RED KITE COMMUNITY HOUSING LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDING 31 MARCH 2014

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

Index to the Financial Statements

Association information

Industrial and Provident 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 - Chairman Justin Bootland - Vice-Chairman Michaela Booth Hazel Chandler Sheelagh Jones Ian McEnnis James Moorcroft Chris Pierce John Richards (appointed 29 January 2014) Jonathan Walton Hugh Ashton-Moore (resigned 18 December 2013) Alan Pepin (appointed 6 September 2013- resigned 29 January 2014) Brian Pollock (resigned 26 June 2013) Chris Thomas (resigned 12 March 2014) Chris Watson (resigned 23 April 2014) James Stafford (co-opted 29 January 2014 to 11 June 2014)

Association information (continued)

Chief Executive	Trevor Morrow
Company Secretary	Neil Venables
Executive Directors	Alan Keers, Director of Operations
	Neil Venables, Resources Director
	Martyn Hale, Director of Neighbourhood Services (until 30 April 2013)
Bankers	The Royal Bank of Scotland plc 280 Bishopsgate London EC2M 4RB
	Santander UK plc 17 Ulster Terrace London NW1 4JP
Solicitors	Trowers & Hamlins LLP 3 Bunhill Row London EC1Y 8YZ
External Auditor	Grant Thornton UK LLP Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW
Internal Auditor	Baker Tilly Risk Advisory Services LLP The Pinnacle 170 Midsummer Boulevard Milton Keynes MK9 1BP

Chairman's Statement

Last year I concluded my statement stressing that we will make the best use of every pound we receive to deliver what our customers want. As a tenant-led business, this will always be central to what we do.

This year has demonstrated that building a business that is true to these values is a real challenge. A year of tough decisions combined with many achievements leaves us stronger and better equipped to succeed.

Let me start with the successes. We are now installing new kitchens, bathrooms, windows and doors faster than ever. We have invested £14.5 million in our tenants' homes this year and we are well on course to deliver on our promises by 2017. We are financially strong, having made substantial efficiency savings and procured new contracts. We are now able to plan how we use these resources to benefit our customers and communities. And we continue to be recognised nationally for our tenant-led procurement approach and for our commitment to installing carbon monoxide detectors into all our homes.

Alongside the successes, we have taken some tough decisions. Our "Honest Conversation" with tenants at sheltered properties means that we will be closing all or part of six schemes that are not suitable for their current use without spending more than it is viable to spend. It was also inefficient for us to continue to provide our 24/7 community alarm response service in-house, so we have out-sourced the service this year. Both these decisions mean we now have more available to invest in the homes and services that our tenants want. But perhaps the toughest challenge has been finding partner organisations that are prepared to share our tenant-led ethos and our desire to deliver the standards that our customers expect. We have not accepted second-best on this, with the result that some partnerships have ended sooner than we would have wanted. But I believe that this is the right decision in the long-run and we continue to work very well with many of our partners.

As for the future, a mixture of challenge and excitement lies ahead. The continuing sale of homes under the Right to Buy scheme, welfare reform and greater pressure to deliver more for less means that the need for excellent governance is greater than ever. But we have begun the regeneration of the Castlefield estate in High Wycombe that will deliver much needed new homes, we are delivering our promises and we are building a community-based tenant-led business.

So finally, thank you to all those who have contributed so much to the success and journey of Red Kite so far: the tenants and leaseholders, staff, partners and, of course, my colleagues on the Board. I look forward to another 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 Conduct Authority (formerly the Financial Services Authority) on 26 July 2011 and commenced trading on 13 December 2011 when it received the transfer of the entire housing stock of Wycombe District Council. 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 the Wycombe District.

The association owns and manages over 6,600 properties across the Wycombe District, including over 600 leasehold flats. The association also provides housing-related services and engages in community initiatives.

Business and financial review

The financial statements cover the twelve month trading period up to the 31 March 2014. The Board reports a surplus for the year of £9,999,000 (2013: £11,970,000). The surplus includes £3.3 million (2013: £3.4 million) derived from sales under the Right to Buy legislation. The surplus will be utilised to deliver the £100 million programme of investment in properties promised to tenants before transfer over the next 3 years and a major regeneration scheme on the Castlefield estate in High Wycombe. The association invested £14.5 million in the year (2013: £8.5 million) in major works to its properties.

During the year the association has significantly increased the completion of the major improvements promised to tenants. The association has also:

- Completed the procurement of contracts to deliver major works and day to day repairs;
- Reviewed the viability and sustainability of all sheltered schemes, with a decision made to close six schemes;
- Out-sourced the 24/7 community alarm service;
- Commenced the regeneration of the Castlefield estate in High Wycombe;
- Restructured the senior management team.

Red Kite is a tenant-led business. This means that tenants and leaseholders inspire and influence the design, delivery and outcomes of everything the association does. 549 tenants and leaseholders were Members of the association at the year-end (2013: 337). Tenants have led service reviews and undertaken the procurement of the new maintenance contracts.

Operating and financial review (continued)

Business and financial review (continued)

The association has made preparations to manage the risks posed by Welfare Reform changes, the economic situation and rising right to buy sales. Tenants at greatest risk of changes to benefits have been contacted and procedures to assist those who wish to move homes have been developed, with 33 moving to smaller homes during the year. High levels of right to buy sales have generated surpluses that will be reinvested into the redevelopment of existing homes and the provision of new properties.

A summary income and expenditure account and balance sheet are shown below:

For the year ended 31 March	2014 £,000	2013 £,000
Income and Expenditure account		
Total turnover	33,682	32,442
Operating surplus	10,927	12,832
Surplus for the year transferred to reserves	9,999	11,970
Balance Sheet		
Negative goodwill	(41,316)	(42,484)
Housing properties, net of depreciation	150,101	144,089
Social housing grant and other grants	(27,626)	(27,838)
Other fixed assets	1,262	1,492
Fixed assets	123,737	117,743
Net current assets	13,309	5,887
Total assets less current liabilities	95,730	81,146
Loans (due over one year)	(59,002)	(58,632)
Other creditors greater than one year	(8,939)	(4,908)
Pension liability	(5,034)	(3,539)
Reserves	(22,755)	(14,067)
	(95,730)	(81,146)
Social housing properties owned at the year end:	5,980	6,025

Operating and financial review (continued)

Business and financial review (continued)

	2014		2013
Statistics:			
Operating surplus as % of turnover	33.4%		39.6%
Surplus for year as % of income from social housing lettings	31.2%		38.7%
Rent losses (*voids and bad debts as % of rent and service charges receivable)*	2.5%		2.9%
Rent arrears *(gross arrears as % of annual rent and service charges receivable)*	4.4%		4.4%
Liquidity *(current assets divided by current liabilities)*	299.3%		206.8%

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 has been 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".

Tenants and leaseholders may hold 7 out of the 15 places on the Board. In accordance with good practice, a review of the structure and composition of the Board will be undertaken in 2014-15. During the year, the Board undertook a comprehensive review of the Governance Regulations to ensure continuing effective management of the business and risks.

A comprehensive tenant and leaseholder involvement structure has been established, overseen by the Board, which includes:

- Membership of the association being open to all eligible tenants and leaseholders. At the year-end, 549 tenants and leaseholders had been admitted as Members;

Operating and financial review (continued)

Objectives and strategy (continued)

- an Improvement Commission, that will provide scrutiny of the association's activities, identifying areas for service review and opportunities for service improvements;

- a Tenant and Leaseholder Committee comprising the chair and vice chairs of the four specialist interest groups; and

- a wide range of opportunities for tenants and leaseholders to inspire and influence the services that the association provides, including taking the lead 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 measures.

Value for Money

The Board of Red Kite Community Housing has reviewed how well the Association is delivering Value for Money to tenants, leaseholders and other stakeholders.

The key elements of the self-assessment are:

Do we have a robust approach to value for money?

- Our 5-year Corporate Strategy includes 24 specific actions on value for money, of which 15 have been completed and a further 4 will be completed in 2014-15;
- We have revised our Value for Money Strategy and developed an action plan for 2014-15 and beyond;
- We have established a Board sub-group with specific responsibility for monitoring progress against the plan and to support and challenge staff on the delivery of value for money;
- Performance monitoring reports are provided to the Board each quarter and are reviewed by our Tenant and Leaseholder Committee. We have created a business improvement team with specific responsibility for leading change and reporting performance;
- A comprehensive performance monitoring framework has been developed, that includes a wide range of performance and satisfaction measures;
- A Programme Board ensures we focus on improvement projects that deliver our strategic priorities and value for money;
- Our monitoring will be further developed to include a value for money register that records savings as they are achieved throughout the year;

Operating and financial review (continued)

Value for Money (continued)

How are we making best use of the homes and property we own to meet the objectives of tenants, leaseholders and the business?

Our primary objective is to deliver the promises made to tenants pre-transfer. However, this does not mean that we should invest in homes that are not financially viable or sustainable. In 2012-13 we carried out a condition survey of every one of our homes. This has provided a net present value (NPV) for each of our sheltered schemes, general needs blocks of flats and individual houses. In 2013-14 we have used this information to make decisions on where to invest.

Sheltered housing: We have 34 sheltered housing schemes providing 1,618 homes. Of these, 80 are empty bedsits. A review of the short-term and long-term suitability as sheltered schemes has been combined with the NPV calculations to provide an assessment of their long-term sustainability and value. Extensive consultation with tenants at all 34 schemes has taken place. The result is that the Board decided in December 2013 that six of these schemes, with a combined negative NPV of £367,000 (that means that they would cost more money to run than the income received from the rents), will close. Within the schemes being retained as sheltered housing there are a further 84 bedsits from 11 schemes, of which 42 are empty. In 2014-15 there will begin a programme to convert the majority of these into flats, providing lettable sustainable homes.

Castlefield estate regeneration scheme: The transfer promises included the regeneration of the eight blocks of flats on the Castlefield estate. Financial appraisal has confirmed that the most cost-effective option is to demolish the flats and redevelop the site. Local tenants and leaseholders agree with this option. In assessing the NPV information obtained from the stock condition survey, it has been identified that an adjoining block of flats has a negative NPV of £127,942. These properties have been included within the initial planning of the regeneration scheme for the area in order to allow better use of the site and to allow more new homes to be developed than originally expected.

General needs housing: We are using the comprehensive stock condition survey data to inform our delivery of the promised improvements to tenants' homes and have a full programme of works published covering the next 3 years. We still need to evaluate the financial viability of individual general needs homes and introduce processes that will ensure we invest to deliver the best outcomes for both communities and value for money.

Energy efficiency: We have 160 homes of a non-traditional construction type ("Wimpy No-Fines"). The thermal efficiency of these homes is being improved with support of a £198,000 energy company obligation grant. It is anticipated that this will reduce annual fuel bills for tenants by between £180 and £270 per annum, depending on the type of property. By 31 March 2014, 8 of these homes had been improved.

Operating and financial review (continued)

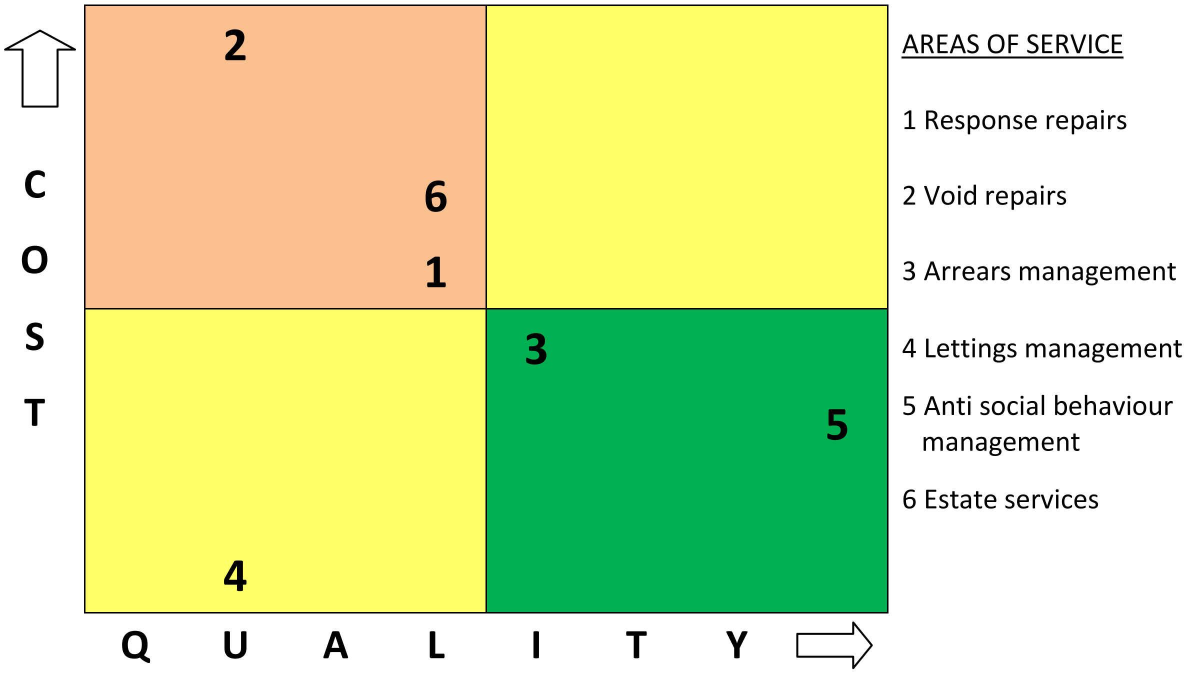
Value for Money (continued)

Other property and value for money considerations: The need for rationalisation of stock that is distant from our core business base does not apply. However, we do own small undeveloped land sites and 1,500 garages, of which 40% are not let. We have employed an additional member of staff to review our use of these assets so that we can either bring them back into use or identify opportunities for future development of new homes. We anticipate this investment having a payback period of three years. We are making delivery of our transfer promises our first priority and do not expect to undertake significant redevelopment of these sites in the next three years. This time will be spent in preparatory work so that we are able to move ahead with developments when the time is right.

How much does it cost us to provide services, how do these costs look given the quality of service we provide and what is our long-term approach to our overall running costs?

We collect and analyse our own data on the cost of delivering services and on tenant satisfaction with those services. We also subscribe to the Housemark bench-marking club and this allows comparison with other providers and provides us with a base-line for our performance. The most recent published data is for 2013, which was our first year of operation, and our designated Housemark peer group compares us with 31 other housing providers.

When the 2013 Housemark cost data is evaluated alongside the 2013 quality of service we can see where we perform well and where we need to improve.



Source: Housemark benchmarking report 2013

Operating and financial review (continued)

Value for Money (continued)

In summary, this suggests that there are areas that we deliver:

- high quality outcomes to tenants at below average cost (e.g. anti-social behaviour management);
- low cost services, but without achieving the quality of service tenants desire (e.g. lettings management);
- low quality services but at a high cost (e.g. void repairs), and
- services that are about average for our peer group (e.g. arrears management, response repairs and estate services).

We have very limited data with which to show trends over time, with the Housemark data for 2013-14 not yet being available. The following table shows where we spent resources and how much each property has cost to manage over the period.

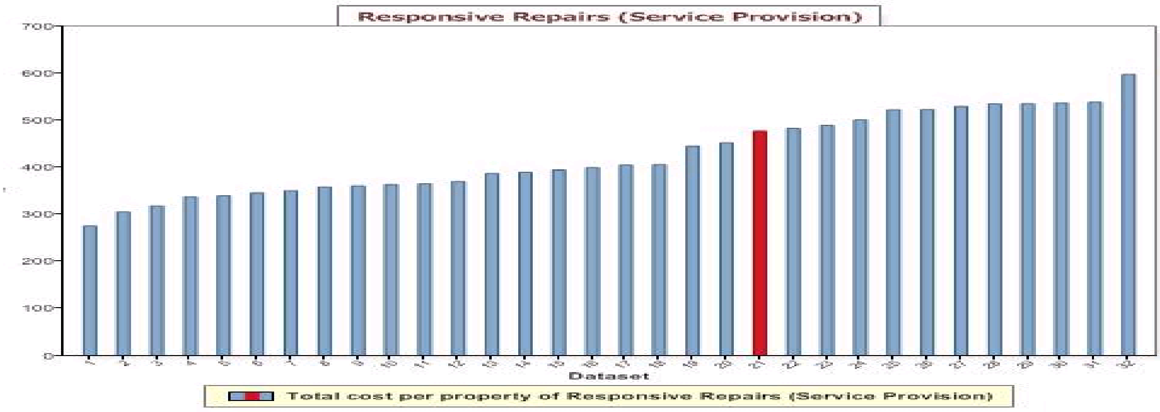
	Cost per property		Peer group ranking	
	2013-14	2012-13	2013-14 (provisional: our 2013-14 costs ranked against the peer group costs for 2012-13)	2012-13
	£	£		
Routine repairs	407	473	19	21
Void repairs	303	361	31	31
Housing management	179	199	2	3
Estate services	252	280	26	28
Overheads	555	518	24	20

Source: Housemark benchmarking report 2013 and Association data 2014

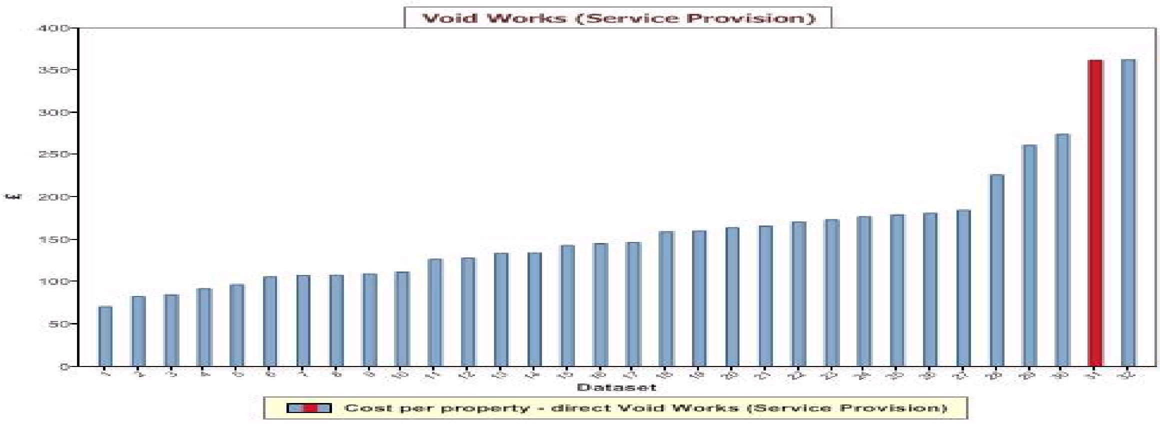
As at March 2013, we were a relatively expensive provider of repairs and voids works. In part this was because we were still operating under contracts transferred from the Council. This was not reflected in higher performance, with tenant satisfaction with repairs, void re-let times and response repair times all being in the bottom quartile of the peer group.

Operating and financial review (continued)

Value for Money (continued)



Source: Housemark benchmarking report 2013 – responsive repair costs per property



Source: Housemark benchmarking report 2013 – void repair costs per property

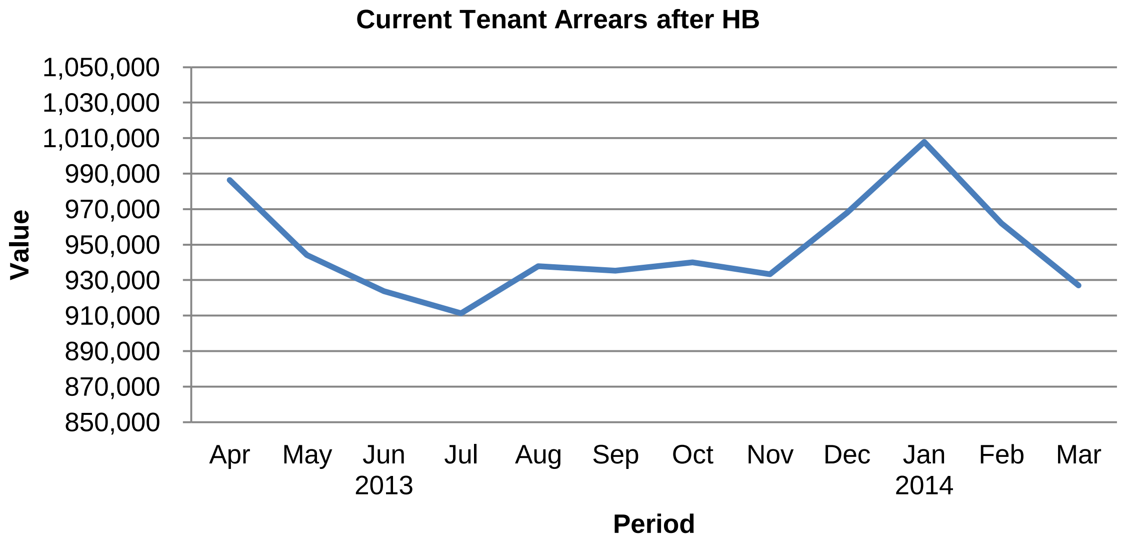
During 2013-14 we re-procured the response and void repairs contract that had transferred across from the Council, in a process led by the tenants. This has resulted in a reduced cost of £300,000 per annum, but not the desired improvement in quality of service. As a result, we will be retendering the contract again in 2014-15. We are currently conducting a review of our void process. In 2014 the average re-let time was 44 days (2013: 38 days) and we expect improvement in 2014-15.

Our housing management costs per property are low compared with our peer group. During 2014 we further reduced the cost per property to £179.61 per annum. The major component of housing management costs is our staff. Our proximity to London means that we incur higher average salaries compared with many our peer group, but employ lower numbers of staff per property compared with our peers.

Operating and financial review (continued)

Value for Money (continued)

The quality of the service may be seen as inconsistent: anti-social behaviour is top quartile, whereas arrears levels are higher than average. In 2014, we have invested in additional advice and support for tenants to prevent arrears rising (see graph below), whilst not increasing our costs, and enabled 33 tenants to move to smaller and more affordable homes. We have sought to keep costs of tenancy management low by using Home Swapper, which can be a quicker and cheaper way for tenants to move. In 2013-14 we supported 61 mutual exchanges through Home Swapper and saved over £100,000 in void costs. In 2014 we have pioneered a "tenancy awareness" course designed to give a final opportunity to tenants to sustain their tenancy rather than face eviction.



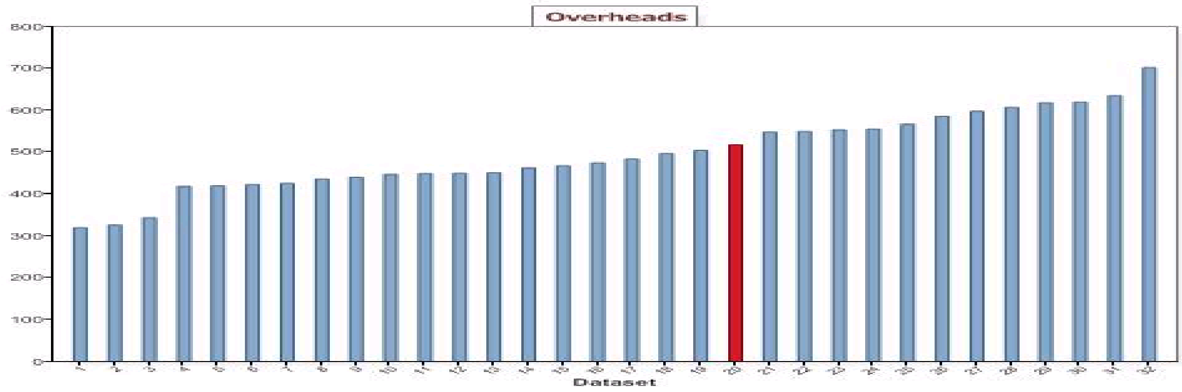
Source: Association data – arrears in £'000s during 2013-14

Satisfaction with estate services is consistent with our peer group, but our costs are higher than average. During 2013-14 we re-procured the grounds maintenance contract with a saving of £156,000 per annum, representing 14% of the total estate service costs. Our current review of how we deliver estate management cleaning services has resulted in a decision to move away from a mix of in-house staff and contractors to a fully out-sourced delivery of the service from April 2015. Retendering of the cleaning contract is underway.

The comparative data indicates that we had average overhead costs in 2012-13. Our costs were high for office accommodation and IT services. In February 2013 we moved to new offices which reduced our office costs by £10 per square foot and significantly improved the quality of accommodation for tenants and staff.

Operating and financial review (continued)

Value for Money (continued)



Source: Housemark benchmarking report 2013 – overhead costs per property

Value for money is not simply about costs, but about the value that services generate. We have not selected an appropriate approach to the calculation of the "social value" of the work that we do. However, there are many aspects of our service delivery that contributes to the well-being of our tenants and communities that are not reflected in the cost data. These include:

- We set aside £100,000 each year to invest in local community initiatives;
- Tenants determine the use of £400,000 each year to invest in estate and neighbourhood environment improvement schemes;
- We are a key partner in the Lane End Community Enterprise, where we have invested in a community-building empowerment project to enable a team to develop and drive forward new facilities on the tired playing fields at Lane End. We have invested £10,000, alongside matched funding of £10,000 from the Parish Council and £10,000 from Lane End Area Forum;
- We have allocated 10% of our major improvement budget to local Small and Medium Enterprises (SMEs);
- Working with our contractors we have helped to create 3 new apprenticeships;
- Our investment in thermal efficiency improvements for our Wimpey No Fines houses has reduced annual fuel bills for tenants by between £180 and £270 per annum;
- We installed 21 ground source heat pumps for homes without a gas supply in 2013-14, saving up to £785 per annum in heating costs for tenants. We plan to install more in 2014-15;
- We have facilitated 33 tenants to move to smaller, more affordable homes in response to welfare reform changes;
- We are installing carbon monoxide detectors into all our homes;
- We run training courses for tenants to enhance well-being and employment opportunities.

Operating and financial review (continued)

Value for Money (continued)

How have we reduced the costs of service delivery over the past year and what are our plans for next year and beyond?

Overall, we have reduced net costs by £1,014,000 during 2013-14, equivalent to 3% of our annual turnover. We are also taking action that will reduce costs by a further 3.5% over the next 4 years.

We have done this by:

- Reviewing the way services are delivered, through service reviews and decisions on out-sourcing;
- Re-procuring major contracts;
- Reviewing the recovery of costs from customers.

	£'000s
Operating cost efficiency gains	438
Out-sourcing of the community alarm service	174
Response and void maintenance contract re-procurement	300
Improved charging and recovery of leaseholder service costs	102
TOTAL	**1,014**

During 2013-14 we reviewed the delivery of our 24/7 community alarm service. This was being delivered in-house, but at a loss of £174,000 per annum. In February 2014 the service was out-sourced to a third party meaning that the income we receive covers the cost of service delivery.

In 2014-15 we are reviewing how our sheltered housing support services are delivered. These are currently delivered in-house, but at a loss of £230,000 per annum, partly due to recurring cuts in the Supporting People funding we receive.

A simple way that we have been delivering greater value for customers is just not to incur expenditure that we do not need to. Budgets approved in 2012-13, our first full year of operation, were comprehensively reviewed to assess whether the proposed expenditure was necessary. As a result, over a range of budget headings, we have reduced recurring budgeted spend by £564,000 per annum in addition to the savings in the table above.

Last year we stated in our financial statements that we anticipated a £300,000 per annum saving on the response repairs contract, that we would deliver £300,000 of other operating cost efficiency gains and that we were reviewing the community alarm service and our leaseholder service cost recovery approach. We have successfully delivered on all these plans.

Operating and financial review (continued)

Value for Money (continued)

How well are we complying with the Homes & Community Agency's (HCA) Regulatory Standard on Value for Money for 2013-14?

The full text of the HCA's Value for Money Standard can be accessed on: http://www.homesandcommunities.co.uk/sites/default/files/our-work/regfwk-2012.pdf

So how have we delivered? There are many positive elements:

- We have a robust approach to value for money, with a strategic approach that will ensure that we continue to deliver better outcomes for customers at lower costs;
- We have delivered savings of £1,014,000 over the past year, equivalent to 3% of turnover, and made service improvements;
- We have plans for further improvements of £1,100,000 built into our business plan over the next 4 years;
- We have identified six sheltered housing schemes that do not meet customer needs nor deliver a return on investment. We will decide on alternative uses for these schemes during 2014-15 and plan to re-invest in more suitable housing.

Areas that we want to improve or that we have not yet developed include:

- Tenant satisfaction levels with the overall service are not as high as we would want. They are 70.7% for 2013-14;
- Our performance on void management needs to improve. This is an area we are currently focusing on;
- We need to understand the drivers of the cost of service delivery better. Our system reviews will ensure we focus on customer value, efficient processes and therefore lower costs;
- An appropriate approach to measuring the social value of what we do has not yet been selected.

The full self-assessment by the Board is available on our website at www.redkitehousing.org.uk/valueformoney. Information on value for money is shown in a transparent and accessible format within the annual report developed by tenants, which is also on our website.

Overall, there is sufficient evidence of a robust approach to value for money, avoidance of waste and of achieved and planned outcomes that the Board concludes that we comply with the requirements of the Value for Money Standard.

Operating and financial review (continued)

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, and a Risk Panel comprising Board members, tenants and staff.

Key risks facing the association include:

- the impact of welfare and benefit reforms on the ability of the tenants to pay rent and the ability of the association to let properties;
- the effect of an increased level of Right to Buy sales on the long-term business plan;
- the delivery of the Castlefield regeneration scheme;
- the continuing uncertainty surrounding the availability and cost of funding;
- the implementation of planned changes in staff structures, IT systems and IT service procurement;
- the need for governance arrangements to evolve as the business diversifies.

Capital structure and treasury policy

The association entered into a £140 million 30-year loan facility on 13 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 31 March 2014, £60 million had been drawn down on the facility. None of the facility is required to be repaid before 2020.

The association had cash balances of £17.6 million at 31 March 2014. The cash surpluses have been generated during the year whilst delivery of the major improvement works is accelerated and through higher than forecast right to buy sales.

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, 100 per cent of the association's borrowings were at fixed rates reflecting the fixed rates entered into at the date of transfer and the repayment of the revolving credit facility loans. 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.

Operating and financial review (continued)

Capital structure and treasury policy (continued)

The fixed rate borrowings incur interest rates, including margins, of a weighted average cost of 4.99%. 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. The association was 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

The priority for the association over the coming 12 months is to continue the establishment of a culture that reflects the Board and executive team's aspiration for the association to be tenant-led. The business will focus on the successful implementation of these to ensure that promises made in the transfer offer document are delivered in a cost effective manner.

Major expenditure will continue to focus on the delivery of the promises made at transfer to improve tenants' homes. In addition, the options for use of the six sheltered schemes that are to be closed will be assessed and the Castlefield regeneration scheme will be progressed.

To deliver the services that the tenants and leaseholders seek from the association a review of the frontline services has been undertaken. Its implementation will continue through 2014-15 and lead to improved housing management, customer services and day to day property repairs and voids services. The options for the delivery of support services currently provided under contract with Buckinghamshire County Council will be evaluated.

Governance structures will be kept under review to ensure effective management of these developments and existing and emerging risks.

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 Statement of Recommended Practice (SORP): Accounting by Registered Social Housing Providers (update) 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 year ended 31 March 2014.

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 in the year are set out on pages 2 & 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. 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 scheme, 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 11 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.

Donations

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

Report of the Board (continued)

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 agreement (details set out in note 18). The association has entered into a loan facility that provides sufficient liquidity to deliver the business plan. Additional liquidity is provided in the form of an overdraft facility of £500,000 with The Royal Bank of Scotland. 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 other welfare benefit entitlement. The association has managed these risks effectively to date through close dialogue with affected tenants and assisting 33 tenants to move to smaller properties.

The Business Plan has been adjusted to reflect the revised rent regulations introduced during the year, in particular the removal of rent restructuring from 2015 and the use of CPI rather than RPI for future rent rises. The Board has made use of the tolerance within the regulations to increase target rents by 5% for tenants from April 2014 to reduce the business impact of the changing regulations.

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 £80 million of undrawn facilities at 31 March 2014), 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. The revised business plan was approved by the lenders in June 2014.

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 at least a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Report of the Board (continued)

Internal controls assurance

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

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

The process for identifying, evaluating and managing the significant risks faced by the association is ongoing and has been in place throughout the period commencing 1 April 2013 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- Comprehensive Governance Regulations, approved in January 2014;
- 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 and implementation of recommendations monitored bi-monthly. No major weaknesses were reported during the year.

A fraud register is maintained and is reviewed by the Audit & Risk Committee on a bi-monthly basis.

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 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 auditor and recommendations 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 Board 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 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 association 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 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)

In so far as each of the Board members are aware:

- there is no relevant audit information of which the association'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 association's website.

Annual general meeting

The annual general meeting will be held on 5 September 2014 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 23 July 2014 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 year ended 31 March 2014 which comprise the income and expenditure account, the statement of total recognised surpluses and deficit, the reconciliation of movements in funds, the balance sheet, the cash flow 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 Sections 9 and 13 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 pages 22 and 23, 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council'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 2014 and of its income and expenditure for the year 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 Direction for Private Registered Providers of Social Housing 2012.

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

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
23 July 2014

Income and expenditure account

	Note	2014 £'000	2013 £'000
Turnover	3	33,682	32,442
Operating costs	3	(22,755)	(19,610)
Operating surplus	3	10,927	12,832
Surplus on the sale of housing properties	4	3,277	3,434
Interest receivable and other income	7	160	109
Interest payable and similar charges	8	(4,327)	(4,327)
Other finance costs	10	(38)	(78)
Surplus on ordinary activities before taxation		9,999	11,970
Tax on surplus on ordinary activities	25	-	-
Surplus for the financial year	20	9,999	11,970

The association's activities relate wholly to continuing activities

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 23 July 2014.

Jennie Ferrigno	**Justin Bootland**	**Neil Venables**
Chairman	**Vice chairman**	**Secretary**

Statement of total recognised surpluses and deficits

	Note	2014 £'000	2013 £'000
Surplus for the financial year		9,999	11,970
Actuarial (losses) / gains relating to pension scheme	10	(1,350)	383
Transfer to restricted reserves		39	17
Total recognised surpluses and deficits		8,688	12,370

Reconciliation of movements in funds

	Note	2014 £'000	2013 £'000
Opening funds		14,067	1,697
Total recognised surpluses and deficits relating to the year		8,688	12,370
Closing total funds		22,755	14,067

Balance sheet

	Note	2014 £'000	2013 £'000
Intangible assets			
Negative goodwill	9	(41,316)	(42,484)
Tangible assets			
Housing properties	12	150,101	144,089
Social housing grant and other grants	12	(27,626)	(27,838)
	12	122,475	116,251
Other tangible fixed assets	13	1,262	1,492
		123,737	117,743
Current assets			
Debtors	14	2,428	2,301
Cash at bank and in hand		17,560	9,100
		19,988	11,401
Creditors: amounts falling due within one year	15	(6,679)	(5,514)
Net current assets		13,309	5,887
Total assets less current liabilities		95,730	81,146
Creditors: amounts falling due after more than one year	16	67,941	63,540
Net pension liability	10	5,034	3,539
		72,975	67,079
Capital and reserves			
Restricted reserves	20	186	147
Revenue reserve	20	22,569	13,920
Association's Funds		22,755	14,067
		95,730	81,146

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board of Directors on 23 July 2014.

Jennie Ferrigno	**Justin Bootland**	**Neil Venables**
Chairman	**Vice chairman**	**Secretary**

Cash flow statement

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	21	12,369	9,845
Returns on investments and servicing of finance			
Interest received		160	109
Interest paid		(3,904)	(3,916)
Net cash outflow from returns on investments and servicing of finance		(3,744)	(3,807)
Capital expenditure and financial investment			
Purchase of and improvements to housing properties		(7,882)	(5,075)
Purchase of other fixed assets		(146)	(1,312)
Sale of housing properties		3,832	3,801
Net cash outflow from capital expenditure and financial investment		(4,196)	(2,586)
Net cash inflow (outflow) before financing		4,429	3,452
Financing			
Loans received		-	-
Other financing received		4,031	4,908
Other finance repaid			
Loans repaid		-	(5,000)
Net cash inflow / (outflow)from financing		4,031	(92)
Increase in cash	23	8,460	3,360

The accompanying notes form part of these 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 Direction for Private Registered Providers Social Housing 2012.

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

Going Concern

The Board 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 at least twelve months after the date on which the finance statements are signed. Thus they have adopted 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.

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
Leaseholder office improvements	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. A full year depreciation is charged in the year of acquisition and none in the year of disposal.

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.

2. Accounting policies (continued)

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 association 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	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.

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 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.

2. Accounting policies (continued)

Social Housing Grant (continued)

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.

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 sales 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.

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.

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.

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 in the 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 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.

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

	2014			2013
	Turnover	Operating Costs	Operating Surplus / (Deficit)	Operating Surplus / (Deficit)
	£'000	£'000	£'000	£'000
Social housing lettings	32,079	(21,220)	10,859	12,598
Other social housing activities				
Supporting people	427	(900)	(473)	(420)
Non-social housing activities				
Lettings from garages and shops	676	(139)	537	566
Other	500	(496)	4	88
	1,176	(635)	541	654
	33,682	(22,755)	10,927	12,832

Particulars of income and expenditure from social housing lettings

	2014 General needs	2014 Sheltered	2014 Total	2013 Total
INCOME	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	22,280	8,498	30,778	29,660
Service charges	235	1,066	1,301	1,265
Turnover from social housing lettings	22,515	9,564	32,079	30,925
EXPENDITURE				
Management costs	(5,195)	(2,137)	(7,332)	(7,099)
Service costs	(655)	(1,335)	(1,990)	(2,840)
Routine maintenance	(2,503)	(1,148)	(3,651)	(4,650)
Planned maintenance	(964)	(480)	(1,444)	(380)
Major repairs and improvements	(4,042)	(2,729)	(6,771)	(3,751)
Bad debts	(83)	(28)	(111)	(147)
Depreciation of housing properties	(527)	(237)	(764)	(322)
Impairment of housing properties	-	-	-	(18)
Amortisation of negative goodwill	582	261	843	880
Operating costs on social housing lettings	(13,387)	(7,833)	(21,220)	(18,327)
Operating surplus on social housing lettings	9,128	1,731	10,859	12,598
Void losses	208	475	683	687

4. Surplus on the sale of housing properties

	2014	2013
	£000	£000
Sale proceeds	5,039	3,866
Cost of disposals	(1,149)	(850)
Payment to Wycombe District Council	(1,156)	-
Grant released on disposal	212	162
Negative goodwill released on disposal	331	256
	3,277	3,434

5. Accommodation in management

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

	2014	2013
	No	No
Social Housing		
General needs housing	4,133	4,178
Sheltered housing and housing for older people	1,847	1,847
Total social housing owned	5,980	6,025
Housing managed for others	46	46
Total social housing managed	6,026	6,071
Leasehold properties	627	619
Shared equity properties	7	8
Commercial properties	20	20
Total housing owned and managed	6,680	6,718

There were no properties in development at the year end.

6. Operating surplus

The operating surplus is arrived at after charging:

	2014	2013
	£'000	£'000
Depreciation – housing properties	764	322
Depreciation – other tangible fixed assets	376	383
Impairment – housing properties	-	18
Amortisation of negative goodwill	843	880
Operating lease rentals		
Building	214	274
Equipment	5	2
Auditor's remuneration (excluding VAT)		
Fees payable for the audit of the financial statements	19	19
Tax advice	1	13
Other	1	1

7. Interest receivable and other income

	2014	2013
	£'000	£'000
Interest receivable and similar income	160	109

8. Interest payable and similar charges

	2014	2013
	£'000	£'000
Loans and bank overdrafts	3,957	3,957
Amortisation of loan set-up fees	370	370
	4,327	4,327

No interest has been capitalised in the year.

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 2010, FRS6 and FRS7. 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 fifty years.

Costs	2014
	£'000
At 1 April 2013	(43,657)
Released	331
At 31 March 2014	(43,326)
Amortisation	
At 1 April 2013	1,173
Released	(6)
Annual charge	843
At 31 March 2014	2,010
Net book value after amortisation	
At 31 March 2014	(41,316)
At 31 March 2013	(42,484)

10. Employees

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

	2014	2013
	No.	No.
Housing management	67	68
Property management	21	25
Central administration	33	22
	121	115

Employee costs:

	2014	2013
	£'000	£'000
Wages and salaries	3,788	3,455
Social security costs	351	310
Other pension costs	432	488
	4,571	4,253

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

	2014	2013
	No.	No.
£80,000 to £90,000	1	-
	1	-

The association's employees are entitled to membership of either the Buckinghamshire County Council Pension Fund (BCCPF) or the 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 2014 were £48,400 (2013: £29,500) at a contribution rate of either 8% or 10%, depending on the contribution rate of each employee.

HSBC Life has confirmed that they will not be supporting auto-enrolment requirements. Therefore, with effect from 1 August 2014, the RKGPP will be replaced by a Master Trust defined contribution scheme administered by Now:Pensions at an employer contribution rate of either 8% or 10%, depending on the contribution rate of each employee.

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 2013 and rolled forward, allowing for the different financial assumptions required under FRS 17, to 31 March 2014 by a qualified independent actuary.

The employer's contributions to the BCCPF by the association for the period ended 31 March 2014 were £383,000 (2013: £459,000) at a contribution rate of 18.3% of pensionable salaries. The employer's contribution rate for the year ending 31 March 2015 has been set at 16.7% for the current service cost and a payment of £39,000 towards the deficit.

Estimated employers' contributions to the BCCPF during the accounting period commencing 1 April 2014 are £364,000.

The scheme has 79 active members and is closed to new members.

Financial assumptions:

	As at 31 March 2014	As at 31 March 2013	As at 31 March 2012
	%	%	%
Discount rate	4.5	4.6	4.6
Future salary increases	4.7	4.9	4.8
Future pension increases	2.9	2.6	2.5
Inflation assumption (CPI)	2.9	2.6	2.5
Inflation assumption (RPI)	3.7	3.4	3.3

Mortality assumptions:

The post-retirement mortality assumptions adopted to value the benefit obligation at March 2014 are based on the S1PA Heavy series. The assumed life expectations on retirement at age 65 are:

	2014 No. of years	2013 No. of years
Retiring today:		
Males	23.6	20.1
Females	26.0	24.1
Retiring in 20 years:		
Males	25.8	22.1
Female	28.3	26.0

10. Employees (continued)

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 1 April 2014 for the year ending 31 March 2015). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively at the relevant date. The return on equities and property are then assumed to be a margin above gilt yields.

The expected returns on assets are:

	As at 31 March 2014 %	As at 31 March 2013 %	As at 31 March 2012 %
Equities- UK	7.0	6.3	6.6
Equities- Overseas	7.0	-	-
Equities- Private	7.0	-	-
Gilts	3.6	3.0	3.3
Other Bonds	4.2	4.1	4.6
Properties	5.8	5.8	6.1
Cash	3.4	0.5	3.0
Hedge Funds	7.0		
Absolute Return Portfolio	7.0		
Alternative Assets	7.0	6.3	6.6
Total	**6.4**	**5.9**	**6.0**

Analysis of the amount charged to income and expenditure account:

	2014 £'000	2013 £'000
Current service costs	490	592
Amount charged to operating costs	490	592
Interest on scheme liabilities	625	564
Expected return on scheme assets	(587)	(486)
Amount charged to other finance costs	38	78

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

Statement of total recognised surpluses and deficits (STRSD):

	2014 £'000	2013 £'000
Actuarial gains / (losses) in pension scheme recognised in STRSD	(1,350)	383

10. Employees (continued)

Amounts recognised on the balance sheet:

	As at 31 March 2014 £'000	As at 31 March 2013 £'000	As at 31 March 2012 £'000
Present value of funded obligations	(15,236)	(13,522)	(11,114)
Fair value of scheme assets (bid value)	10,202	9,983	7,403
Net liability recognised in balance sheet	(5,034)	(3,539)	(3,711)

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

	2014 £'000	2013 £'000
Opening defined benefits obligations	(13,522)	(11,114)
Current service cost	(490)	(592)
Interest cost	(625)	(564)
Actuarial losses	(946)	(1,070)
Estimated benefits paid in net of transfers in	491	(5)
Contributions by scheme participants	(144)	(177)
Closing defined benefit obligation	(15,236)	(13,522)

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

	2014 £'000	2013 £'000
Opening fair value of scheme assets	9,983	7,403
Expected return on scheme assets	587	486
Actuarial (losses)/ gains	(404)	1,453
Contributions by employer	383	459
Contributions by scheme participants	144	177
Estimated benefits paid net of transfers in and including unfunded	(491)	5
Closing fair value of scheme assets	10,202	9,983

10. Employees (continued)

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

	As at 31 March 2014 %	As at 31 March 2013 %
Equities- UK	19	70
Equities- Overseas	41	-
Equities- Private	8	-
Gilts	5	4
Other bonds	10	9
Properties	8	8
Cash	1	1
Hedge Funds	4	-
Absolute Return Portfolio	4	-
Alternative assets	-	8

Amounts for current and previous accounting periods:

	As at 31 March 2014 £'000	As at 31 March 2013 £'000	As at 31 March 2012 £'000
Present value of scheme liabilities	(15,236)	(13,522)	(11,114)
Fair value of scheme assets	10,202	9,983	7,403
Deficit on scheme	(5,034)	(3,539)	(3,711)
Experience adjustment on scheme liabilities	(369)	(755)	-
Experience adjustment on scheme assets	(404)	1,453	(202)
Cumulative actuarial gains on losses	(2,926)	(1,242)	(1,625)

Sensitivity analysis:

	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	14,928	15,236	15,551
Projected service cost	506	517	528
Adjustment to mortality age rating assumption	+1 year	None	-1 year
Present value of total obligation	14,724	15,236	15,752
Projected service cost	500	517	534
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	15,313	15,236	15,159
Projected service cost	517	517	517
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	15,478	15,236	15,000
Projected service cost	528	517	506

11. 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 £1,329 (2013: £1,336) was made in the period.

Executive directors:

	2014				2013
	£	£	£	£	£
	Basic salary	Other benefits	Pension costs	Total	Total
Chief Executive: Trevor Morrow	118,735	5,814	21,313	145,862	126,734
Resources Director: Neil Venables	90,533	5,966	9,053	105,552	98,221
Operations Director: Alan Keers	90,533	6,541	9,053	106,127	92,068
Director of Neighbourhood Services: Martyn Hale	6,833	69	1,263	8,165	124,194
	306,634	18,390	40,682	365,706	441,217

The emoluments of the highest paid director during the year excluding pension contributions and other costs were £118,735 (2013: £108,025).

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 association does not make any further contribution to an individual pension arrangement for the Chief Executive.

12. Tangible fixed assets – properties

Social housing properties held for letting

	£'000
Cost:	
At 1 April 2013	144,788
Additions	112
Works to existing properties	7,770
Disposals	(1,109)
At 31 March 2014	151,561
Depreciation:	
At 1 April 2013	699
Released on disposal	(3)
Depreciation charge in the year	764
At 31 March 2014	1,460
Net book value after depreciation	
31 March 2014	150,101
31 March 2013	144,089
Other grants:	
At 1 April 2013	27,838
Released on disposal	(212)
At 31 March 2014	27,626
Net book value after other grants	
31 March 2014	122,475
31 March 2013	116,251

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

Expenditure on works to existing properties:

	2014 £'000	2013 £'000
Components capitalised	7,770	4,747
Amounts charged to income and expenditure account	6,771	3,751
	14,541	8,498

13. Tangible fixed assets- other

	IT & Infrastructure £'000	Furniture £'000	Office accommodation Improvements £'000	Total £'000
Cost				
At April 2013	979	236	660	1,875
Additions	146	-	-	146
As at 31 March 2014	1,125	236	660	2,021
Depreciation				
At April 2013	204	47	132	383
Charged in year	197	47	132	376
As at 31 March 2014	401	94	264	759
Net book value				
31 March 2014	724	142	396	1,262
31 March 2013	775	189	528	1,492

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

14. Debtors

	2014 £'000	2013 £'000
Rent and service charges receivable	1,424	1,404
Less: Provision for bad and doubtful debts	(702)	(636)
	722	768
VAT recoverable	824	824
Prepayments and accrued income	647	483
Other debtors	235	226
	2,428	2,301

15. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	764	1,018
Rent and service charges received in advance	833	312
Leaseholder balances	6	561
Payments due under the transfer agreement	1,156	761
Accruals and deferred income	3,410	2,596
Other taxation and social security	100	91
Other creditors	410	175
	6,679	5,514

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

	2014	2013
	£'000	£'000
Debt (note 17)	59,002	58,632
Payments due under the transfer agreement	8,939	4,908
	67,941	63,540

Payments due under the transfer agreement (notes 15 and 16) relates to the sharing of the VAT Shelter and Right to Buy sales receipts between the association and Wycombe District Council.

17. Debt analysis

	2014	2013
	£'000	£'000
Bank loans	60,000	60,000
Less: Loan issue costs	(998)	(1,368)
	59,002	58,632

18. 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.

	2014	2013
	£'000	£'000
Two year or more but less than five years	-	2,411
Five years or more	60,000	57,589
	60,000	60,000

At 31 March 2014 the association had undrawn committed loan facilities of £80million. The facilities are secured by a fixed charge over 5,985 of the association'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:

	2014	2013
	£'000	£'000
Fixed rate	60,000	60,000
Floating rate	-	-
	60,000	60,000

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 4.99% (2013: 4.99%) and the weighted average period for which they are fixed is 8 years (2013: 9 years). There were no floating rate financial liabilities during the period (2013: weighted average interest rate of 3.22%).

19. 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 the association.

	2014	2013
	No	No
Members at beginning of period	337	6
Number of members joining during the year	212	331
Number of members at end of period	549	337

20. Reserves

	2014			2013
	Restricted reserves	Revenue reserve	Total reserves	Total reserves
	£'000	£'000	£'000	£'000
1 April	147	13,920	14,067	1,697
Surplus for the year	-	9,999	9,999	11,970
Actuarial (loss) / gain relating to pension scheme	-	(1,350)	(1,350)	383
Transfer to restricted reserves	39	-	39	17
As at 31 March	186	22,569	22,755	14,067

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.

21. Net cash inflow from operating activities

	2014	2013
	£'000	£'000
Operating surplus	10,927	12,832
Depreciation of tangible fixed assets	1,140	676
Impairment of housing properties	-	18
Loss on disposal	-	56
Amortisation of negative goodwill	(843)	(880)
Defined benefit pension service costs	490	592
Defined benefit pension contributions paid	(383)	(459)
	11,331	12,835
Movements in working capital		
Increase in debtors	(127)	(635)
Increase/ (decrease) in creditors	1,165	(2,355)
Net cash inflow from operating activities	12,369	9,845

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

	2014	2013
	£'000	£'000
Opening net debt	(49,532)	(57,522)
Increase in cash	8,460	3,360
Cash outflow / (inflow) from movement in debt	-	5,000
Loan issue costs	(370)	(370)
Net debt at 31 March	(41,442)	(49,532)

23. Analysis of changes in net debt

	As at 31 March 2013	Cashflow	Non-cashflow movement	As at 31 March 2014
	£'000	£'000	£'000	£'000
Cash at bank and in hand	9,100	8,460	-	17,560
Loans	(58,632)	-	(370)	(59,002)
Changes in net debt	(49,532)	8,460	(370)	(41,442)

24. Capital commitments

	2014 £'000	2013 £'000
Expenditure contracted but not provided for in the accounts	8,500	3,263
Expenditure authorised by the Board but not contracted	15,987	29,057
	24,487	32,320

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

25. 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.

26. Development Agreement

The association entered into a Development Agreement with Wycombe District Council on 13 December 2011 under which the association 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 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 2014, improvements to a value of £16 million (2013: £6 million) had been completed under the Development Agreement. The remaining liability at 31 March 2014 is £211million (2013: £221million).

27. Contingent assets / liabilities

There are no contingent assets or liabilities.

28. Leasing commitments

Operating lease payments amounting to £219,000 (2013: £219,000) are due in the next year.

	2014	2013
	£'000	£'000
Office accommodation	214	215
Office equipment	5	4
	219	219

29. Related parties

During the year there were six tenants who were members of the Board, Jennie Ferrigno, Hugh Ashton-Moore (resigned December 2013), Sheelagh Jones, Jonathan Walton and Alan Pepin (resigned January 2014). James Stafford acted as a co-opted tenant Board member from January 2014 to June 2014. 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. Christopher Nisbet a resident leaseholder was co-opted onto the Finance Committee during the year. Their leases are on normal commercial terms and are not able to use their position for their advantage.

Three members of the Board during the period, Ian McInnis, John Richards and Brian Pollock, are councillors with Wycombe District Council and a fourth, Chris Watson, was nominated by the Council. The local authority has a proportion of the nomination rights over tenancies. The association manages certain properties on behalf of the Council. All transactions with the Council are on normal commercial terms and the Board members nominated by the Council are not able to use their position to their advantage.