068,000.

These transactions have given rise to negative goodwill arising on acquisition of the properties in accordance with FRS 7 as follows:

	£'000s
Fair value of housing properties acquired	139,946
Purchase price paid	(65,619)
Grant received on acquisition from Wycombe District Council	(28,000)
Actuarial loss on pension scheme at 13 th December 2011	(2,068)
Negative goodwill arising on acquisition	44,259
Amortisation in period	(295)
Negative goodwill as at 31 st March 2012	43,964

Notes to the financial statements

9. Employees

Average monthly number of employees expressed as full time equivalents:

	2012
	No.
Housing management	62
Property management	22
Central administration	18
	102

Employee costs:

	2012
	£'000s
Wages and salaries	976
Social security costs	83
Other pension costs	149
	1,208

The association's employees are entitled to membership of either the Buckinghamshire County Council Pension Fund (BCCPF) or of Red Kite Group Personal Pension Plan (RKGPPP).

Red Kite Group Personal Pension Plan (RKGPPP) scheme

The RKGPPP is a defined contribution scheme administered by HSBC Life. Employer contributions for the period ended 31 March 2012 were £7,450 at a contribution rate of either 8% or 10%, depending on the contribution rate of each employee.

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 2010 and rolled forward, allowing for the different financial assumptions required under FRS 17, to 31 March 2012 by a qualified independent actuary.

The employers' contributions to the BCCPF by the association for the period ended 31 March 2012 were £141,044 at a contribution rate of 18.3% of pensionable salaries. The employers' contribution rate for the year ending 31 March 2013 has been set at 18.3%.

Estimated employers' contributions to the BCCPF during the accounting period commencing 1 April 2012 are £457,000.

The scheme is closed to new members.

Notes to the financial statements

9. Employees (continued)

Financial assumptions:

	As at 31 March 2012 %	As at 13 December 2011 %
Discount rate	4.6	4.8
Future salary increases	4.8	4.4
Future pension increases	2.5	2.1
Inflation assumption (RPI)	3.3	2.9

Mortality assumptions:

The post-retirement mortality assumptions adopted to value the benefit obligation at March 2012 are based on the PA92 series.

The assumed life expectations on retirement at age 65 are:

	As at 31 March 2012 No. of years	As at 13 December 2011 No. of years
Retiring today:		
Males	20.0	19.8
Females	24.0	23.9
Retiring in 20 years:		
Males	22.0	21.9
Females	25.9	25.8

Expected return on assets

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 13 December 2011 for the period to 31 March 2012). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

Notes to the financial statements

9. Employees (continued)

The expected returns on assets are:

	As at 31 March 2012 %	As at 13 December 2011 %
Equities	6.6	6.4
Gilts	3.3	3.1
Other bonds	4.6	4.8
Properties	6.1	5.9
Cash	3.0	3.0
Alternative assets	<u>6.6</u>	<u>6.4</u>

Analysis of the amount charged to income and expenditure account:

	Period to 31 March 2012 £'000s
Current service costs	<u>153</u>
Amount charged to operating costs	<u>153</u>
Interest on scheme liabilities	134
Expected return on scheme assets	<u>(128)</u>
Amount charged to other finance costs	<u>6</u>

There were no past service costs or losses / gains on curtailments and settlements during the period.

Statement of total recognised surpluses and deficits (STRSD):

	Period to 31 March 2012 £'000s
Actuarial loss in pension scheme recognised in STRSD	<u>(1,625)</u>

Notes to the financial statements

9. Employees (continued)

Amounts recognised in the balance sheet:

	As at 31 March 2012 £'000s
Present value of funded obligations	(11,114)
Fair value of scheme assets (bid value)	7,403
Net liability recognised in balance sheet	(3,711)

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

	As at 31 March 2012 £'000s
Scheme liabilities as at 13 December 2011	(9,348)
Current service cost	(153)
Interest cost	(134)
Actuarial losses	(1,423)
Contributions by scheme participants	(56)
Closing scheme liabilities as at 31 March 2012	(11,114)

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

	As at 31 March 2012 £'000s
Fair value of scheme assets as at 13 December 2011	7,280
Expected return on scheme assets	128
Actuarial losses	(202)
Contributions by employer	141
Contributions by scheme participants	56
Closing fair value of scheme assets as at 31 March 2012	7,403

Notes to the financial statements

9. Employees (continued)

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

	As at 31 March 2012 %	As at 13 December 2011 %
Equities	68	69
Gilts	8	7
Other bonds	9	7
Properties	9	8
Cash	2	3
Alternative assets	<u>4</u>	<u>6</u>

Amounts for current and previous accounting periods:

	As at 31 March 2012 £'000s
Present value of scheme liabilities	(11,114)
Fair value of scheme assets	<u>7,403</u>
Deficit on scheme	<u>(3,711)</u>
Experience adjustment on scheme assets	<u>(202)</u>

Sensitivity analysis:

	£'000s	£'000s	£'000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total liabilities	10,389	11,114	11,396
Projected service cost	591	610	630
Adjustment to mortality age rating assumption	+1 year	None	-1 year
Present value of total liabilities	10,702	11,114	11,531
Projected service cost	581	610	639

Notes to the financial statements

10. Board members and executive directors

Board members:

None of the Board members received any emoluments. Reimbursement for expenses incurred in the performance of their duties as Board members totalling £645 was made in the period.

Executive directors:

		2012			
	Date appointed	£ Basic salary	£ Additional benefits	£ Pension contributions	£ Total
Chief Executive:	13 December				
Trevor Morrow	2011	29,167	1,715	5,337	36,219
Resources Director:	1 September				
Neil Venables	2011	46,667	3,146	4,667	54,480
Director of Neighbourhood Services:	13 December				
Martyn Hale	2011	24,908	223	4,599	29,730
Director of Property and Development:	12 December				
Alan Keers	2011	22,782	1,519	-	24,301
		<u>123,524</u>	<u>6,603</u>	<u>14,603</u>	<u>144,730</u>

The emoluments of the highest paid director during the period, the Resources Director, excluding pension contributions, were £49,813.

The Resources Director is a member of the RKGPPP. He is an ordinary member of the pension scheme and no enhanced or special terms apply. The association does not make any further contribution to an individual pension arrangement for the Resources Director.

11. Tax on surplus on ordinary activities

The association has charitable status with HMRC and is not liable for Corporation Tax on its ordinary activities. No taxable activities have occurred during the period.

Notes to the financial statements

12. Tangible fixed assets – properties

	Social housing properties held for letting £'000s
Cost:	
Fair value of properties acquired	139,946
Works to existing properties	<u>575</u>
Cost as at 31 March 2012	<u>140,521</u>
 Depreciation:	
Depreciation charge in period	<u>13</u>
Depreciation as at 31 March 2012	<u>13</u>
	<u>140,508</u>
 Other grants:	
Received on acquisition of properties from Wycombe District Council	<u>28,000</u>
Grants as at 31 March 2012	<u>28,000</u>
 Net book value as at 31 March 2012	 <u>112,508</u>

All properties are held freehold. No interest has been capitalised in the period. There have been no disposals or demolitions of properties during the period. No reduction for impairment of any properties has been recognised in the period.

Expenditure on works to existing properties:

	2012
	£'000s
Components capitalised	576
Amounts charged to income and expenditure account	<u>697</u>
	<u>1,273</u>

Notes to the financial statements

13. Tangible fixed assets – other

	IT equipment £'000s
Cost:	
Additions in the period	619
As at 31 March 2012	619
Depreciation:	
Charged in the period	32
As at 31 March 2012	32
Net book value as at 31 March 2012	587

None of the other tangible fixed assets are owned under finance leases.

14. Debtors

	2012 £'000s
Rent and service charges receivable	1,087
Less: Provision for bad and doubtful debts	(498)
	589
VAT recoverable	80
Prepayments and accrued income	627
Other debtors	370
	1,666

15. Creditors: amounts falling due within one year

	2012 £'000s
Trade creditors	1,694
Rent and service charges received in advance	353
Transfer acquisition price payable	4,319
Accruals and deferred income	1,220
Other taxation and social security	86
Other creditors	195
	7,867

Notes to the financial statements

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

	2012
	£'000s
Debt (note 17)	<u>63,262</u>

17. Debt analysis

	2012
	£'000s
Bank loans	65,000
Less: Loan issue costs	<u>(1,738)</u>
	<u>63,262</u>

Terms of repayment and interest rates

The bank loans are repayable in accordance with the repayment profile set out in the latest approved 30-year business plan. Based on the lenders' earliest repayment date, no repayments are scheduled within the next 5 years. The final instalments fall to be repaid in the period 2041-2042.

At 31 March 2012 the association had undrawn committed loan facilities of £75.0m. The facilities are secured by a fixed charge over the association's entire housing property stock.

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

	2012
	£'000s
Fixed rate	60,000
Floating rate	<u>5,000</u>
	<u>65,000</u>

The association 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 5.01% and the weighted average period for which they are fixed is 10 years. The floating rate financial liabilities have a weighted average interest rate of 3.23%.

Notes to the financial statements

18. Share capital

Membership comprises tenants and resident leaseholders plus Wycombe District Council. Each member holds one share with a value of £1.

	2012
	£
Number of members joining during the year	8
Number of members leaving during the year	<u>(2)</u>
Number of members at 31 March 2012	<u><u>6</u></u>

19. Reserves

	Restricted reserves £'000s	Revenue reserve £'000s	Total reserves £'000s
Surplus for the year	-	3,322	3,322
Actuarial loss relating to pension scheme	-	(1,625)	(1,625)
Transfer to restricted reserves	130	(130)	-
As at 31 March 2012	<u>130</u>	<u>1,567</u>	<u>1,697</u>

Restricted reserves represent the proportion of proceeds from sales of leasehold properties retained to fund future major repair costs that may arise in accordance with the terms of the relevant leases.

20. Net cash inflow from operating activities

	2012
	£'000s
Operating surplus	4,626
Depreciation of tangible fixed assets	45
Amortisation of negative goodwill	(295)
Defined benefit pension service costs	153
Defined benefit pension contributions paid	<u>(141)</u>
	4,388
Movements in working capital	
Debtors	(1,666)
Creditors	<u>7,711</u>
Net cash inflow from operating activities	<u><u>10,433</u></u>

Notes to the financial statements

21. Reconciliation of net cash inflow to movement in net debt

	2012 £'000s
Increase in cash	5,740
Cash inflow from increase in debt	(65,000)
Loan issue costs	1,738
Net debt at 31 March 2012	(57,522)

22. Analysis of changes in net debt

	As at 26 July 2011	Cashflow	Non- cashflow movement	As at 31 March 2012
	£'000s	£'000s	£'000s	£'000s
Cash at bank and in hand	-	5,740	-	5,740
Loans	-	(63,150)	(112)	(63,262)
Changes in net debt	-	(57,410)	(112)	(57,522)

23. Capital commitments

	2012 £'000s
Expenditure contracted but not provided for in the accounts	6,524
Expenditure authorised by the Board but not contracted	13,671
	20,195

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

Notes to the financial statements

24. Development Agreement

The association entered into a Development Agreement with Wycombe District Council on 13 December 2012 under which the association is committed to carry out improvements to the properties acquired from the Council over the next 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 association 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 2012, improvements to a value of £682,000 had been completed. The remaining liability at 31 March 2012 is £226,654,000.

25. Contingent assets / liabilities

There are no contingent assets or liabilities that require disclosure.

26. Leasing commitments

Operating lease payments amounting to £188,000 are due within one year. The leases to which these amounts relate expire as follows:

	2012
	£'000s
In one year or less	<u>188</u>

27. Related parties

There are four tenant members of the Board, Jennie Ferrigno, Hugh Ashton-Moore, Sheelagh Jones and Jonathan Walton. Their tenancies are on normal commercial terms and they are not able to use their position to their advantage.

There is one resident leaseholder member of the Board, Hazel Chandler. Her lease is on normal commercial terms and she is not able to use her position to her advantage.

Two members of the Board, Ian McInnis and Brian Pollock, are councillors with Wycombe District Council and a third, Chris Watson, is also nominated by the Council. The local authority has a proportion of the nomination rights over tenancies. In addition, the association has a licence to occupy certain Council office accommodation until 13 December 2012. The Council provides the association with management services related to the office accommodation. The association manages certain properties on behalf of the Council. All transactions with the Council are on normal commercial terms and the three Board members nominated by the Council are not able to use their position to their advantage.